

**EDUCATION THROUGH MUSIC-LOS ANGELES**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2015**

EDUCATION THROUGH MUSIC-LOS ANGELES

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INDEPENDENT AUDITORS' REPORT

Board of Directors  
Education Through Music-Los Angeles  
2501 West Burbank Boulevard, Suite 301  
Burbank, California 91505

Members of the Board:

**Report on the Financial Statements**

We have audited the accompanying financial statements of Education Through Music-Los Angeles (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities, functional expenses and cash flows for the year 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from 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 auditor's 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.

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Board of Directors  
Education Through Music-Los Angeles

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Through Music-Los Angeles as of August 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



MILLER KAPLAN ARASE LLP

North Hollywood, California

March 31, 2016

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2015

ASSETS

Cash and Cash Equivalents	\$ 661,982
Accounts Receivable, Net	29,093
Contributions Receivable	27,500
Prepaid Expenses	16,969
Furniture and Equipment (Note 3)	<u>33,736</u>
<u>TOTAL ASSETS</u>	<u>\$ 769,280</u>

LIABILITIES AND NET ASSETSLIABILITIES

Accounts Payable	\$ 8,914
Payroll Payable	<u>11,707</u>
<u>TOTAL LIABILITIES</u>	<u>20,621</u>

NET ASSETS

Board Designated Reserve - Sustainability	120,000
Board Designated Reserve - Risk Capital	138,773
Other Unrestricted	<u>435,091</u>
	693,864
Temporarily Restricted	<u>54,795</u>
<u>TOTAL NET ASSETS</u>	<u>748,659</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 769,280</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF ACTIVITIES  
SEPTEMBER 1, 2014 TO AUGUST 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUE</u>			
Public Support:			
Contributions	\$ 196,095	\$ 118,750	\$ 314,845
Government Grants	44,120	-	44,120
Board Support	47,688	-	47,688
Special Event Revenue	\$ 187,337		
Less: Cost of Direct Benefits to Donors	<u>(35,318)</u>		
Net Revenues from Special Events	152,019	-	152,019
In-kind Contributions (Note 2-E)	<u>56,689</u>	<u>55,000</u>	<u>111,689</u>
<u>TOTAL PUBLIC SUPPORT</u>	496,611	173,750	670,361
Program Fees	359,193	-	359,193
Net Assets Released from Restrictions	<u>236,655</u>	<u>(236,655)</u>	<u>-</u>
<u>TOTAL PUBLIC SUPPORT AND REVENUE</u>	<u>1,092,459</u>	<u>(62,905)</u>	<u>1,029,554</u>
<u>EXPENSES</u>			
Programs	833,054	-	833,054
Management and General	79,900	-	79,900
Fundraising	<u>58,994</u>	<u>-</u>	<u>58,994</u>
<u>TOTAL EXPENSES</u>	<u>971,948</u>	<u>-</u>	<u>971,948</u>
<u>CHANGE IN NET ASSETS</u>	120,511	(62,905)	57,606
<u>NET ASSETS</u>			
Beginning of the Year	<u>573,353</u>	<u>117,700</u>	<u>691,053</u>
End of the Year	<u>\$ 693,864</u>	<u>\$ 54,795</u>	<u>\$ 748,659</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FUNCTIONAL EXPENSES  
SEPTEMBER 1, 2014 TO AUGUST 31, 2015

