

EDUCATION THROUGH MUSIC, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018



LUTZ AND GARR
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Education Through Music, Inc.

We have audited the accompanying financial statements of Education Through Music, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Through Music, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
December 12, 2019

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and cash equivalents (Notes 1b and 11)	\$1,965,690	\$2,107,211
Investments (Notes 1c, 1d and 5)	572,480	569,343
Unconditional promises to give (Notes 1e and 4)		
Without donor restrictions	149,654	70,830
With donor restrictions	320,000	426,500
Accounts receivable	17,045	47,692
Prepaid expenses	68,294	20,306
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 7)	208,671	105,123
Security deposit	34,562	34,528
	<u> </u>	<u> </u>
Total Assets	<u><u>\$3,336,396</u></u>	<u><u>\$3,381,533</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 240,336</u>	<u>\$ 127,402</u>
Commitment and Contingency (Note 8)		
Net Assets		
Without Donor Restrictions		
Operating	866,631	881,099
ETM Special Fund (Note 6)	572,480	556,584
Total Without Donor Restrictions	<u>1,439,111</u>	<u>1,437,683</u>
With Donor Restrictions (Note 3)	<u>1,656,949</u>	<u>1,816,448</u>
Total Net Assets	<u><u>3,096,060</u></u>	<u><u>3,254,131</u></u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$3,336,396</u></u>	<u><u>\$3,381,533</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions		
Revenues and Other Support		
Contributions (Note 10)	\$1,880,843	\$2,055,283
Benefit and event income	1,069,646	713,289
Less: Direct fundraising costs	(179,572)	(130,200)
Program income	2,210,113	2,071,702
Donated goods and professional fees	98,860	58,822
Interest and dividend income	34,752	16,599
Realized gain (loss) on investments	(886)	2,655
Unrealized gain (loss) on investments	(1,602)	20,856
Miscellaneous income	34	502
	<u>5,112,188</u>	<u>4,809,508</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>694,999</u>	<u>728,413</u>
	<u>5,807,187</u>	<u>5,537,921</u>
Total Revenues and Other Support		
Expenses		
Program Services		
Education	<u>4,902,829</u>	<u>4,618,783</u>
Supporting Services		
Management and general	336,362	330,087
Fundraising	566,568	520,086
Total Supporting Services	<u>902,930</u>	<u>850,173</u>
Total Expenses	<u>5,805,759</u>	<u>5,468,956</u>
Increase in Net Assets Without Donor Restrictions	<u>1,428</u>	<u>68,965</u>
Changes in Net Assets With Donor Restrictions		
Contributions (Note 10)	535,500	462,328
Net assets released from restrictions	<u>(694,999)</u>	<u>(728,413)</u>
Decrease in Net Assets With Donor Restrictions	<u>(159,499)</u>	<u>(266,085)</u>
Decrease in net assets	(158,071)	(197,120)
Net assets, beginning of year	<u>3,254,131</u>	<u>3,451,251</u>
Net Assets, End of Year	<u><u>\$3,096,060</u></u>	<u><u>\$3,254,131</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED AUGUST 31, 2019 AND 2018

	2019				2018			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Education	Management and General	Fundraising	Expenses	Education	Management and General	Fundraising	Expenses
Salaries and related costs	\$4,052,275	\$ 176,369	\$ 354,484	\$4,583,128	\$3,666,984	\$ 248,874	\$ 314,599	\$4,230,457
Contracted services	150,427	132,456	110,335	393,218	260,925	50,602	108,707	420,234
Non-personnel expenses	271,438	6,876	61,043	339,357	259,615	7,323	48,399	315,337
Facility and equipment	328,334	17,057	30,435	375,826	334,743	20,483	25,228	380,454
Travel and meetings	35,330	244	5,705	41,279	38,505	376	7,265	46,146
Other expenses	52,845	1,726	3,526	58,097	43,652	1,386	14,728	59,766
Total expenses before depreciation	4,890,649	334,728	565,528	5,790,905	4,604,424	329,044	518,926	5,452,394
Depreciation	12,180	1,634	1,040	14,854	14,359	1,043	1,160	16,562
Total Expenses	<u>\$4,902,829</u>	<u>\$ 336,362</u>	<u>\$ 566,568</u>	<u>\$5,805,759</u>	<u>\$4,618,783</u>	<u>\$ 330,087</u>	<u>\$ 520,086</u>	<u>\$5,468,956</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (158,071)	\$ (197,120)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation expense	14,854	16,562
Net realized and unrealized (gains) losses on investments	2,488	(23,511)
(Increase) decrease in:		
Unconditional promises to give	27,676	(11,056)
Accounts receivable	30,647	(830)
Prepaid expenses	(47,988)	49,513
Security deposit	(34)	(211)
Increase in accounts payable and accrued expenses	112,934	72,289
Net Cash Used By Operating Activities	<u>(17,494)</u>	<u>(94,364)</u>
Cash Flows From Investing Activities		
Purchase of investments	(23,636)	(248,206)
Sale of investments	18,011	90,266
Acquisition of property and equipment	(118,402)	(66,943)
Net Cash Used By Investing Activities	<u>(124,027)</u>	<u>(224,883)</u>
Net decrease in cash and cash equivalents	(141,521)	(319,247)
Cash and cash equivalents, beginning of year	<u>2,107,211</u>	<u>2,426,458</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,965,690</u></u>	<u><u>\$2,107,211</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Education Through Music, Inc. (the "Organization") partners with under-resourced schools to provide music as a core subject for all children, and utilizes music education as a catalyst to improve academic achievement, motivation for school and self-confidence.

