

EDUCATION THROUGH MUSIC-LOS ANGELES

FINANCIAL STATEMENTS

AUGUST 31, 2014

EDUCATION THROUGH MUSIC-LOS ANGELES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Education Through Music-Los Angeles
847 North Hollywood Way, Suite 206
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, 2014, 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, 2014, 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

February 27, 2015



EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014

ASSETS

Cash and Cash Equivalents	\$ 550,990
Accounts Receivable, Net	10,875
Contributions Receivable	69,500
Prepaid Expenses	39,926
Furniture and Equipment, Net (Note 3)	<u>31,304</u>

<u>TOTAL ASSETS</u>	<u>\$ 702,595</u>
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LIABILITIES AND NET ASSETSLIABILITIES

Accounts Payable	\$ 3,574
Payroll Payable	<u>7,968</u>

<u>TOTAL LIABILITIES</u>	<u>11,542</u>
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NET ASSETS

Board Designated Reserve	100,000
Other Unrestricted	<u>473,353</u>
	573,353

Temporarily Restricted	<u>117,700</u>
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<u>TOTAL NET ASSETS</u>	<u>691,053</u>
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 702,595</u>
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EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF ACTIVITIES
SEPTEMBER 1, 2013 TO AUGUST 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUE</u>			
Public Support:			
Contributions	\$ 261,497	\$ 124,500	\$ 385,997
Government Grants	-	35,840	35,840
Board Support	37,890	-	37,890
Special Event Revenue	\$ 214,716		
Less: Cost of Direct Benefits to Donors	<u>(22,400)</u>		
Net Revenues from Special Events	192,316	-	192,316
In-kind Contributions (Note 2-E)	<u>41,673</u>	<u>-</u>	<u>41,673</u>
<u>TOTAL PUBLIC SUPPORT</u>	533,376	160,340	693,716
Program Fees	266,545	-	266,545
Net Assets Released from Restrictions	<u>145,699</u>	<u>(145,699)</u>	<u>-</u>
<u>TOTAL PUBLIC SUPPORT AND REVENUE</u>	<u>945,620</u>	<u>14,641</u>	<u>960,261</u>
<u>EXPENSES</u>			
Programs	624,160	-	624,160
Management and General	37,970	-	37,970
Fundraising	<u>84,039</u>	<u>-</u>	<u>84,039</u>
<u>TOTAL EXPENSES</u>	<u>746,169</u>	<u>-</u>	<u>746,169</u>
<u>CHANGE IN NET ASSETS</u>	199,451	14,641	214,092
<u>NET ASSETS</u>			
Beginning of the Year	<u>373,902</u>	<u>103,059</u>	<u>476,961</u>
End of the Year	<u>\$ 573,353</u>	<u>\$ 117,700</u>	<u>\$ 691,053</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FUNCTIONAL EXPENSES
SEPTEMBER 1, 2013 TO AUGUST 31, 2014

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>PERSONNEL COSTS</u>				
Salaries and Wages	\$ 389,609	\$ 10,441	\$ 31,321	\$ 431,371
Payroll Taxes	35,892	962	2,885	39,739
Employee Benefits	33,771	1,769	5,308	40,848
	<u>459,272</u>	<u>13,172</u>	<u>39,514</u>	<u>511,958</u>
<u>OTHER EXPENSES</u>				
Advertising	1,516	-	1,516	3,032
Conferences	6,446	1,675	3,897	12,018
Consultants	23,424	7,129	5,382	35,935
Contractors	34,385	12,907	6,346	53,638
Depreciation	8,910	98	294	9,302
Events	1,536	-	8,628	10,164
Recruiting Fees	595	-	-	595
Instruments	23,393	-	-	23,393
Information Technology	6,020	138	2,021	8,179
Insurance	3,133	196	587	3,916
License, Dues and Fees	21,107	1,015	8,200	30,322
Occupancy	13,561	848	2,543	16,952
Postage	2,301	201	1,434	3,936
Printing and Publications	1,296	63	2,067	3,426
Supplies	9,583	421	1,260	11,264
Travel	7,682	107	350	8,139
	<u>164,888</u>	<u>24,798</u>	<u>44,525</u>	<u>234,211</u>
<u>TOTAL OTHER EXPENSES</u>				
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>\$ 624,160</u>	<u>\$ 37,970</u>	<u>\$ 84,039</u>	<u>\$ 746,169</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF CASH FLOWS
SEPTEMBER 1, 2013 TO AUGUST 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 214,092
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	9,302
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	6,789
Contributions Receivable	(49,500)
Prepaid Expenses	(29,977)
Increase (Decrease) in Liabilities:	
Accounts Payable	(3,560)
Payroll Payable	685
	<u>147,831</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>147,831</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Fixed Assets	<u>(3,196)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	144,635
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</u>	<u>406,355</u>
<u>CASH AND CASH EQUIVALENTS - END OF THE YEAR</u>	<u>\$ 550,990</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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 30% of ETM-LA's total revenue for the year ended August 31, 2014.

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, 2014; net assets totaling \$89,500 and \$28,200 were temporarily restricted for future periods and programs, respectively.

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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, 2014, ETM-LA received the following in-kind contributions:

Professional Services	\$ 33,525
Musical Instruments	6,748
Use of Facilities	<u>1,400</u>
	<u>\$ 41,673</u>

Professional services comprised primarily legal services.

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. As of August 31, 2014, information returns for years subsequent to the year ended August 31, 2010 (2009 for state returns) are 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.

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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, 2014.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Estimated Useful Life	<u>August 31, 2014</u>
Musical Instruments	5-10 Years	\$ 67,802
Furniture and Equipment	5-10 Years	<u>15,868</u>
		83,670
Accumulated Depreciation		<u>(52,366)</u>
		<u>\$ 31,304</u>

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, 2014 is estimated to be approximately \$33,500, 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.

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 (LACAC), California Arts Council (CAC) and the Los Angeles Department of Cultural Affairs (DCA). Such grants are paid mostly in advance, and considered restricted until spent. ETM-LA recognizes revenue under the grants when it invoices LACAC, CAC and DCA after program services have been provided.

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014

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:

<u>Year Ending:</u>	
August 31, 2015	\$ 12,360
August 31, 2016	<u>12,731</u>
	<u>\$ 25,091</u>

NOTE 8 - CONCENTRATION OF CREDIT RISK

ETM-LA holds cash on deposit with banks, which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At August 31, 2014, \$323,675 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, \$100,000 had been designated for the reserve as of August 31, 2014.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 27, 2015, 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.