EDUCATION THROUGH MUSIC, INC.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

AUGUST 31, 2018 AND 2017

EDUCATION THROUGH MUSIC, INC.

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LUTZ AND CARR
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Education Through Music, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
November 27, 2018

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents (Notes 1b and 10)	$2,107,211	$2,426,458
Investments (Notes 1c, 1d and 4)	569,343	387,892
Unconditional promises to give (Notes 1e and 3)		
Unrestricted	70,830	83,500
Restricted to future programs	426,500	402,774
Accounts receivable	47,692	46,862
Prepaid expenses	20,306	69,819
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 6)	105,123	54,742
Security deposit	34,528	34,317
Total Assets	$3,381,533	$3,506,364
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 127,402	$ 55,113
Commitment and Contingency (Note 7)		
Net Assets		
Unrestricted		
Operating	881,099	991,228
ETM Special Fund (Note 5)	556,584	377,490
Total Unrestricted	1,437,683	1,368,718
Temporarily restricted (Note 2)	1,816,448	2,082,533
Total Net Assets	3,254,131	3,451,251
Total Liabilities and Net Assets	$3,381,533	$3,506,364

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenues and Other Support (Note 9)		
Contributions	$2,055,283	$2,155,370
Benefit and event income	713,289	658,135
Less: Direct fundraising costs	(130,200)	(133,714)
Program income	2,071,702	1,791,511
Donated goods and professional fees	58,822	33,810
Interest and dividend income	16,599	8,366
Realized gain on investments	2,655	-
Unrealized gain on investments	20,856	16,133
Miscellaneous income	502	118
	4,809,508	4,529,729
Net assets released from restrictions		
Satisfaction of time and program restrictions	728,413	623,535
Total Revenues and Other Support	5,537,921	5,153,264
Expenses		
Program Services		
Education	4,618,783	4,085,300
Supporting Services		
Management and general	330,087	413,404
Fundraising	520,086	509,167
Total Supporting Services	850,173	922,571
Total Expenses	5,468,956	5,007,871
Increase in Unrestricted Net Assets	68,965	145,393
Changes in Temporarily Restricted Net Assets		
Contributions (Notes 1e and 9)	462,328	1,149,661
Net assets released from restrictions	(728,413)	(623,535)
Increase (Decrease) in Temporarily Restricted Net Assets	(266,085)	526,126
Increase (decrease) in net assets	(197,120)	671,519
Net assets, beginning of year	3,451,251	2,779,732
Net Assets, End of Year	$3,254,131	$3,451,251

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ (197,120)	$ 671,519
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense	16,562	22,992
Net realized and unrealized gain on investments	(23,511)	(16,133)
(Increase) decrease in:		
Unconditional promises to give	(11,056)	39,848
Accounts receivable	(830)	(44,129)
Prepaid expenses	49,513	(46,150)
Security deposit	(211)	(24)
Increase (decrease) in accounts payable and accrued expenses	72,289	(12,364)
Net Cash Provided (Used) By Operating Activities	(94,364)	615,559
Cash Flows From Investing Activities		
Purchase of investments	(248,206)	(133,923)
Sale of investments	90,266	20,805
Acquisition of property and equipment	(66,943)	(18,925)
Net Cash Used By Investing Activities	(224,883)	(132,043)
Increase (decrease) in cash and cash equivalents	(319,247)	483,516
Cash and cash equivalents, beginning of year	2,426,458	1,942,942
Cash and Cash Equivalents, End of Year	$2,107,211	$2,426,458

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization
Education Through Music, Inc. (the "Organization") partners with under-resourced schools to provide music as a core subject for all children, and utilizes music education as a catalyst to improve academic achievement, motivation for school and self-confidence.

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. Interest, 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. Investment income restricted by the donor is reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the income is recognized.

d - Fair Value Measurements
The Organization is required to use a framework for measuring fair value and make certain disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and is based on a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurement is disclosed by level within that hierarchy.

