

**EDUCATION THROUGH MUSIC-LOS ANGELES**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2012**

EDUCATION THROUGH MUSIC-LOS ANGELES

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Independent Accountants' Review Report

Board of Directors  
Education Through Music-Los Angeles  
847 North Hollywood Way, Suite 206  
Burbank, California 91505-2845

Members of the Board:

We have reviewed the accompanying statement of financial position of Education Through Music-Los Angeles (a nonprofit organization) as of August 31, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Miller Kaplan Arase LLP*  
MILLER KAPLAN ARASE LLP

February 20, 2013

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EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2012

ASSETS

Cash and Cash Equivalents	\$ 243,594
Accounts Receivable, Net	36,266
Contributions Receivable	20,000
Prepaid Expenses	12,941
Furniture and Equipment, Net (Note 3)	<u>37,742</u>
<u>TOTAL ASSETS</u>	<u>\$ 350,543</u>

LIABILITIES AND NET ASSETSLIABILITIES

Accounts Payable	\$ 1,333
Payroll Payable	<u>994</u>
<u>TOTAL LIABILITIES</u>	<u>2,327</u>

NET ASSETS

Unrestricted	320,216
Temporarily Restricted	<u>28,000</u>
<u>TOTAL NET ASSETS</u>	<u>348,216</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 350,543</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF ACTIVITIES  
SEPTEMBER 1, 2011 TO AUGUST 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUE</u>			
Public Support:			
Contributions	\$ 124,025	\$ 95,000	\$ 219,025
Government Grants	8,475	19,055	27,530
Board Support	47,305	-	47,305
Special Event Revenue	\$ 143,387		
Less: Cost of Direct Benefits to Donors	<u>(24,933)</u>		
Net Revenues from Special Events	118,454	-	118,454
In-Kind Contributions (Note 2-E)	<u>10,818</u>	<u>-</u>	<u>10,818</u>
<u>TOTAL PUBLIC SUPPORT</u>	309,077	114,055	423,132
Program Fees	216,190	-	216,190
Net Assets Released from Restrictions	<u>86,055</u>	<u>(86,055)</u>	<u>-</u>
<u>TOTAL PUBLIC SUPPORT AND REVENUE</u>	<u>611,322</u>	<u>28,000</u>	<u>639,322</u>
<u>EXPENSES</u>			
Programs	415,821	-	415,821
Management and General	34,790	-	34,790
Fundraising	<u>49,414</u>	<u>-</u>	<u>49,414</u>
<u>TOTAL EXPENSES</u>	<u>500,025</u>	<u>-</u>	<u>500,025</u>
<u>CHANGE IN NET ASSETS</u>	111,297	28,000	139,297
<u>NET ASSETS</u>			
Beginning of the Year	<u>208,919</u>	<u>-</u>	<u>208,919</u>
End of the Year	<u>\$ 320,216</u>	<u>\$ 28,000</u>	<u>\$ 348,216</u>

(See independent accountants' review report)  
(Attached notes are an integral part of this statement)

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FUNCTIONAL EXPENSES  
SEPTEMBER 1, 2011 TO AUGUST 31, 2012

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>PERSONNEL COSTS</u>				
Salaries and Wages	\$ 285,094	\$ 3,665	\$ 13,044	\$ 301,803
Payroll Taxes	24,861	1,659	2,356	28,876
Employee Benefits	12,414	997	1,416	14,827
<u>TOTAL PERSONNEL COSTS</u>	<u>322,369</u>	<u>6,321</u>	<u>16,816</u>	<u>345,506</u>
<u>OTHER EXPENSES</u>				
Advertising	5,159	303	445	5,907
Bank Fees	-	-	4,032	4,032
Conferences	3,780	480	489	4,749
Consultants	1,160	-	-	1,160
Contractors	22,579	22,891	963	46,433
Depreciation	3,795	182	593	4,570
Dues and Subscriptions	95	8	11	114
Events	-	-	18,889	18,889
Recruiting Fees	1,053	17	54	1,124
Instruments	13,310	-	-	13,310
Information Technology	638	55	64	757
Insurance	1,871	157	222	2,250
Material and Services Fee	17,486	1,418	2,103	21,007
Occupancy	7,643	1,417	2,835	11,895
Postage	1,226	79	1,110	2,415
Printing and Publications	2,095	119	175	2,389
Supplies	8,385	1,012	530	9,927
Travel	3,177	331	83	3,591
<u>TOTAL OTHER EXPENSES</u>	<u>93,452</u>	<u>28,469</u>	<u>32,598</u>	<u>154,519</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>\$ 415,821</u>	<u>\$ 34,790</u>	<u>\$ 49,414</u>	<u>\$ 500,025</u>

(See independent accountants' review report)  
(Attached notes are an integral part of this statement)

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF CASH FLOWS  
SEPTEMBER 1, 2011 TO AUGUST 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 139,297
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	4,570
Donation of Equipment	(3,000)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(33,741)
Contributions Receivable	(20,000)
Prepaid Expenses	(12,941)
Increase (Decrease) in Liabilities:	
Accounts Payable	(67)
Payroll Taxes Payable	(3,569)
 <u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	 <u>70,549</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Instruments	<u>(2,512)</u>
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<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	68,037
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<u>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</u>	<u>175,557</u>
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<u>CASH AND CASH EQUIVALENTS - END OF THE YEAR</u>	<u>\$ 243,594</u>
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SUPPLEMENTAL DISCLOSURE:

The Organization received a donation of an office copier, which was valued at \$3,000, during the year ended August 31, 2012.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012

NOTE 1 - NATURE OF ACTIVITIES

Education Through Music-Los Angeles, 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 34% of ETM-LA's total revenue for the year ended August 31, 2012.

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 an initial maturity 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, 2012; net assets totaling \$28,000 were temporarily restricted for future periods.



EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012, ETM-LA received the following in-kind contributions:

Professional Services	\$ 4,251
Equipment and Supplies	3,562
Musical Instruments	2,005
Use of Facilities	<u>1,000</u>
	<u>\$ 10,818</u>

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 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.

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. Information returns for years subsequent to the year ended August 31, 2008 (2007 for state returns) are subject to examination by authorities.

I. Contributions Receivable

Contributions receivable is 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.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Assets in Years	August 31, 2012
Musical Instruments	5-10	\$ 51,571
Furniture and Equipment	5-10	13,335
		64,906
Accumulated Depreciation		(27,164)
		\$ 37,742

NOTE 4 - RELATED PARTY TRANSACTIONS

One member of ETM-LA's board of directors is an attorney whose firm provides pro-bono services to ETM-LA. The value of such services for the year ended August 31, 2012 is estimated to be approximately \$4,000, 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.

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 a material and services fee of \$20,000.

NOTE 6 - GOVERNMENT GRANTS

ETM-LA receives government grants from the Los Angeles County Arts Commission (LACAC), California Arts Council (CAC) and the Los Angeles Department of Cultural Affairs (DCA). Such grants are paid when invoiced by ETM-LA based upon certain program service criteria. ETM-LA recognizes revenue under the grants when it invoices LACAC, CAC and DCA 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 September 1, 2012 through August 31, 2016. Future minimum lease payments under the lease are as follows:

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

<u>Year Ending:</u>	
August 31, 2013	\$ 12,000
August 31, 2014	12,000
August 31, 2015	12,360
August 31, 2016	<u>12,731</u>
	<u>\$ 49,091</u>

NOTE 8 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2013, 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.