

EDUCATION THROUGH MUSIC-LOS ANGELES

FINANCIAL STATEMENTS

AUGUST 31, 2017

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, 2017, 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, 2017, 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

MILLER KAPLAN ARASE LLP

North Hollywood, California

May 7, 2018

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2017

ASSETSCurrent Assets

Cash and Cash Equivalents	\$ 764,614
Accounts Receivable, Net	<u>102,801</u>

TOTAL CURRENT ASSETS \$ 867,415

Other Assets

Furniture and Equipment, Net (Note 3)	40,935
Prepaid Expenses	25,971
Contributions Receivable	<u>10,000</u>

TOTAL ASSETS \$ 944,321

LIABILITIES AND NET ASSETSLIABILITIES

Accounts Payable	\$ 5,031
Payroll Payable	<u>17,793</u>

TOTAL LIABILITIES 22,824

NET ASSETS

Board-Designated Reserve - Sustainability	240,000
Board-Designated Reserve - Risk Capital	191,324
Other Unrestricted	403,336
Total Unrestricted	<u>834,660</u>

Temporarily Restricted 86,837

TOTAL NET ASSETS 921,497

TOTAL LIABILITIES AND NET ASSETS \$ 944,321

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF ACTIVITIES
SEPTEMBER 1, 2016 TO AUGUST 31, 2017

<u>PUBLIC SUPPORT AND REVENUE</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support:			
Contributions	\$ 281,503	\$ 330,500	\$ 612,003
Government Grants	60,360	-	60,360
Special Event Revenue	\$ 399,936		
Less: Cost of Direct Benefits to Donors	<u>(105,930)</u>		
Net Revenues from Special Events	294,006	-	294,006
In-kind Contributions (Note 2-E)	<u>37,066</u>	<u>-</u>	<u>37,066</u>
<u>TOTAL PUBLIC SUPPORT</u>	672,935	330,500	1,003,435
Program Fees	547,468	-	547,468
Net Assets Released from Restrictions	<u>360,663</u>	<u>(360,663)</u>	<u>-</u>
<u>TOTAL PUBLIC SUPPORT AND REVENUE</u>	<u>1,581,066</u>	<u>(30,163)</u>	<u>1,550,903</u>
 <u>EXPENSES</u>			
Programs	1,309,764	-	1,309,764
Management and General	77,678	-	77,678
Fundraising	<u>110,910</u>	<u>-</u>	<u>110,910</u>
<u>TOTAL EXPENSES</u>	<u>1,498,352</u>	<u>-</u>	<u>1,498,352</u>
 <u>CHANGE IN NET ASSETS</u>	82,714	(30,163)	52,551
 <u>NET ASSETS</u>			
Beginning of the Year	<u>751,946</u>	<u>117,000</u>	<u>868,946</u>
End of the Year	<u>\$ 834,660</u>	<u>\$ 86,837</u>	<u>\$ 921,497</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FUNCTIONAL EXPENSES
SEPTEMBER 1, 2016 TO AUGUST 31, 2017

