

**EDUCATION THROUGH MUSIC-LOS ANGELES**

FINANCIAL STATEMENTS

AUGUST 31, 2018

# 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, 2018, 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, 2018, 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

June 7, 2019

**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**STATEMENT OF FINANCIAL POSITION**  
**AUGUST 31, 2018**

**ASSETS**

## Current Assets

Cash and Cash Equivalents	\$ 903,711
Accounts Receivable, Net	16,794
Contributions Receivable, Current Portion	<u>79,000</u>

TOTAL CURRENT ASSETS 999,505

## Other Assets

Furniture and Equipment, Net (Note 3)	49,304
Prepaid Expenses	14,019
Contributions Receivable, Less Current Portion	<u>29,000</u>

TOTAL ASSETS \$ 1,091,828

**LIABILITIES AND NET ASSETS**

## CURRENT LIABILITIES

Accounts Payable	\$ 32,519
Accrued Compensation	<u>39,499</u>

TOTAL LIABILITIES 72,018

## NET ASSETS

Board-Designated Reserve - Sustainability	289,157
Board-Designated Reserve - Risk Capital	240,481
Other Unrestricted	<u>332,796</u>
Total Unrestricted	862,434

Temporarily Restricted 157,376

TOTAL NET ASSETS 1,019,810

TOTAL LIABILITIES AND NET ASSETS \$ 1,091,828

**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**STATEMENT OF ACTIVITIES**  
**SEPTEMBER 1, 2017 TO AUGUST 31, 2018**

	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
Public Support:			
Contributions	\$ 437,016	\$ 549,000	\$ 986,016
Government Grants	105,600	-	105,600
Special Event Revenue	\$ 334,435		
Less: Cost of Direct Benefits to Donors	(85,878)		
Net Revenues from Special Events	248,557	-	248,557
In-kind Contributions (Note 2-E)	98,737	-	98,737
<b>TOTAL PUBLIC SUPPORT</b>	889,910	549,000	1,438,910
Program Fees	635,686	-	635,686
Net Assets Released from Restrictions	478,461	(478,461)	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<u>2,004,057</u>	<u>70,539</u>	<u>2,074,596</u>
<b>EXPENSES</b>			
Programs	1,684,306	-	1,684,306
Management and General	114,573	-	114,573
Fundraising	177,404	-	177,404
<b>TOTAL EXPENSES</b>	<u>1,976,283</u>	<u>-</u>	<u>1,976,283</u>
<b>CHANGE IN NET ASSETS</b>	27,774	70,539	98,313
<b>NET ASSETS</b>			
Beginning of the Year	834,660	86,837	921,497
End of the Year	<u>\$ 862,434</u>	<u>\$ 157,376</u>	<u>\$ 1,019,810</u>

**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**SEPTEMBER 1, 2017 TO AUGUST 31, 2018**

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>PERSONNEL COSTS</b>				
Salaries and Wages	\$ 1,072,027	\$ 26,607	\$ 53,214	\$ 1,151,848
Payroll Taxes	88,490	2,196	4,393	95,079
Employee Benefits	88,159	4,587	13,152	105,898
	<u>1,248,676</u>	<u>33,390</u>	<u>70,759</u>	<u>1,352,825</u>
<b>TOTAL PERSONNEL COSTS</b>				
<b>OTHER EXPENSES</b>				
Advertising	12,380	-	12,379	24,759
Conferences	9,444	1,632	1,404	12,480
Contractors and Consultants	169,346	57,549	46,260	273,155
Depreciation	10,031	264	794	11,089
Recruiting Fees	2,934	2,750	37	5,721
Instruments	63,094	-	-	63,094
Information Technology	6,110	3,666	2,444	12,220
Insurance	4,978	311	934	6,223
License, Dues and Fees	40,151	2,509	7,529	50,189
Occupancy	61,545	3,847	11,539	76,931
Postage	285	776	2,390	3,451
Printing and Publications	3,317	4,061	5,263	12,641
Supplies	31,530	2,710	13,018	47,258
Travel	20,485	1,108	2,654	24,247
	<u>435,630</u>	<u>81,183</u>	<u>106,645</u>	<u>623,458</u>
<b>TOTAL OTHER EXPENSES</b>				
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 1,684,306</u>	<u>\$ 114,573</u>	<u>\$ 177,404</u>	<u>\$ 1,976,283</u>

**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**STATEMENT OF CASH FLOWS**  
**SEPTEMBER 1, 2017 TO AUGUST 31, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 98,313
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	11,089
In-Kind Donations	(4,169)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	86,007
Contributions Receivable	(98,000)
Prepaid Expenses	11,952
Increase (Decrease) in Liabilities:	
Accounts Payable	27,488
Payroll Payable	21,706
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>154,386</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of Fixed Assets	<u>(15,289)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>139,097</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	<u><b>764,614</b></u>
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<u><u><b>\$ 903,711</b></u></u>

**SUPPLEMENTAL DISCLOSURE:**

The Organization received donated instruments and equipment valued at \$4,169, which were capitalized during the year ended August 31, 2018.



**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**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 31% of ETM-LA's total revenue for the year ended August 31, 2018.

**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, 2018; net assets were temporarily restricted as follows:

**EDUCATION THROUGH MUSIC-LOS ANGELES**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Contributions (Continued)**

Future Periods	\$ 108,000
Infrastructure	<u>49,376</u>
	<u>\$ 157,376</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, 2018, ETM-LA received the following in-kind contributions:

Professional Services	\$ 72,915
Instruments and Equipment	14,547
Use of Facilities	<u>11,275</u>
	<u>\$ 98,737</u>

Donated instruments valued at \$2,000 and equipment valued at \$2,169 included above 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, 2018**

**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, 2018, \$79,000 was due within one year and \$29,000 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, 2018.

**NOTE 3 - FURNITURE AND EQUIPMENT**

Furniture and equipment consist of the following:

	<u>Estimated Useful Life</u>	<u>August 31, 2018</u>
Musical Instruments	5-10 Years	\$ 72,044
Furniture and Equipment	5-10 Years	48,674
		<u>120,718</u>
Accumulated Depreciation		<u>(71,414)</u>
		<u>\$ 49,304</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, 2018 is estimated to be approximately \$72,900, and has been included in the financial statements.

Members of the board are asked to give or get contributions of \$5,000 each year (\$2,500 for educators).

**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, 2018**

**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 - 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, 2018, \$653,658 held at Bank of America exceeded the insurance limit and was not covered by the FDIC.

**NOTE 8 - 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, \$289,157 had been designated for the reserve as of August 31, 2018.

In addition, the board has designated unrestricted net assets totaling \$240,481 as "risk capital". This amount includes the net increase in ETM-LA's net assets for the year ended August 31, 2017.

**NOTE 9 - PENSION PLAN**

ETM-LA offers a defined contribution 403(b) retirement plan to its eligible employees; it contributed \$4,365 to the plan for the year ended August 31, 2018.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

ETM-LA leases office space in Burbank under an agreement expiring July 31, 2019. Rent under the lease totaled \$49,564 for the year ended August 31, 2018. Future minimum lease payments under the agreement total \$48,080 due in the year ended August 31, 2019.

**NOTE 11 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 7, 2019, 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.