

**EDUCATION THROUGH MUSIC-LOS ANGELES**

**FINANCIAL STATEMENTS**

**AUGUST 31, 2016**

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, 2016, 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.

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, 2016, 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

August 7, 2017

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FINANCIAL POSITION  
AUGUST 31, 2016

ASSETSCurrent Assets

Cash and Cash Equivalents	\$ 785,227
Accounts Receivable, Net	12,070
Contributions Receivable, Current Portion	<u>10,000</u>

TOTAL CURRENT ASSETS\$ 807,297Other Assets

Furniture and Equipment, Net (Note 3)	43,800
Prepaid Expenses	30,585
Contributions Receivable, Less Current Portion	<u>10,000</u>

TOTAL ASSETS\$ 891,682LIABILITIES AND NET ASSETSLIABILITIES

Accounts Payable	\$ 1,470
Payroll Payable	<u>21,266</u>

TOTAL LIABILITIES22,736NET ASSETS

Board Designated Reserve - Sustainability	240,000
Board Designated Reserve - Risk Capital	138,773
Other Unrestricted	<u>373,173</u>
	751,946

Temporarily Restricted	<u>117,000</u>
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TOTAL NET ASSETS868,946TOTAL LIABILITIES AND NET ASSETS\$ 891,682

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF ACTIVITIES  
SEPTEMBER 1, 2015 TO AUGUST 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUE</u>			
Public Support:			
Contributions	\$ 428,571	\$ 203,000	\$ 631,571
Government Grants	57,960	-	57,960
Board Support	46,250	-	46,250
Special Event Revenue	\$ 355,751		
Less: Cost of Direct Benefits to Donors	<u>(88,880)</u>		
Net Revenues from Special Events	266,871	-	266,871
In-kind Contributions (Note 2-E)	<u>48,347</u>	<u>-</u>	<u>48,347</u>
<u>TOTAL PUBLIC SUPPORT</u>	847,999	203,000	1,050,999
Program Fees	378,532	-	378,532
Net Assets Released from Restrictions	<u>140,795</u>	<u>(140,795)</u>	<u>-</u>
<u>TOTAL PUBLIC SUPPORT AND REVENUE</u>	<u>1,367,326</u>	<u>62,205</u>	<u>1,429,531</u>
<u>EXPENSES</u>			
Programs	1,132,588	-	1,132,588
Management and General	93,076	-	93,076
Fundraising	<u>83,580</u>	<u>-</u>	<u>83,580</u>
<u>TOTAL EXPENSES</u>	<u>1,309,244</u>	<u>-</u>	<u>1,309,244</u>
<u>CHANGE IN NET ASSETS</u>	58,082	62,205	120,287
<u>NET ASSETS</u>			
Beginning of the Year	<u>693,864</u>	<u>54,795</u>	<u>748,659</u>
End of the Year	<u>\$ 751,946</u>	<u>\$ 117,000</u>	<u>\$ 868,946</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF FUNCTIONAL EXPENSES  
SEPTEMBER 1, 2015 TO AUGUST 31, 2016

<u>PERSONNEL COSTS</u>	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 715,860	\$ 18,186	\$ 36,372	\$ 770,418
Payroll Taxes	62,371	1,584	3,169	67,124
Employee Benefits	66,609	3,492	10,016	80,117
	<u>844,840</u>	<u>23,262</u>	<u>49,557</u>	<u>917,659</u>
 <u>OTHER EXPENSES</u>				
Advertising	4,395	-	4,394	8,789
Conferences	6,376	2,040	2,313	10,729
Contractors and Consultants	102,801	41,124	4,184	148,109
Depreciation	11,140	129	384	11,653
Recruiting Fees	6,188	-	-	6,188
Instruments	37,233	-	-	37,233
Information Technology	2,070	2,529	-	4,599
Insurance	-	5,279	-	5,279
License, Dues and Fees	31,375	1,961	5,883	39,219
Occupancy	44,054	2,753	8,261	55,068
Postage	992	575	1,028	2,595
Printing and Publications	5,091	3,850	4,975	13,916
Supplies	28,428	8,249	956	37,633
Travel	7,605	1,325	1,645	10,575
	<u>287,748</u>	<u>69,814</u>	<u>34,023</u>	<u>391,585</u>
<u>TOTAL OTHER EXPENSES</u>	<u>287,748</u>	<u>69,814</u>	<u>34,023</u>	<u>391,585</u>
 <u>TOTAL FUNCTIONAL EXPENSES</u>	 <u>\$ 1,132,588</u>	 <u>\$ 93,076</u>	 <u>\$ 83,580</u>	 <u>\$ 1,309,244</u>

EDUCATION THROUGH MUSIC-LOS ANGELES  
STATEMENT OF CASH FLOWS  
SEPTEMBER 1, 2015 TO AUGUST 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 120,287
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	11,653
In-kind contributions capitalized	(3,200)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	17,023
Contributions Receivable	7,500
Prepaid Expenses	(13,616)
Increase (Decrease) in Liabilities:	
Accounts Payable	(7,444)
Payroll Payable	9,559
	<u>141,762</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>141,762</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Fixed Assets	<u>(18,517)</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	123,245
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</u>	<u>661,982</u>
<u>CASH AND CASH EQUIVALENTS - END OF THE YEAR</u>	<u>\$ 785,227</u>

SUPPLEMENTAL DISCLOSURE:

The Organization received donated musical instruments valued at \$3,200, which were capitalized during the year ended August 31, 2016.



EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

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 26% of ETM-LA's total revenue for the year ended August 31, 2016.

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, 2016; net assets were temporarily restricted as follows:

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Contributions (Continued)

Staff Professional Development	\$ 20,000
Calestar Elementary School	5,000
Foster Elementary School	20,000
Musical Instruments	50,000
Musical Education Program	<u>22,000</u>
	<u>\$ 117,000</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, 2016, ETM-LA received the following in-kind contributions:

Professional Services	\$ 35,198
Musical Instruments	9,949
Use of Facilities	<u>3,200</u>
	<u>\$ 48,347</u>

Donated musical instruments totaling \$3,200 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, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Income Tax Status (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken a tax position that more likely than not would not be sustained upon examination by a tax authority. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

I. Contributions Receivable

Contributions receivable are estimated based on contributions made on or before August 31 for which payment had not yet been received. No allowance is provided for uncollectible accounts. As of August 31, 2016, \$10,000 was due within one year, and \$10,000 was due in one to five years.

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, 2016.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Estimated Useful Life	August 31, 2016
Musical Instruments	5-10 Years	\$ 81,525
Furniture and Equipment	5-10 Years	35,249
		116,774
Accumulated Depreciation		(72,974)
		\$ 43,800

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, 2016 is estimated to be approximately \$35,000, 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 an annual service fee of \$20,000.

EDUCATION THROUGH MUSIC-LOS ANGELES  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2016

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, 2016 through July 31, 2019. For the year ended August 31, 2016, \$4,120 per month was paid under the lease. Future minimum lease payments are as follows:

<u>Year Ending:</u>	
August 31, 2017	\$ 49,564
August 31, 2018	51,051
August 31, 2019	<u>48,080</u>
	<u>\$ 148,695</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, 2016, \$562,938 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, \$240,000 had been designated for the reserve as of August 31, 2016.

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

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 7, 2017, 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.