

EDUCATION THROUGH MUSIC-LOS ANGELES

FINANCIAL STATEMENTS

AUGUST 31, 2019



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, 2019, 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, 2019, 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

July 22, 2020

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2019

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 843,353
Accounts Receivable, Net	45,688
Contributions Receivable	<u>52,000</u>

TOTAL CURRENT ASSETS 941,041

Other Assets:

Depreciable Assets, Net (Note 3)	54,343
Prepaid Expenses	<u>28,274</u>

TOTAL ASSETS \$ 1,023,658

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 34,177
Accrued Compensation	<u>62,250</u>

TOTAL LIABILITIES 96,427

NET ASSETS

Net Assets without Donor Restrictions	
Board-Designated Reserve - Sustainability	289,157
Board-Designated Reserve - Risk Capital	240,481
Other Net Assets without Donor Restrictions	<u>344,093</u>
	873,731

Net Assets with Donor Restrictions 53,500

TOTAL NET ASSETS 927,231

TOTAL LIABILITIES AND NET ASSETS \$ 1,023,658

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF ACTIVITIES
SEPTEMBER 1, 2018 TO AUGUST 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public Support:			
Contributions	\$ 955,165	\$ 245,500	\$ 1,200,665
Government Grants	128,985	-	128,985
Special Event Revenue	\$ 324,195		
Less: Cost of Direct Benefits to Donors	<u>(129,904)</u>		
Net Revenues from Special Events	194,291	-	194,291
In-kind Contributions (Note 2-E)	<u>83,041</u>	<u>-</u>	<u>83,041</u>
TOTAL PUBLIC SUPPORT	1,361,482	245,500	1,606,982
Program Fees	867,723	-	867,723
Other Income	1,108		1,108
Net Assets Released from Restrictions	<u>349,376</u>	<u>(349,376)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>2,579,689</u>	<u>(103,876)</u>	<u>2,475,813</u>
EXPENSES			
Programs	2,214,061	-	2,214,061
Management and General	179,618	-	179,618
Fundraising	<u>174,713</u>	<u>-</u>	<u>174,713</u>
TOTAL EXPENSES	<u>2,568,392</u>	<u>-</u>	<u>2,568,392</u>
CHANGE IN NET ASSETS	11,297	(103,876)	(92,579)
NET ASSETS			
Beginning of the Year	<u>862,434</u>	<u>157,376</u>	<u>1,019,810</u>
End of the Year	<u>\$ 873,731</u>	<u>\$ 53,500</u>	<u>\$ 927,231</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF FUNCTIONAL EXPENSES
SEPTEMBER 1, 2018 TO AUGUST 31, 2019

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
PERSONNEL COSTS				
Salaries and Wages	\$ 1,554,145	\$ 46,535	\$ 93,071	\$ 1,693,751
Payroll Taxes	130,055	3,895	7,788	141,738
Employee Benefits	<u>156,648</u>	<u>8,449</u>	<u>24,114</u>	<u>189,211</u>
TOTAL PERSONNEL COSTS	<u>1,840,848</u>	<u>58,879</u>	<u>124,973</u>	<u>2,024,700</u>
OTHER EXPENSES				
Advertising	8,615	-	8,615	17,230
Conferences	4,624	2,907	506	8,037
Contractors and Consultants	85,277	89,958	4,481	179,716
Depreciation	19,314	132	396	19,842
Recruiting Fees	2,085	3,324	-	5,409
Instruments	91,662	-	-	91,662
Information Technology	2,726	1,635	1,090	5,451
Insurance	5,244	328	983	6,555
License, Dues and Fees	41,939	2,635	8,131	52,705
Occupancy	59,585	3,724	11,172	74,481
Postage	50	2,997	53	3,100
Printing and Publications	3,081	3,597	3,425	10,103
Supplies	21,416	7,879	7,642	36,937
Travel	<u>27,595</u>	<u>1,623</u>	<u>3,246</u>	<u>32,464</u>
TOTAL OTHER EXPENSES	<u>373,213</u>	<u>120,739</u>	<u>49,740</u>	<u>543,692</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 2,214,061</u>	<u>\$ 179,618</u>	<u>\$ 174,713</u>	<u>\$ 2,568,392</u>

EDUCATION THROUGH MUSIC-LOS ANGELES
STATEMENT OF CASH FLOWS
SEPTEMBER 1, 2018 TO AUGUST 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (92,579)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	19,842
Loss on Disposal	840
Capitalized In-Kind Donations	(7,125)
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	(28,894)
Contributions Receivable	56,000
Prepaid Expenses	(14,255)
Increase (Decrease) in Liabilities:	
Accounts Payable	1,658
Payroll Payable	22,751
<u>NET CASH (USED) BY OPERATING ACTIVITIES</u>	<u>(41,762)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds on Disposal	800
Purchases of Depreciable Assets	<u>(19,396)</u>
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u>	<u>(18,596)</u>

NET (DECREASE) IN CASH AND CASH EQUIVALENTS (60,358)

CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR 903,711

CASH AND CASH EQUIVALENTS - END OF THE YEAR \$ 843,353

SUPPLEMENTAL DISCLOSURE:

The Organization received donated instruments and equipment valued at \$7,125, which were capitalized during the year ended August 31, 2019.