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<u>PERSONNEL COSTS</u>				
Salaries and Wages	\$ 873,174	\$ 23,156	\$ 46,313	\$ 942,643
Payroll Taxes	74,087	1,965	3,930	79,981
Employee Benefits	84,859	4,357	12,375	101,591
	<u>1,032,120</u>	<u>29,478</u>	<u>62,617</u>	<u>1,124,215</u>
<u>OTHER EXPENSES</u>				
Advertising	5,068	-	5,068	10,135
Conferences	5,421	2,040	2,313	9,774
Contractors and Consultants	93,028	29,143	13,319	135,490
Depreciation	12,305	142	425	12,871
Recruiting Fees	2,941	2,766	1,538	7,245
Instruments	38,016	-	-	38,016
Information Technology	942	1,247	164	2,353
Insurance	5,986	374	1,122	7,482
License, Dues and Fees	28,710	1,794	5,383	35,887
Occupancy	50,915	3,182	9,547	63,644
Postage	1,398	811	1,472	3,681
Printing and Publications	2,898	2,191	2,832	7,921
Supplies	20,329	2,268	2,462	25,059
Travel	9,688	2,241	2,650	14,579
	<u>277,644</u>	<u>48,200</u>	<u>48,294</u>	<u>374,137</u>
<u>TOTAL OTHER EXPENSES</u>	<u>277,644</u>	<u>48,200</u>	<u>48,294</u>	<u>374,137</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>\$ 1,309,764</u>	<u>\$ 77,678</u>	<u>\$ 110,910</u>	<u>\$ 1,498,352</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF CASH FLOWS
SEPTEMBER 1, 2016 TO AUGUST 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 52,551
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) by Operating Activities:	
Depreciation	12,871
In-kind contributions capitalized	(2,900)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(90,731)
Contributions Receivable	10,000
Prepaid Expenses	4,614
Increase (Decrease) in Liabilities:	
Accounts Payable	3,561
Payroll Payable	(3,473)
	<u> </u>
<u>NET CASH (USED) BY OPERATING ACTIVITIES</u>	<u>(13,507)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Fixed Assets	<u>(7,106)</u>
<u>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(20,613)
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</u>	<u>785,227</u>
<u>CASH AND CASH EQUIVALENTS - END OF THE YEAR</u>	<u>\$ 764,614</u>

SUPPLEMENTAL DISCLOSURE:

The Organization received donated musical instruments valued at \$2,900, which were capitalized during the year ended August 31, 2017.

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

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, 2017.

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. Board support is included in contributions. 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, 2017; net assets were temporarily restricted as follows:

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Contributions (Continued)

Staff Professional Development	\$ 10,000
McKinley and Foster Elementary Schools	60,000
Musical Instruments	<u>16,837</u>
	<u>\$ 86,837</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, 2017, ETM-LA received the following in-kind contributions:

Professional Services	\$ 20,428
Musical Instruments	7,838
Use of Facilities	<u>8,800</u>
	<u>\$ 37,066</u>

Donated musical instruments valued at \$2,900 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, 2017

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 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. ETM-LA 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, 2017, \$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, 2017.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	Estimated Useful Life	August 31, 2017
Musical Instruments	5-10 Years	\$ 82,015
Furniture and Equipment	5-10 Years	40,867
		122,882
Accumulated Depreciation		(81,947)
		\$ 40,935

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, 2017 is estimated to be approximately \$20,400, 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, ETM 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, 2017

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 through July 31, 2019. Rent under the lease totaled \$49,564 for the year ended August 31, 2017. Future minimum lease payments are as follows:

<u>Year Ending:</u>	
August 31, 2018	\$ 51,051
August 31, 2019	<u>48,080</u>
	<u>\$ 99,131</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, 2017, \$539,795 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, 2017.

In addition, the board has designated unrestricted net assets totaling \$191,324 as "risk capital". This amount includes the net increase in ETM-LA's net assets for the year ended August 31, 2017. See Note 11.

NOTE 10 - PENSION PLAN

ETM-LA offers a defined contribution 403(b) retirement plan to its eligible employees; it contributed \$4,747 to the plan for the year ended August 31, 2017.

NOTE 11 - SUBSEQUENT EVENTS

At its meeting on December 17, 2017, the board of directors voted to allocate additional unrestricted net assets to board-designated reserves. The net increase in ETM-LA's net assets for the year ended August 31, 2017, not to exceed \$80,000, were designated as additional "risk capital". Accordingly, unrestricted net assets totaling \$52,551 were added to board-designated reserves as of August 31, 2017.

Management has evaluated subsequent events through May 7, 2018, the date these financial statements were available to be issued. Except as described above, there were no material subsequent events that required recognition or additional disclosures in these financial statements.