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>PERSONNEL COSTS</u>				
Salaries and Wages	\$ 478,925	\$ 13,081	\$ 26,163	\$ 518,169
Payroll Taxes	42,645	1,165	2,330	46,140
Employee Benefits	73,980	3,610	10,044	87,634
<u>TOTAL PERSONNEL COSTS</u>	<u>595,550</u>	<u>17,856</u>	<u>38,537</u>	<u>651,943</u>
<u>OTHER EXPENSES</u>				
Advertising	1,281	-	1,281	2,562
Conferences	4,193	1,461	1,080	6,734
Contractors and Consultants	100,590	46,723	300	147,613
Depreciation	8,564	98	293	8,955
Events	-	-	1,730	1,730
Recruiting Fees	1,805	-	-	1,805
Instruments	36,254	-	-	36,254
Information Technology	696	837	-	1,533
Insurance	-	1,633	-	1,633
License, Dues and Fees	28,014	1,750	5,253	35,017
Occupancy	16,121	1,008	3,023	20,152
Postage	1,364	886	1,419	3,669
Printing and Publications	2,829	1,423	1,503	5,755
Supplies	28,974	4,618	3,276	36,868
Travel	6,819	1,607	1,299	9,725
<u>TOTAL OTHER EXPENSES</u>	<u>237,504</u>	<u>62,044</u>	<u>20,457</u>	<u>320,005</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>\$ 833,054</u>	<u>\$ 79,900</u>	<u>\$ 58,994</u>	<u>\$ 971,948</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF CASH FLOWS  
SEPTEMBER 1, 2014 TO AUGUST 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 57,606
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	8,955
In-kind contributions capitalized	(3,500)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(18,218)
Contributions Receivable	42,000
Prepaid Expenses	22,957
Increase (Decrease) in Liabilities:	
Accounts Payable	5,340
Payroll Payable	3,739
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>118,879</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Fixed Assets	<u>(7,887)</u>
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<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	110,992
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<u>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</u>	<u>550,990</u>
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<u>CASH AND CASH EQUIVALENTS - END OF THE YEAR</u>	<u>\$ 661,982</u>
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SUPPLEMENTAL DISCLOSURE:

The Organization received contributions of four pianos valued at \$3,500, which were capitalized during the year ended August 31, 2015.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2015

NOTE 1 - NATURE OF ACTIVITIES

Education Through Music-Los Angeles (ETM-LA), an independent 501(c)(3) organization, began in the Fall of 2006 to provide and promote the integration of music into the curricula of disadvantaged schools in order to enhance students' academic performance and creative and general development. ETM-LA is based on the successful ETM model (New York, 1991).

Every child deserves a well-rounded education: one that includes music. Yet thousands of schools in California do not even have one full-time equivalent arts specialist. ETM-LA utilizes a comprehensive program that incorporates music into the education of every child, including those with special needs. ETM-LA forms long-term partnerships with inner-city elementary and middle schools that lack the resources to develop school-wide music programs. We ensure high-quality instruction by hiring qualified music teachers, providing ongoing training, and performing regular program assessments. We encourage academic teachers and ETM-LA music teachers to collaborate so that music can reinforce learning and development in all areas. And we help schools embrace music as a core subject by involving all members of the school community.

ETM-LA receives support in the form of contributions from individuals, foundations and corporations and from government grants. In addition, schools that benefit from ETM-LA's services pay program fees to participate in its programs. Such fees comprised approximately 35% of ETM-LA's total revenue for the year ended August 31, 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, ETM-LA considers all highly liquid investments available for current use and with initial maturities of three months or less to be cash equivalents.

C. Furniture and Equipment

All expenditures over \$500 for furniture and equipment, including musical instruments, are capitalized and recorded at cost. Donated property is capitalized at its estimated market value on the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives as shown in Note 3.

D. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no permanently restricted net assets as of August 31, 2015; net assets were temporarily restricted as follows:

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Contributions (Continued)

Future Periods	\$ 27,500
Foster Elementary School	20,000
Musical Instruments	<u>7,295</u>
	<u>\$ 54,795</u>

E. In-kind Contributions

ETM-LA receives in-kind contributions of goods and services, which are recorded at estimated fair value on the date of donation when the criteria for recognition under GAAP are met. These contributions are reported as revenue in the year received on the financial statements, and as assets on the statement of financial position or expenses on the statement of activities, depending on the nature of the contribution. During the year ended August 31, 2015, ETM-LA received the following in-kind contributions:

Professional Services - Legal	\$ 39,534
Professional Services - Capacity Building	55,000
Musical Instruments	15,455
Use of Facilities	<u>1,700</u>
	<u>\$ 111,689</u>

Professional services received totaling \$27,500 had not been expended as of August 31, 2015 and have been recorded as contributions receivable. Donated musical instruments totaling \$3,500 were capitalized.

