

# Education Through Music – Los Angeles

Financial Report

Year Ended August 31, 2022

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## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Education Through Music-Los Angeles  
2501 West Burbank Boulevard, Suite 301  
Burbank, California 91505

### **Opinion**

We have audited the accompanying financial statements of Education Through Music-Los Angeles (the Organization), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2022, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Hatchinson and Bloodgood LLP*

August 10, 2023  
Glendale, California

## EDUCATION THROUGH MUSIC - LOS ANGELES

Statement of Financial Position  
August 31, 2022

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### ASSETS

#### Current assets

Cash and cash equivalents	\$ 1,461,719
Accounts receivable	26,122
Grants and pledges receivable, due within a year	330,000
Prepaid expenses and other current assets	<u>27,035</u>

Total current assets 1,844,876

Depreciable and amortizable assets, net	68,019
Pledges receivable, due after one year	247,761
Right-of-use assets, operating lease	<u>175,840</u>

Total assets \$ 2,336,496

### LIABILITIES AND NET ASSETS

#### Current liabilities

Accounts payable	\$ 15,785
Accrued compensation	129,374
Operating lease liability, current portion	73,812
Unearned income	<u>84,229</u>

Total current liabilities 303,200

Operating lease liability, net of current portion 104,009

Total liabilities 407,209

#### Net assets

##### Without donor restrictions:

Board-designated reserve – risk capital	406,526
Board-designated reserve – sustainability	525,202
Other net assets	<u>372,450</u>

1,304,178

##### With donor restrictions:

Net assets carrying purpose restrictions	77,348
Net assets carrying time restrictions	<u>547,761</u>

625,109

Total net assets 1,929,287

Total liabilities and net assets \$ 2,336,496

## EDUCATION THROUGH MUSIC - LOS ANGELES

Statement of Activities and Change in Net Assets  
Year Ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Public support:			
Contributions and pledges	\$ 915,974	\$ 790,761	\$ 1,706,735
Government grants	371,472	129,579	501,051
In-kind contributions	43,654	--	43,654
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>296,747</u>	<u>(296,747)</u>	<u>--</u>
Total public support	1,627,847	623,593	2,251,440
Program fees	1,092,843	--	1,092,843
Other income	<u>9,001</u>	<u>--</u>	<u>9,001</u>
Total public support, program fees, and other revenue	<u>2,729,691</u>	<u>623,593</u>	<u>3,353,284</u>
<b>EXPENSES</b>			
Program services	2,248,652	--	2,248,652
Management and general	245,953	--	245,953
Fundraising	<u>179,030</u>	<u>--</u>	<u>179,030</u>
Total expenses	<u>2,673,635</u>	<u>--</u>	<u>2,673,635</u>
Change in net assets	56,056	623,593	679,649
<b>NET ASSETS, beginning</b>	<u>1,248,122</u>	<u>1,516</u>	<u>1,249,638</u>
<b>NET ASSETS, ending</b>	<u>\$ 1,304,178</u>	<u>\$ 625,109</u>	<u>\$ 1,929,287</u>

## EDUCATION THROUGH MUSIC - LOS ANGELES

Statement of Functional Expenses  
Year Ended August 31, 2022

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	Program Services	Management and General	Fundraising	Total
<b>PERSONNEL COSTS</b>				
Salaries and Wages	\$ 1,665,143	\$ 88,448	\$ 109,157	\$ 1,862,748
Employee Benefits	162,759	8,645	10,670	182,074
Payroll Taxes	<u>135,839</u>	<u>7,215</u>	<u>8,905</u>	<u>151,959</u>
Total Personnel Costs	<u>1,963,741</u>	<u>104,308</u>	<u>128,732</u>	<u>2,196,781</u>
<b>OTHER EXPENSES</b>				
Advertising	6,650	186	3,740	10,576
Contractors and consultants	40,547	108,333	24,075	172,955
Depreciation and amortization	11,188	6,382	--	17,570
Recruiting Fees	1,378	8,953	--	10,331
Instruments	20,198	--	--	20,198
Information technology	36,968	1,964	2,423	41,355
Insurance	9,911	526	650	11,087
License, dues, and fees	43,797	2,326	2,871	48,994
Occupancy	62,158	8,288	12,431	82,877
Postage	799	107	160	1,066
Printing and publications	7,727	237	292	8,256
Professional development	5,201	1,951	189	7,341
Supplies	28,528	1,934	2,901	33,363
Travel	8,627	458	566	9,651
Other Expenses	<u>1,234</u>	<u>--</u>	<u>--</u>	<u>1,234</u>
Total Other Expenses	<u>284,911</u>	<u>141,645</u>	<u>50,298</u>	<u>476,854</u>
Total Functional Expenses	<u>\$ 2,248,652</u>	<u>\$ 245,953</u>	<u>\$ 179,030</u>	<u>\$ 2,673,635</u>

