

**EDUCATION THROUGH MUSIC, INC.**

**FINANCIAL STATEMENTS  
AND  
ADDITIONAL INFORMATION**

**AUGUST 31, 2006 AND 2005**

**EDUCATION THROUGH MUSIC, INC.**

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report .....	1
Financial Statements	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5-8
Additional Information	
Independent Auditor's Report on Additional Information .....	10
Schedule of Functional Expenses .....	11



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Education Through Music, Inc.

We have audited the accompanying statements of financial position of Education Through Music, Inc. (a not-for-profit corporation) as of August 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Through Music, Inc. as of August 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lutz + Carr, LLP*

New York, New York  
October 11, 2006

**EDUCATION THROUGH MUSIC, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents (Note 1b)	\$ 349,993	\$ 224,786
Investments (Notes 1c and 3)	133,616	124,335
Unconditional promises to give (Note 1d)		
Unrestricted	73,880	10,067
Restricted to future periods	351,726	394,953
Accounts receivable	8,483	34,610
Prepaid expenses and other current assets	3,894	3,780
Property and equipment (net of accumulated depreciation of \$93,447 and \$78,896, respectively) (Notes 1f and 5)	31,067	27,883
Security deposit	9,825	9,730
Collections (Note 7)	-	4,000
	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<b><u>\$ 962,484</u></b>	<b><u>\$ 834,144</u></b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	<u>\$ 19,795</u>	<u>\$ 41,862</u>
Commitment (Note 8)		
Net Assets		
Unrestricted		
Operating	162,016	155,129
ETM Special Fund (Note 4)	131,124	124,675
Temporarily restricted (Note 2)	<u>649,549</u>	<u>512,478</u>
Total Net Assets	<u>942,689</u>	<u>792,282</u>
	<u>          </u>	<u>          </u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 962,484</u></b>	<b><u>\$ 834,144</u></b>

See notes to financial statements.

**EDUCATION THROUGH MUSIC, INC.**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED AUGUST 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Changes in Unrestricted Net Assets</b>		
Revenues and Other Support (Note 10)		
Contributions	\$ 394,357	\$ 298,615
Benefit income	226,387	188,657
Less: Direct fundraising costs	(78,274)	(57,645)
Program income	222,713	184,056
Donated services	16,199	-
Investment income	8,428	5,732
Unrealized gain on investments	2,720	3,551
Realized loss on investments	(975)	(39)
Miscellaneous income	1,274	-
	792,829	622,927
Net assets released from restrictions		
Satisfaction of time restrictions	379,100	220,100
	1,171,929	843,027
<b>Expenses</b>		
Program Service		
Education	919,013	643,492
Supporting Services		
Management and general	126,391	100,336
Fundraising	113,189	101,005
Total Supporting Services	239,580	201,341
Total Expenses	1,158,593	844,833
Increase (Decrease) in Unrestricted Net Assets	13,336	(1,806)
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	516,171	475,457
Net assets released from restrictions	(379,100)	(220,100)
Increase in Temporarily Restricted Net Assets	137,071	255,357
Increase in net assets	150,407	253,551
Net assets, beginning of year	792,282	538,731
<b>Net Assets, End of Year</b>	<b>\$ 942,689</b>	<b>\$ 792,282</b>

See notes to financial statements.

**EDUCATION THROUGH MUSIC, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED AUGUST 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash Flows From Operating Activities</b>		
Increase in net assets	\$ 150,407	\$ 253,551
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	14,551	9,908
Donated securities	(61,485)	(34,587)
Realized loss on investment	975	39
Net unrealized gain on investment	(2,720)	(3,551)
Loss on sale of collection item	2,649	-
(Increase) decrease in:		
Unconditional promises to give	(20,586)	(206,233)
Accounts receivable	26,127	(16,579)
Prepaid expenses and other current assets	(114)	(776)
Security deposit	(95)	(136)
Increase (decrease) in:		
Accounts payable	(22,067)	21,467
Deferred revenue	-	(5,000)
Net Cash Provided By Operating Activities	87,642	18,103
 <b>Cash Flows From Investing Activities</b>		
Purchase of investments	(30,713)	(40,320)
Sale of investments	84,662	71,400
Acquisition of property and equipment	(17,735)	(8,964)
Proceeds from sale of collection item	1,351	-
Net Cash Provided By Investing Activities	37,565	22,116
 Net increase in cash and cash equivalents	125,207	40,219
Cash and cash equivalents at beginning of year	224,786	184,567
 <b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 349,993</b>	<b>\$ 224,786</b>

See notes to financial statements.

**EDUCATION THROUGH MUSIC, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2006 AND 2005****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

The Organization was established to promote the concept of teaching music and other arts as a means of enhancing the learning of academic subjects and improving overall performance by students in inner city schools and schools in disadvantaged areas.

**b - Cash Equivalents**

The Organization considers all short-term highly-liquid investments such as money market funds to be cash equivalents, except for cash awaiting investment.

**c - Investments**

The Organization reflects investments at fair value in the statement of financial position. Unrealized gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

**d - Contributions and Unconditional Promises to Give**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Uncollectible promises are expected to be insignificant.

**e - Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**f - Property and Equipment**

Property and equipment are capitalized at cost, and are being depreciated using the straight-line method over the estimated useful lives of the assets.

**EDUCATION THROUGH MUSIC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2006 AND 2005**

**Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

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 - Tax Status

Education Through Music, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

**Note 2 - Restriction on Net Assets**

Temporarily restricted net assets are restricted for future periods and programs.