F. Functional Allocation of Expenses

The costs of providing ETM-LA's programs and other activities are reported on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

G. 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.

H. Income Tax Status

ETM-LA is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and similar provisions of the California Revenue and Taxation Code, and therefore has made no provision for federal or state income tax in the accompanying financial statements. In addition, ETM-LA has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Income Tax Status (Continued)

ETM-LA has adopted guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board. Management believes that ETM-LA has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. As of August 31, 2015, information returns for years subsequent to the year ended August 31, 2011 (2010 for state returns) were subject to examination by authorities.

I. Contributions Receivable

Contributions receivable are estimated based on contributions made on or before August 31 for which payment had not yet been received. All amounts are due within one year. No allowance is provided for uncollectible accounts.

J. Accounts Receivable

Accounts receivable are reported net of the allowance for doubtful accounts, if any. Accounts receivable at year-end comprise reimbursements due under government grants, which are paid after program services are provided, and program fees from schools. There was no allowance for doubtful accounts as of August 31, 2015.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Estimated Useful Life	August 31, 2015
Musical Instruments	5-10 Years	\$ 71,302
Furniture and Equipment	5-10 Years	23,755
		95,057
Accumulated Depreciation		(61,321)
		\$ 33,736

NOTE 4 - RELATED PARTY TRANSACTIONS

Two members of ETM-LA's board of directors are attorneys with a law firm that provides pro-bono services to ETM-LA. The value of such services for the year ended August 31, 2015 is estimated to be approximately \$39,500, and has been included in the financial statements.

All members of ETM-LA's board of directors are required to make contributions or bring in contributions from other sources ("give or get") totaling \$5,000 each year.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2015

NOTE 5 - MATERIAL AND SERVICES FEE

ETM-LA is based on the successful ETM model established in New York in 1991. ETM-LA is a separate entity and operates independently of the New York organization. However, Education Through Music in New York provides certain curricula, materials and limited administrative support under a contract with ETM-LA for an annual service fee of \$20,000.

NOTE 6 - GOVERNMENT GRANTS

ETM-LA receives government grants from the Los Angeles County Arts Commission, California Arts Council, and the Los Angeles Department of Cultural Affairs. Such grants are either paid in advance for purposes consistent with ETM-LA's mission or as reimbursements when invoiced after program services have been provided.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

ETM-LA has entered into a lease agreement for office space in Burbank for the period August 1, 2015 through July 31, 2019. For the year ended August 31, 2015, \$4,000 was paid under the lease. Future minimum lease payments are as follows:

<u>Year Ending:</u>	
August 31, 2016	\$ 48,120
August 31, 2017	49,564
August 31, 2018	51,051
August 31, 2019	<u>48,080</u>
	<u>\$ 196,815</u>

NOTE 8 - CONCENTRATION OF CREDIT RISK

ETM-LA holds cash on deposit with banks insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At August 31, 2015, \$390,621 held at Bank of America exceeded the insurance limit and was not covered by the FDIC.

NOTE 9 - BOARD-DESIGNATED RESERVE

The board of directors has approved a fund reserve to build long-term sustainability as part of ETM-LA's strategic plan. The board-restricted funds may only be used via board vote and approval should the organization face an emergency. In total, \$120,000 had been designated for the reserve as of August 31, 2015.

In addition, the board has designated 20% of unrestricted net assets, totaling \$138,773 as of August 31, 2015, as "risk capital".

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these financial statements.