## EDUCATION THROUGH MUSIC - LOS ANGELES

Statement of Cash Flows  
Year Ended August 31, 2022

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### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 679,649
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	17,571
Non-cash operating lease expense	49,469
Change in assets and liabilities:	
Grants and pledges receivable	(577,761)
Accounts receivable	26,608
Prepaid expenses and other assets	(12,613)
Accounts payable	(918)
Other Accruals	(29,154)
Use of grant proceeds, Paycheck Protection Program	(371,472)
Unearned income	32,395
Accrued compensation	14,622
Operating lease liabilities	<u>(47,488)</u>
Net cash used by operating activities	<u>(219,092)</u>

### CASH FLOWS USED BY INVESTING ACTIVITIES

Acquisition of depreciable assets	<u>(21,431)</u>
Net decrease in cash and cash equivalents	(240,523)

**CASH AND CASH EQUIVALENTS, beginning of year** 1,702,242

**CASH AND CASH EQUIVALENTS, end of year** \$ 1,461,719

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Non-cash activities:	
Contributed fixed assets	<u>\$ 6,547</u>
Right-of-use assets obtained in exchange for lease liabilities	<u>\$ 225,309</u>



## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 1. ORGANIZATION

Education Through Music - Los Angeles (ETM-LA), a 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. ETM-LA ensures high-quality instruction by hiring qualified music teachers, providing ongoing training, and performing regular program assessments. ETM-LA encourages academic teachers and ETM-LA music teachers to collaborate so that music can reinforce learning and development in all areas. ETM-LA helps 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 33% of ETM-LA's total revenue for the year ended August 31, 2022.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting:** The financial statements of ETM-LA have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Financial Statement Presentation:** ETM-LA is required to report classification of the net assets, revenues as well as expenses based on the existence or absence of donor-imposed restrictions. Each of the two classes of net assets – with donor restrictions, and without donor restrictions – are presented in the statement of financial position, and the amounts of change in each of those classes of net assets in the statement of activities.

**Net Assets:** The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions for use that are placed by its donors, as follows:

*Net Assets Without Donor Restrictions:* Net assets without donor restrictions are resources available for use in carrying out the mission of the ETM-LA, and include those expendable resources which have been designated for use by the ETM-LA.

ETM-LA reports restricted contributions, whose restrictions are met in the same reporting period, as unrestricted support.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Net Assets (continued):**

*Net Assets With Donor Restrictions:* Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. ETM-LA 's unspent contributions are classified in this class if the donor limited their use. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of depreciable property (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by ETM-LA, unless the donor provides more specific directions about the period of its use. At August 31, 2022, net assets of \$625,109 carried donor restrictions.

All revenues are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses are reported as decreases in net assets without donor restrictions.

**Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents:** ETM-LA considers all highly-liquid investments available for current use with a maturity of three (3) months or less to be cash equivalents.

**Grants and Pledges Receivable and Accounts Receivable:** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. ETM-LA uses the allowance method of accounting for receivables determined to be potentially uncollectable.

Management determined that no reserve was required for accounts receivable at August 31, 2022.

Management determined that all grants and pledges receivable were collectible at year-end and therefore no allowance has been established for grants and pledges receivable.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue Recognition:** ETM-LA's revenue recognition policies are as follows:

**Pledges and Contributions:** Pledges and contributions are recorded as revenue upon receipt of cash or unconditional promise to give (pledge) in which there is no right of return of assets contributed and an indication of any donor-imposed barriers or performance obligations as a condition of the contribution based upon the donor agreement. Contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as net assets with donor restrictions until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with donor-restrictions. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

**Contributed Goods and Services:** Volunteers contribute amounts of time to the program activities, administration, and fundraising and development activities carried out by the Organization. However, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by the U.S. GAAP. Contributed goods are recorded at fair value at the date of the donation. Donated professional services are recorded at their respective fair values.

**Fundraising Events Revenue:** Revenue generated from fundraising events, such as auctions, and galas, is recognized when the event takes place or when the sponsorship commitment is fulfilled. These funds are typically unrestricted and used to support the Organization's general operational needs. Amounts received are recorded at the time of transaction.

**Grants:** Certain grants are considered non-exchange transactions and are reported as increases in net assets without restrictions as the associated barriers are overcome, which generally is as allowable expenditures under such agreements are incurred.

**Other Revenue:** Revenue from miscellaneous sources is recognized when earned. These funds are typically unrestricted and contribute to the Organization's overall financial resources.