b - Cash and Cash Equivalents

The Organization considers all short-term highly-liquid investments, such as money market funds, to be cash equivalents, except for cash awaiting investment.

c - Investments

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities. Interest, gains and losses on investments are reflected in the statement of activities as increases and decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the income is recognized.

d - Fair Value Measurements

The Organization is required to use a framework for measuring fair value and make certain disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and is based on a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurement is disclosed by level within that hierarchy.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Fair Value Measurements (continued)

The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

e - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

f - Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

g - Property and Equipment

Property and equipment are capitalized at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets or for leasehold improvements, the life of the lease.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

h - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

i - Tax Status

Education Through Music, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

j - Subsequent Events

The Organization has evaluated subsequent events through December 12, 2019, the date that the financial statements are considered available to be issued.

k - Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of the Organization's expenses are directly related to program activities, which are made up of educational and music programs. The expenses that are allocated include depreciation, interest, insurance, general office expenses, and occupancy costs, which are allocated on a basis of time and effort.

l - New Accounting Pronouncements

The Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions"; (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; (d) modifying the presentation of underwater endowment funds and related disclosures; and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. As permitted under the ASU in the year of adoption, the Organization opted to not disclose liquidity and availability information for 2018.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

I - New Accounting Pronouncements (continued)

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. The Organization is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 2 - Information Regarding Liquidity and Availability

The Organization operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of program revenue and contribution revenue raised during the current year. The Organization considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

The Organization regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs, and maintains liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures. Financial assets in excess of daily cash requirements are invested in cash, money market funds, or other short-term investments.

The Organization's financial assets as of August 31, 2019 available within one year to meet cash needs for general expenditures within one year are summarized as follows:

Financial Assets at Year End:	
Cash and cash equivalents	\$1,965,690
Investments	572,480
Unconditional promises to give	469,654
Accounts receivable	<u>17,045</u>
Total Financial Assets	3,024,869
Less: Amounts not Available to be Used within One Year:	
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(1,656,949)
ETM Special fund	(572,480)
Plus: Net assets with donor restrictions expected to be met in less than one year	<u>435,500</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$1,230,940</u>

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 2 - Information Regarding Liquidity and Availability (continued)

In addition to these financial assets available within one year, the Organization maintains the ETM Special Fund of \$572,480 to promote its financial stability. These amounts could be made available to meet cash needs at the discretion of the Board (Note 6).

Note 3 - Restriction on Net Assets

Net assets with donor restrictions are restricted for future programs and periods.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due within one year. Uncollectible promises to give are expected to be insignificant. Approximately 66% of unconditional promises to give were from two foundations, a corporation and a government organization as of August 31, 2019. As of August 31, 2018, approximately 70% of unconditional promises to give were from a foundation, a corporation and a government organization.

Note 5 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	<u>2019</u>	<u>2018</u>
Mutual Funds		
Fixed funds	\$211,073	\$191,196
Equity funds	348,805	368,561
Cash awaiting investment	<u>12,602</u>	<u>9,586</u>
	<u>\$572,480</u>	<u>\$569,343</u>

The cost of investments at August 31, 2019 and 2018 was \$493,933 and \$489,194, respectively.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019 AND 2018

Note 6 - ETM Special Fund

The Organization established the ETM Special Fund (the "Fund") to promote its financial stability. The Fund consists of money allocated by the Board of Directors (the "Board") together with contributions and any net earnings from the Fund. Any withdrawals must be authorized by a supermajority vote of the Board if in excess of 5% of the average value of the Fund as of December 31 of the previous three years. Short-term borrowings by the Organization from the Fund may be made with the approval of the Executive Committee to meet unanticipated financial emergencies.

Note 7 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2019</u>	<u>2018</u>
Musical instruments	5 years	\$111,646	\$111,646
Furniture and equipment	3-5 years	54,225	54,225
Leasehold improvements	Life of lease	63,689	53,954
Logo design/website upgrades	5 years	71,000	71,000
Salesforce software development	5 years	<u>175,610</u>	<u>66,943</u>
		476,170	357,768
Less: Accumulated depreciation		<u>(267,499)</u>	<u>(252,645)</u>
		<u>\$208,671</u>	<u>\$105,123</u>

Note 8 - Commitment and Contingency

a - The Organization occupies office space under a lease effective April 1, 2017 through March 31, 2024, providing for a minimum rental of approximately \$315,000 per year.

Rent expense for the years ended August 31, 2019 and 2018 was \$324,753 and \$315,320, respectively.

b - Government supported projects are subject to audit by the granting agency.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2019 AND 2018****Note 9 - Retirement Plan**

The Organization has a voluntary salary reduction tax deferred annuity plan for the benefit of all qualifying employees. The Organization can make a discretionary matching contribution. The Organization did not make a matching contribution to the plan in 2019 or 2018.

Note 10 - Significant Grants

During the year ended August 31, 2019, the Organization received approximately 21% of its contributions from a foundation. During the year ended August 31, 2018, the Organization received approximately 33% of its contributions from two foundations.

Note 11 - Concentration of Credit Risk

The Organization maintains its cash balances in three financial institutions located in New York.