

EDUCATION THROUGH MUSIC, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2008 AND 2007

EDUCATION THROUGH MUSIC, INC.

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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, 2008 and 2007, 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, 2008 and 2007, 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
December 12, 2008

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2008 AND 2007

	2008	2007
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$ 436,468	\$ 485,358
Investments (Notes 1c and 4)	143,925	151,751
Unconditional promises to give (Notes 1d and 3)		
Unrestricted	56,201	44,388
Restricted to future programs and periods	287,373	527,990
Accounts receivable	954	11,353
Prepaid expenses	20,674	11,950
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 6)	22,117	25,712
Security deposit	10,100	9,962
	\$ 977,812	\$1,268,464
Total Assets		
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 22,489	\$ 26,819
 Commitment and Contingency (Note 7)		
 Net Assets		
Unrestricted		
Operating	287,125	224,774
ETM Special Fund (Note 5)	138,825	146,581
Temporarily restricted (Note 2)	529,373	870,290
Total Net Assets	955,323	1,241,645
 Total Liabilities and Net Assets		
	\$ 977,812	\$1,268,464

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in Unrestricted Net Assets		
Revenues and Other Support (Note 9)		
Contributions	\$ 473,792	\$ 373,475
Benefit and event income	194,610	238,868
Less: Direct fundraising costs	(42,003)	(54,614)
Program income	344,830	306,319
Donated services	46,300	35,000
Investment income	21,846	17,224
Unrealized gain (loss) on investments	(15,568)	9,807
Realized gain (loss) on investments	340	(247)
Miscellaneous income	1,451	208
	<u>1,025,598</u>	<u>926,040</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>646,859</u>	<u>531,825</u>
Total Unrestricted Revenues and Other Support	<u>1,672,457</u>	<u>1,457,865</u>
Expenses		
Program Service		
Education	<u>1,333,838</u>	<u>1,115,768</u>
Supporting Services		
Management and general	165,837	147,148
Fundraising	118,187	116,734
Total Supporting Services	<u>284,024</u>	<u>263,882</u>
Total Expenses	<u>1,617,862</u>	<u>1,379,650</u>
Increase in Unrestricted Net Assets	<u>54,595</u>	<u>78,215</u>
Changes in Temporarily Restricted Net Assets		
Contributions	305,942	752,566
Net assets released from restrictions	<u>(646,859)</u>	<u>(531,825)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(340,917)</u>	<u>220,741</u>
Increase (decrease) in net assets	(286,322)	298,956
Net assets, beginning of year	<u>1,241,645</u>	<u>942,689</u>
Net Assets, End of Year	<u>\$ 955,323</u>	<u>\$1,241,645</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (286,322)	\$ 298,956
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense	12,634	12,568
Donated securities	(44,946)	(45,798)
Net unrealized (gain) loss on investment	15,568	(9,807)
Realized (gain) loss on investment	(340)	247
Increase (decrease) in:		
Unconditional promises to give	228,804	(146,772)
Accounts receivable	10,399	(2,870)
Prepaid expenses	(8,724)	(8,056)
Security deposit	(138)	(137)
Increase (decrease) in accounts payable and accrued expenses	(4,330)	7,024
Net Cash Provided (Used) By Operating Activities	(77,395)	105,355
Cash Flows From Investing Activities		
Purchase of investments	(72,282)	(368,175)
Sale of investments	109,826	405,398
Acquisition of property and equipment	(9,039)	(7,213)
Net Cash Provided By Financing Activities	28,505	30,010
Increase (decrease) in cash and equivalents	(48,890)	135,365
Cash and cash equivalents, beginning of year	485,358	349,993
Cash and Cash Equivalents, End of Year	\$ 436,468	\$ 485,358

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2008 AND 2007****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Education Through Music, Inc. (the "Organization") was established in New York City 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 and 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.

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.

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.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

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

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 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	<u>Unrestricted</u>	<u>Future Periods and Programs</u>	<u>2008</u>	<u>2007</u>
Less than one year	\$56,201	\$245,931	\$302,132	\$572,378
One to five years	-	50,000	50,000	-
Less: Discount to present value	-	(8,558)	(8,558)	-
	<u>\$56,201</u>	<u>\$287,373</u>	<u>\$343,574</u>	<u>\$572,378</u>

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give due after one year are discounted to net present value using a discount rate of 5%.