**Special Events Revenue:** Amounts received are recorded at the time of transaction.

**Unearned Income:** Unearned income includes deposits received prior to year-end for programming scheduled to take place in the subsequent year.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Prepaid Expenses:** Prepaid deposits and other costs are expensed ratably over their respective terms of agreement.

**Depreciable Assets:** Depreciable assets are reported in the statement of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All expenditures for furniture and equipment, musical instruments, software, and the website are capitalized if they have a cost of \$700 or more and a useful life when acquired of more than one year. Donated assets are capitalized at fair market value on the date of the gift. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Proceeds from the sale of tangible personal property assets are transferred to fund balances without donor restrictions. Depreciable assets are depreciated on a straight-line basis over estimated useful lives, generally two to seven years. Leasehold improvements are generally amortized over the term of the lease.

**Advertising Costs:** Advertising costs are expensed as incurred. Advertising expenses approximated \$10,577 for the year ended August 31, 2022.

**Expense Allocation:** ETM-LA allocates its expenses between its program, support, and fundraising services. Expenses that can be identified with a specific program, support or fundraising services are allocated directly according to their natural expenditure classification. Other expenses, which are common to both program and support services, are allocated based on the percentage of expenses utilized by each. Compensation expenses and related benefits are allocated on the basis of estimates of time and effort. Support services include management and general administrative functions of ETM-LA, which manages the financial budget and provides the structure necessary to secure financial support from individuals, corporations, and foundations.

**Income Taxes:** ETM-LA is a nonprofit corporation, qualifying under section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. As such, except for taxes pertaining to unrelated business income, ETM-LA is exempt from federal and state income taxes. No provision has been made for income taxes, as ETM-LA had no unrelated business income. ETM-LA is not considered a private foundation. ETM-LA believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that would require recognition or disclosure at August 31, 2022. ETM-LA's tax years that are open for examination by federal and state agencies are three and four years, respectively.

**Recently Adopted Accounting Pronouncements:** In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 842, Leases (ASC 842), to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Recently Adopted Accounting Pronouncements (continued):** The Organization elected the "package of practical expedients" under the transition guidance within ASC 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient and, therefore, will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on September 1, 2021.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under ASC 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or September 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of ASC 842).

Adoption of ASC 842 resulted in the recording of ROU assets and lease liabilities related to the Organization's operating leases as disclosed in Note 6. The adoption of the new lease standard did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

In September 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard requires nonprofits to expand their financial statement presentation and disclosure of information on contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 5, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The Organization adopted the standard on September 1, 2021. The standard did not have a material impact on the Organization's financial statements. The Organization updated financial statements disclosures, as necessary.

### NOTE 3. GRANTS

**Paycheck Protection Program:** During the year ended August 31, 2021, ETM-LA received \$371,472 through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and accounted for these funds following accounting guidance for conditional contributions. As a result, initially a liability (refundable grant) was recorded as of August 31, 2021, given all measurable barriers were not substantially met by August 31, 2021.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 3. GRANTS (Continued)

**Paycheck Protection Program (continued):** Since the measurable barriers under the program were satisfied during the year ended August 31, 2022, while the ETM-LA expended the funds for certain payroll, interest, rent, and utility costs, ETM-LA recognized grant revenue during the year ended August 31, 2022. In April 2022, ETM-LA was notified that the second draw of the PPP loan was forgiven.

Had the PPP loan not been forgiven, the principal amount of the loan would have accrued interest at the rate of 1%, and ETM-LA would have been required to pay off the loan by May 2023.

**Other Grants:** From time to time, ETM-LA may receive government grants from the Los Angeles County Department of Arts and Culture, 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. In addition, during the year ended August 31, 2022, ETM-LA received \$25,000 COVID relief grant.

The following grants were recognized by ETM-LA during the year ended August 31, 2022:

PPP	\$ 371,472
COVID relief grant	25,000
Other grants	<u>104,579</u>
	<u>\$ 501,051</u>

### NOTE 4. BOARD-DESIGNATED RESERVES

The Board of Directors (Board) 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 ETM-LA face an emergency. In total, \$525,202 had been designated for the sustainability reserve as of August 31, 2022.

In addition, the Board has designated net assets without donor restrictions totaling \$406,526 as of August 31, 2022 as "risk capital" reserve.

### NOTE 5. DEPRECIABLE AND AMORTIZABLE ASSETS

Depreciable and amortizable assets consist of the following as of August 31, 2022:

		Estimated Useful Life
Musical instruments	\$ 50,197	2-5 years
Software/website	50,000	3 years
Other depreciable assets	52,687	3-7 years
Less accumulated depreciation and amortization	<u>(84,865)</u>	
	<u>\$ 68,019</u>	

Depreciation and amortization expense for the year ended August 31, 2022 was \$17,571.