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

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, 2019.

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. Depreciable Assets

All expenditures over \$700 for furniture and equipment, musical instruments, software, and the website, are capitalized and recorded at cost. Donated property is capitalized at its estimated market value on the date of donation. Depreciation and amortization are 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 without donor restrictions 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 contributions with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. As of August 31, 2019, net assets with donor restrictions were as follows:

EDUCATION THROUGH MUSIC-LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Contributions (Continued)

Infrastructure	\$ 29,000
Foster Elementary School	20,000
Professional Development Collective	1,500
Future Periods	<u>3,000</u>
	<u>\$ 53,500</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, 2019, ETM-LA received the following in-kind contributions:

Professional Services	\$ 45,018
Instruments and Equipment	23,898
Use of Facilities	<u>14,125</u>
	<u>\$ 83,041</u>

Donated instruments valued at \$7,125 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 financial statements. Expenditures that can be identified with a specific program or supporting service are allocated directly according to their purpose. Costs that are common to more than one function are allocated among the applicable programs and supporting services based on employees' time records using percentages that represent their hours spent or salaries.

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, 2019

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 promises 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, 2019, contributions receivable totaling \$52,000 were due within one year.

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, 2019.

K. New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) recently issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which provides that nonprofit organizations, among other things:

- Present amounts for two net asset classes in the financial statements rather than three;
- Provide enhanced disclosures about:
 - o Amounts and purposes of board designations;
 - o Qualitative information about the management of liquid resources available to meet cash needs for one year;
 - o Quantitative information about the availability of financial assets to meet cash needs for one year;
 - o Expenses by both their natural and functional classifications;
 - o Methods used to allocate costs among program and support functions;
 - o Underwater endowment funds;
- Report investment return net of investment expenses; and
- Use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The amendments are applied retrospectively to all periods presented. ETM-LA adopted ASU 2016-14 for the fiscal year ended August 31, 2019.

EDUCATION THROUGH MUSIC-LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

NOTE 3 - DEPRECIABLE ASSETS

Depreciable assets consist of the following:

	<u>Estimated Useful Life</u>	<u>August 31, 2019</u>
Musical Instruments	2-5 Years	\$ 40,089
Other Depreciable Assets	3-7 Years	55,373
		<u>95,462</u>
Accumulated Depreciation		<u>(41,119)</u>
		<u>\$ 54,343</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, 2019 is estimated to be approximately \$45,000, and has been included as both revenue and expense 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.

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, 2019, \$590,150 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, 2019.

In addition, the board has designated net assets without donor restrictions totaling \$240,481 as of August 31, 2019 as "risk capital".

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NOTE 9 - PENSION PLAN

ETM-LA offers a defined contribution 403(b) retirement plan to its eligible employees; it contributed \$9,765 to the plan for the year ended August 31, 2019.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

ETM-LA leases office space in Burbank under an agreement expiring December 31, 2024. Rent under the lease totaled \$53,510 for the year ended August 31, 2019. Future minimum lease payments are as follows:

<u>Year Ending:</u>	
August 31, 2020	\$ 65,160
August 31, 2021	65,160
August 31, 2022	65,160
August 31, 2023	65,160
August 31, 2024	65,160
Thereafter	<u>21,720</u>
	<u>\$ 347,520</u>

NOTE 11 - AVAILABILITY OF FINANCIAL ASSETS

ETM-LA had \$941,041 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash and cash equivalents of \$843,353, accounts receivable of \$45,688 and contributions receivable of \$52,000. Most of the contributions receivable consist of financial assets subject to donor or other contractual restrictions; however, ETM-LA expects that they will be available for expenditure within one year of the balance sheet date. ETM-LA's current goal is to put aside sufficient reserves to cover three months of operating expenses.

NOTE 12 - SUBSEQUENT EVENTS

Due to the COVID-19 pandemic, ETM-LA's activities were impacted beginning March 2020, including the cancellation of activities such as the Annual Music Unites the World Festival and the pivot of in-school music instruction to online, synchronous and asynchronous distance learning. Furthermore, program fees were affected due to disruption of normal services, along with donor, community, fundraising, and other events. ETM-LA received an SBA Loan of \$371,473 in May 2020. ETM-LA's upcoming annual gala will pivot to a virtual event online (anticipated reduction of 30% revenue as compared to the previous year). Management will budget around contingencies in the coming months.

Management has evaluated subsequent events through July 22, 2020, 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.