Unadjusted quoted prices in active markets for identical assets or liabilities are referred to as Level 1 inputs. Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available are referred to as Level 2 inputs. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the assumptions developed by the Organization based on available information about what market participants would use in valuing the asset or liability and are referred to as Level 3.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. Level 3 assets and liabilities involve greater judgment than Level 1 or Level 2 assets or liabilities.

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

d - Fair Value Measurements (continued)
All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

The values assigned to these investments and any unrealized gains or losses reported are based on available information and do not necessarily represent amounts that might be realized if a ready market existed and such differences could be material. The ultimate realization of such amounts depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

e - Contributions and Unconditional Promises to Give
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.

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

f - 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.

g - 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 or for leasehold improvements, the life of the lease.

h - 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.

i - 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.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

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

j - Subsequent Events
The Organization has evaluated subsequent events through November 27, 2018, the date that the financial statements are considered available to be issued.

k - Recent Accounting Pronouncements
In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities."* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled "net assets without donor restrictions" and "net assets with donor restrictions;" (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of ASU 2016-14 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842)."* The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 2 - Restriction on Net Assets

Temporarily restricted net assets are restricted for future programs.

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due within one year. Uncollectible promises to give are expected to be insignificant. Approximately 70% of unconditional promises to give were from a foundation, a corporation and a government organization as of August 31, 2018. As of August 31, 2017, $300,000 was due from one corporation.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 4 - Investments

Investments, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	2018	2017
Mutual Funds:		
Fixed funds	$191,196	$193,453
Equity funds	368,561	193,499
Cash awaiting investment	9,586	940
	$569,343	$387,892

The cost of investments at August 31, 2018 and 2017 was $489,194 and $328,599, respectively.

Note 5 - ETM Special Fund

The Organization established the ETM Special Fund (the "Fund") to promote its financial stability. The Fund consists of money allocated by the Board of Directors (the "Board") together with contributions and any net earnings from the Fund. 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:

	Life	2018	2017
Musical instruments	5 years	$111,646	$111,646
Furniture and equipment	3-5 years	54,225	54,225
Leasehold improvements	Life of lease	53,954	53,954
Logo design/website upgrades	5 years	71,000	71,000
Salesforce software development in progress	5 years	66,943	-
		357,768	290,825
Less: Accumulated depreciation		(252,645)	(236,083)
		$105,123	$ 54,742

Note 6 - Property and Equipment (continued)

Depreciation expense for the years ended August 31, 2018 and 2017 was $16,562 and $22,992, respectively.

Note 7 - Commitment and Contingency

a - The Organization occupies office space under a new lease effective April 1, 2017 through March 31, 2024 providing for a minimum rental of approximately $315,000 per year.

The Organization subleased a portion of this space from which the Organization received rental payments of $1,250 in 2016.

Rent expense (net of sublease income) for the years ended August 31, 2018 and 2017 was $315,320 and $229,964, respectively.

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

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 2018 or 2017.

Note 9 - Significant Grants

During the year ended August 31, 2018, the Organization received approximately 33% of its contributions from two foundations. During the year ended August 31, 2017, the Organization received approximately 51% of its contributions from three private foundations.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

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.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Education Through Music, Inc. as of and for the years ended August 31, 2018 and 2017, and our report thereon dated November 27, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended August 31, 2018 with comparative totals for 2017 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
November 27, 2018

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Program Services	Supporting Services		2018	2017
	Education	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries and related costs	$3,666,984	$ 248,874	$ 314,599	$4,230,457	$3,854,335
Contracted services	260,925	50,602	108,707	420,234	408,220
Non-personnel expenses	259,615	7,323	48,399	315,337	328,955
Facility and equipment	334,743	20,483	25,228	380,454	280,273
Travel and meetings	38,505	376	7,265	46,146	60,642
Other expenses	43,652	1,386	14,728	59,766	52,454
Total expenses before depreciation	4,604,424	329,044	518,926	5,452,394	4,984,879
Depreciation	14,359	1,043	1,160	16,562	22,992
Total Expenses, 2018	$4,618,783	$ 330,087	$ 520,086	$5,468,956	
Total Expenses, 2017	$4,085,300	$ 413,404	$ 509,167		$5,007,871

See independent auditors' report on supplementary information.