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 6. OPERATING LEASE

ETM-LA leases office space in Burbank, California. The operating lease expires in December 2024.

The Organization adopted Topic 842 using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. The Organization implemented ASC Topic 842 using certain practical expedients. Adoption of the new lease standard resulted in the recording of right-of-use asset and lease liability of \$225,309 as of the adoption date and is reflected as a noncash transaction for purposes of the statement of cash flows.

The table below presents information regarding existing operating lease:

Remaining lease term (in years)	2.33
Discount rate	1.04%

Future minimum lease payments required under these operating leases are as follows:

Year Ending August 31,	
2023	\$ 75,248
2024	78,264
2025	<u>26,428</u>
	179,940
Less amount representing interest	<u>(2,119)</u>
Present value of minimum lease payments	177,821
Less current portion	<u>(73,812)</u>
	<u>\$ 104,009</u>

Lease expenses for the year ended August 31, 2022 amounted to approximately \$81,000.

The components of lease expense approximated the following for the year ended August 31, 2022:

Operating lease cost	\$ 50,845
Short-term lease cost	\$ 30,155

### NOTE 7. 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, 2022 is estimated to be approximately \$35,000 and has been included as both revenue and expense in the financial statements.

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

## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 8. 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 9. LIQUIDITY AND AVAILABILITY

The following reflects ETM-LA's financial assets as of August 31, 2022, reduced by the amounts not available for general expenditures within one year. Financial assets are considered unavailable when not convertible to cash within one year, designated by the Board for endowment or other purposes, or include donor purpose or time restrictions which are not anticipated to be fulfilled within one year.

Financial assets at year end:	
Cash and cash equivalents	\$ 1,461,719
Accounts, grants and pledges receivable	26,122
Grants and pledges receivable	<u>577,761</u>
Financial assets at year end	2,065,602
Less amounts unavailable for general expenditures within one year, due to purpose or time restrictions by donors	
	<u>(625,109)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,440,493</u>

Included in the financial assets available to meet cash needs for general expenses are Board-designated funds of \$810,728. ETM-LA's goal remains to maintain sufficient reserves to cover at least three months of operating expenses.

### NOTE 10. IN-KIND CONTRIBUTIONS

The Organization's financial statements include the following in-kind contributions for the year ended August 31, 2022:

Professional services	\$ 35,207
Instruments	7,247
Use of facilities	<u>1,200</u>
	<u>\$ 43,654</u>

The estimated fair value of professional legal services is provided by the service provider, who estimates the fair value based on the time and hourly rate at which the service is provided.

Donated instruments are reported in the financial statements at the estimated fair value based on current market prices for similar instruments.

Use of facilities is reported at the estimated fair value of rental rate for the facilities.

The Organization did not monetize any contributed nonfinancial assets. Contributed nonfinancial assets did not have donor restrictions.



## EDUCATION THROUGH MUSIC - LOS ANGELES

Notes to Financial Statements  
August 31, 2022

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### NOTE 11. PENSION PLAN

ETM-LA offers a defined contribution 403(b) retirement plan to its eligible employees. ETM-LA contributed \$10,786 to the plan for the year ended August 31, 2022.

### NOTE 12. CONCENTRATIONS OF CREDIT RISK

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes ETM-LA is not exposed to significant credit risk on those amounts. At August 31, 2022, approximately \$1,202,800 held at Bank of America exceeded the insurance limit and was not covered by the FDIC.

### NOTE 13. ECONOMIC DEPENDENCY

The majority of ETM-LA's contributions and grants are received from corporations, foundations, and individuals located in the Los Angeles metropolitan area. As such, ETM-LA's ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for ETM-LA's services.

### NOTE 14. CONTINGENCIES

ETM-LA is subject to claims and litigations in the normal course of business. Management believes that the resolution of these matters will not have a material effect on ETM-LA's financial position or results of operations.

### NOTE 15. GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consist of the following at August 31, 2022:

Contributions receivable	
before unamortized discounts	<u>\$ 580,000</u>
Amounts due in:	
Less than a year	\$ 330,000
One to two years	<u>250,000</u>
Less unamortized discounts	<u>( 2,239)</u>
Total	<u>\$ 577,761</u>

Grants and pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using discount rate of 0.5%.

### NOTE 16. SUBSEQUENT EVENTS

Management has evaluated events and transactions occurring subsequent to August 31, 2022 through August 10, 2023, the date the financial statements were issued. During this period, there were no subsequent events requiring recognition or disclosure in the financial statements.