

EDUCATION THROUGH MUSIC, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020



LUTZ AND GARR
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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, 2021 and 2020, and the related statements of activities, functional expenses 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 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 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, 2021 and 2020, 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.

Emphasis of Matter

As discussed in Note 9c to the financial statements, in March 2020, the United States declared the global pandemic novel coronavirus COVID-19 outbreak a national emergency. As a result, Education Through Music, Inc. modified some of its program activities at the direction of state and local governmental authorities. Our opinion is not modified with respect to this matter.

Lotz + Carr, LLP

New York, New York
December 8, 2021

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents (Notes 1b and 12)	\$1,722,687	\$1,541,852
Investments (Notes 1c, 1d and 5)	784,212	645,002
Unconditional promises to give (Notes 1e and 4)		
Without donor restrictions	243,300	69,500
With donor restrictions	100,000	100,000
Accounts receivable	14,114	135,973
Prepaid expenses	63,034	85,048
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 7)	120,264	162,765
Security deposit	34,562	34,562
	<u> </u>	<u> </u>
Total Assets	<u><u>\$3,082,173</u></u>	<u><u>\$2,774,702</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 185,529	\$ 176,519
Deferred revenue (Note 1i)	-	10,007
Loans payable (Note 8)	803,482	897,302
Deferred rent (Note 1h)	35,568	37,982
Total Liabilities	<u>1,024,579</u>	<u>1,121,810</u>
Commitment and Contingencies (Note 9)		
Net Assets		
Without Donor Restrictions		
Operating	189,940	54,783
ETM Special Fund (Note 6)	784,212	645,002
Total Without Donor Restrictions	<u>974,152</u>	<u>699,785</u>
With Donor Restrictions (Note 3)	1,083,442	953,107
Total Net Assets	<u>2,057,594</u>	<u>1,652,892</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$3,082,173</u></u>	<u><u>\$2,774,702</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
Changes in Net Assets Without Donor Restrictions		
Revenues and Other Support		
Contributions (Note 11)	\$2,113,512	\$2,075,175
Program income (Note 1i)	1,118,105	2,404,844
Donated legal services	71,823	159,065
Interest and dividend income	21,157	18,656
Realized loss on investments	-	(1,646)
Unrealized gain on investments	122,227	61,363
Loan forgiveness - Paycheck Protection Program (Note 8)	897,302	-
Miscellaneous income	5,978	-
	<u>4,350,104</u>	<u>4,717,457</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>218,107</u>	<u>796,949</u>
Total Revenues and Other Support	<u>4,568,211</u>	<u>5,514,406</u>
Expenses		
Program Services		
Education	<u>3,471,505</u>	<u>5,411,091</u>
Supporting Services		
Management and general	212,203	186,684
Fundraising	<u>610,136</u>	<u>655,957</u>
Total Supporting Services	<u>822,339</u>	<u>842,641</u>
Total Expenses	<u>4,293,844</u>	<u>6,253,732</u>
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>274,367</u>	<u>(739,326)</u>
Changes in Net Assets With Donor Restrictions		
Contributions (Note 11)	348,442	93,107
Net assets released from restrictions	<u>(218,107)</u>	<u>(796,949)</u>
Increase (Decrease) in Net Assets With Donor Restrictions	<u>130,335</u>	<u>(703,842)</u>
Increase (decrease) in net assets	404,702	(1,443,168)
Net assets, beginning of year	<u>1,652,892</u>	<u>3,096,060</u>
Net Assets, End of Year	<u>\$2,057,594</u>	<u>\$1,652,892</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED AUGUST 31, 2021 AND 2020

	2021				2020			
	Program Services	Supporting Services		Total Expenses	Program Services	Supporting Services		Total Expenses
	Education	Management and General	Fundraising		Education	Management and General	Fundraising	
Salaries and related costs	\$2,741,967	\$ 142,484	\$ 415,088	\$3,299,539	\$4,467,980	\$ 121,098	\$ 469,839	\$5,058,917
Contracted services	200,756	45,271	80,764	326,791	238,261	37,822	93,160	369,243
Non-personnel expenses	162,381	3,321	62,116	227,818	231,969	5,237	35,665	272,871
Facility and equipment	288,317	16,905	40,129	345,351	343,025	14,589	37,755	395,369
Travel and meetings	1,229	11	470	1,710	26,214	295	524	27,033
Other expenses	41,524	2,086	6,524	50,134	60,972	5,943	14,231	81,146
Total expenses before depreciation	3,436,174	210,078	605,091	4,251,343	5,368,421	184,984	651,174	6,204,579
Depreciation	35,331	2,125	5,045	42,501	42,670	1,700	4,783	49,153
Total Expenses	<u>\$3,471,505</u>	<u>\$ 212,203</u>	<u>\$ 610,136</u>	<u>\$4,293,844</u>	<u>\$5,411,091</u>	<u>\$ 186,684</u>	<u>\$ 655,957</u>	<u>\$6,253,732</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 404,702	\$(1,443,168)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation expense	42,501	49,153
Bad debt expense	-	13,500
Loan forgiveness - Paycheck Protection Program	(897,302)	-
Donated securities	(159,143)	(21,241)
Net realized and unrealized gains on investments	(122,227)	(59,717)
(Increase) decrease in:		
Unconditional promises to give	(173,800)	286,654
Accounts receivable	121,859	(118,928)
Prepaid expenses	22,014	(16,754)
Increase (decrease) in:		
Accounts payable and accrued expenses	9,010	(63,817)
Deferred revenue	(10,007)	10,007
Deferred rent	(2,414)	37,982
Net Cash Used By Operating Activities	(764,807)	(1,326,329)
Cash Flows From Investing Activities		
Purchase of investments	(16,983)	(50,843)
Sale of investments	159,143	59,279
Acquisition of property and equipment	-	(3,247)
Net Cash Provided By Investing Activities	142,160	5,189
Cash Flows From Financing Activities		
Proceeds from loans payable	803,482	897,302
Net increase (decrease) in cash and cash equivalents	180,835	(423,838)
Cash and cash equivalents, beginning of year	1,541,852	1,965,690
Cash and Cash Equivalents, End of Year	\$1,722,687	\$ 1,541,852