**Note 3 - Investments**

Investments are reflected at fair market value which approximates cost and are invested as follows:

	<b>2006</b>	<b>2005</b>
Mutual funds		
Fixed funds	\$ 51,527	\$ 69,734
Equity funds	81,282	53,904
Cash awaiting investment	807	697
	<b>\$133,616</b>	<b>\$124,335</b>

**Note 4 - ETM Special Fund**

The Organization established the ETM Special Fund (the "Fund") to promote its long-term financial stability. The Fund consists of money allocated by the Board of Trustees (the "Board") together with contributions and any net earnings. Any withdrawals must be authorized by a supermajority vote of the Board if in excess of 5% of the average value of the Fund as of December 31 of the previous three years. Short-term borrowings by the Organization from the Fund may be made with the approval of the Executive Committee to meet unanticipated financial emergencies.

**EDUCATION THROUGH MUSIC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2006 AND 2005**

**Note 5 - Property and Equipment**

Property and equipment consist of the following:

	<u>Life</u>	<u>2006</u>	<u>2005</u>
Instruments	5 years	\$ 85,530	\$ 80,520
Furniture and equipment	3-5 years	<u>38,984</u>	<u>26,259</u>
		124,514	106,779
Less: Accumulated depreciation		<u>(93,447)</u>	<u>(78,896)</u>
		<u>\$ 31,067</u>	<u>\$ 27,883</u>

Depreciation expense for the years ended August 31, 2006 and 2005 was \$14,551 and \$9,908, respectively.

**Note 6 - Functional Allocation of Expenses**

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

**Note 7 - Collections**

Collections included a violin valued at \$4,000 which was sold during the year ended August 31, 2006.

**Note 8 - Commitment**

The Organization leases office space under an agreement which provides for minimum annual rentals of \$52,069 through March 31, 2007. On October 10, 2006 the lease was amended effective approximately April 2007, for new office space providing for minimum annual rentals of \$63,504 increased 2.5% annually through its expiration on March 31, 2012. In addition, the Organization pays various operating costs attributable to the premises.

**EDUCATION THROUGH MUSIC, INC.****NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2006 AND 2005****Note 8 - Commitment (continued)**

The Organization subleases a portion of this space from which the Organization receives annual rental payments of \$15,000, plus a portion of various operating escalations, through March 31, 2007. The Organization plans to sublease a portion of the new space with similar terms.

Rent expense (net of sublease income), for the years ended August 31, 2006 and 2005 were \$54,661 and \$51,791, respectively.

**Note 9 - Retirement Plan**

The Organization has a voluntary salary reduction tax deferred annuity plan for the benefit of all qualifying employees. The Organization can make a discretionary matching contribution. The Organization did not make a matching contribution to the plan in 2005 or 2006.

**Note 10 - Significant Grants**

During both years ended August 31, 2006 and 2005, the Organization received approximately 36% of its contributions from two contributors, including the U.S. Department of Education.

As of August 31, 2005, the Organization received a promise to give from the U.S. Department of Education of approximately \$277,000 and \$312,000 for the years ended August 31, 2007 and 2008, respectively. These payments were conditional upon, among other things, Congress appropriating sufficient funds under the program, and accordingly, were not included in the financial statements.

During the fiscal year ended August 31, 2006, Congress appropriated the necessary funding in order to make the \$277,000 portion of the grant unconditional and therefore it is included in temporarily restricted contributions. The payment related to 2008 remains conditional upon Congress appropriating sufficient funding, and is not included in these financial statements.

**ADDITIONAL INFORMATION**



**INDEPENDENT AUDITOR'S REPORT ON  
ADDITIONAL INFORMATION**

To the Board of Directors of  
Education Through Music, Inc.

Our report on our audits of the basic financial statements of Education Through Music, Inc. for 2006 and 2005 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended August 31, 2006 with comparative totals for 2005 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lutz + Carr, LLP*

New York, New York  
October 11, 2006

## EDUCATION THROUGH MUSIC, INC.

## SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2006 WITH COMPARATIVE TOTALS FOR 2005

	Program Service	Supporting Services		2006	2005
	Education	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 554,929	\$ 73,292	\$ 69,802	\$ 698,023	\$ 536,004
Payroll taxes and fringe benefits	84,225	11,124	10,594	105,943	72,112
Contracted arts instruction and curriculum development	32,250	-	-	32,250	4,050
Staff development and teaching artist training	2,614	383	247	3,244	9,123
Legal and other consultants	40,042	2,152	-	42,194	-
Travel, meetings and conferences	8,835	2,837	-	11,672	13,342
Rent	37,169	7,653	9,839	54,661	51,791
Office supplies/equipment	21,669	2,862	2,726	27,257	19,048
Telephone	3,122	412	393	3,927	2,688
Accounting	-	12,229	-	12,229	6,050
Bookkeeping	-	2,713	-	2,713	2,873
Promotional materials	11,208	-	-	11,208	6,045
Insurance	8,699	1,149	1,094	10,942	10,531
Program evaluation	80,007	-	-	80,007	60,000
Miscellaneous	2,013	6,536	253	8,802	6,736
Recruiting	51	2,149	-	2,200	6,251
Program materials and supplies	19,429	-	-	19,429	6,130
Indirect benefit and fundraising event expenses	-	-	17,341	17,341	22,151
Total expenses before depreciation expense	906,262	125,491	112,289	1,144,042	834,925
Depreciation expense	12,751	900	900	14,551	9,908
Total Expenses, 2006	<u>\$ 919,013</u>	<u>\$ 126,391</u>	<u>\$ 113,189</u>	<u>\$ 1,158,593</u>	
Total Expenses, 2005	<u>\$ 643,492</u>	<u>\$ 100,336</u>	<u>\$ 101,005</u>		<u>\$ 844,833</u>

See independent auditor's report on additional information.