Note 4 - Investments

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

	<u>2008</u>	<u>2007</u>
Mutual funds		
Fixed funds	\$ 42,627	\$ 54,212
Equity funds	96,448	93,841
Cash awaiting investment	<u>4,850</u>	<u>3,698</u>
	<u>\$143,925</u>	<u>\$151,751</u>

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008 AND 2007

Note 5 - 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.

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2008</u>	<u>2007</u>
Instruments	5 years	\$ 85,722	\$ 87,718
Furniture and equipment	3-5 years	39,839	33,561
		125,561	121,279
Less: Accumulated depreciation		(103,444)	(95,567)
		<u>\$ 22,117</u>	<u>\$ 25,712</u>

Depreciation expense for the years ended August 31, 2008 and 2007 was \$12,634 and \$12,568, respectively.

Note 7 - Commitment and Contingency

a - The Organization occupies space under a lease through March 31, 2012. The lease provides for minimum annual rentals as follows:

<u>Year Ending August 31,</u>	
2009	\$85,347
2010	87,481
2011	89,668
2012	53,061

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, on a month to month basis.

Rent expense (net of sublease income) for the years ended August 31, 2008 and 2007 were \$57,206 and \$50,027, respectively.

b - Government supported projects are subject to audit by the granting agency.

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2008 AND 2007

Note 8 - 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 2008 and 2007.

Note 9 - Significant Grants

During the year ended August 31, 2008, the Organization received approximately 16% of its contributions from a private foundation. During the year ended August 31, 2007, the Organization received approximately 36% of its contributions from two contributors, including the U.S. Department of Education.

As of August 31, 2008, the Organization has \$173,317 in promises to give remaining, from a grant given by the U.S. Department of Education, in August 2005.

Note 10 - Concentration of Credit Risk

The Organization maintains its cash balances in three financial institutions located in New York.

Note 11 - 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.

ADDITIONAL INFORMATION



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**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 2008 and 2007 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, 2008 with comparative totals for 2007, and Schedules of Unconditional Promises to Give and Temporarily Restricted Net Assets as of August 31, 2008 and 2007 are presented for purposes of additional analysis and are 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
December 12, 2008

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2008 WITH COMPARATIVE TOTALS 2007

	Program Service	Supporting Services		2008	2007 *
	Education	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 811,116	\$ 107,166	\$ 64,889	\$ 983,171	\$ 837,704
Payroll taxes and fringe benefits	95,399	12,604	7,632	115,635	103,350
Contracted arts instruction and curriculum development	30,999	-	-	30,999	17,202
Professional development and teaching artist training	43,327	-	180	43,507	19,282
Legal, technology and other consultants	59,038	1,292	10,780	71,110	56,218
Travel, meetings and conferences	19,651	10,913	-	30,564	25,631
Rent	41,188	10,297	5,721	57,206	50,027
Office supplies and equipment	17,181	2,270	1,375	20,826	24,170
Telephone, internet, and application service providers	7,956	1,051	637	9,644	5,987
Accounting	-	15,148	-	15,148	14,373
Bookkeeping	-	1,753	-	1,753	1,662
Promotional materials	26,930	-	215	27,145	16,587
Insurance	6,868	908	550	8,326	13,448
Program evaluation	78,456	-	-	78,456	85,000
Miscellaneous	13,502	1,783	1,080	16,365	18,124
Recruiting	460	-	-	460	3,820
Program materials and supplies	70,180	-	-	70,180	46,265
Indirect benefit and fundraising event expenses	-	-	24,733	24,733	28,232
Total expenses before depreciation expense	1,322,251	165,185	117,792	1,605,228	1,367,082
Depreciation expense	11,587	652	395	12,634	12,568
Total Expenses, 2008	<u>\$1,333,838</u>	<u>\$ 165,837</u>	<u>\$ 118,187</u>	<u>\$1,617,862</u>	
Total Expenses, 2007	<u>\$1,115,768</u>	<u>\$ 147,148</u>	<u>\$ 116,734</u>		<u>\$1,379,650</u>

* Certain amounts have been reclassified for comparative purposes.

See independent auditor's report on additional information.