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2021 AND 2020****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 net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Investment income restricted by the donor is reported as increases in net assets without donor restrictions 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.

All of the Organization's investments are classified within Level 1 of the fair value hierarchy. Fair value is determined using quoted market values.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2021 AND 2020****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****d - Fair Value Measurements (continued)**

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. Conditional promises to give, that is, those with a measurable performance-related or other barrier and right of return of assets transferred or release of a promisor's obligation to transfer assets in the future, are not recognized until the conditions on which they depend have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible promises to give. The determination of whether an allowance is necessary is based on prior years' experience and management's analysis of specific promises made.

f - Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2021 AND 2020****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****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. Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the lease.

h - Deferred Rent

The Organization records rent expense associated with its leases on a straight-line basis over the life of the lease. The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

i - Revenue Recognition

The Organization's program income is recognized at a point in time when the programs take place. The timing of billings, cash collections and revenue recognition may result in contract assets and contract liabilities reported in the statements of financial position. Contract assets consist of accounts receivable. Contract liabilities consist of deferred revenue that results when the Organization receives advance payments from customers before revenue is recognized.

j - 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.

k - 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.

l - Subsequent Events

The Organization has evaluated subsequent events through December 8, 2021, the date that the financial statements are considered available to be issued.

m - Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Expenses are applied directly to programs where applicable or allocated on a reasonable and consistent basis. A substantial portion of the Organization's expenses are directly related to program activities, which are made up of educational and music programs. The expenses that are allocated include depreciation, interest, insurance, general office expenses, and occupancy costs, which are allocated on a basis of time and effort.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2021 AND 2020****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****n - New Accounting Pronouncements**

For 2021, the Organization adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligation(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue as the Organization satisfies the performance obligations. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of this ASU had no impact on the Organization's 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 12 months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of ASU 2016-02 on its financial statements.

Note 2 - Information Regarding Liquidity and Availability

The Organization operates with a balanced budget for each fiscal year based on the revenues expected to be available to fund anticipated expenses. A substantial portion of annual revenue is comprised of program revenue and contribution revenue raised during the current year. The Organization considers general expenditures to consist of all expenses related to its ongoing program activities, and the expenses related to general and administrative and fundraising activities undertaken to support those services.

The Organization regularly monitors liquidity to meet its operating needs and other commitments and obligations, while seeking to maximize the investment of its available funds. Management prepares regular cash flow projections to determine liquidity needs, and maintains liquid financial assets on an ongoing basis sufficient to cover ninety days of general expenditures. Financial assets in excess of daily cash requirements are invested in cash, money market funds, or other short-term investments.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 2 - Information Regarding Liquidity and Availability (continued)

The Organization's financial assets as of August 31, 2021 and 2020 and those available to meet cash needs for general expenditures within one year are summarized as follows:

	<u>2021</u>	<u>2020</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$1,722,687	\$1,541,852
Investments	784,212	645,002
Unconditional promises to give	343,300	169,500
Accounts receivable	<u>14,114</u>	<u>135,973</u>
Total Financial Assets	2,864,313	2,492,327
Less: Amounts not Available to be Used within One Year:		
Net assets with donor restrictions, subject to expenditure for specific purposes or passage of time	(1,083,442)	(953,107)
Plus: Net assets with donor restrictions expected to be met in less than one year	1,048,442	598,107
Less: ETM Special Fund	<u>(784,212)</u>	<u>(645,002)</u>
Financial Assets Available to Meet General Expenditures within One Year	<u>\$2,045,101</u>	<u>\$1,492,325</u>

In addition to these financial assets available within one year, the Organization maintains the ETM Special Fund of \$784,212 to promote its financial stability. These amounts could be made available to meet cash needs at the discretion of the Board (Note 6).

Note 3 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for future programs and periods.

Note 4 - Unconditional Promises to Give

Unconditional promises to give are due within one year. Uncollectible promises to give are expected to be insignificant. Approximately 79% of unconditional promises to give were due from three government organizations as of August 31, 2021. As of August 31, 2020, 88% of unconditional promises to give were due from a foundation and two government organizations.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 5 - Investments

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

	<u>2021</u>	<u>2020</u>
Mutual funds:		
Fixed funds	\$231,542	\$227,655
Equity funds	252,016	186,504
Exchange traded funds	256,997	190,157
Cash awaiting investment	<u>43,657</u>	<u>40,686</u>
	<u>\$784,212</u>	<u>\$645,002</u>

The cost of investments at August 31, 2021 and 2020 was \$522,075 and \$505,092, respectively.

Note 6 - 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 7 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2021</u>	<u>2020</u>
Musical instruments	5 years	\$111,646	\$111,646
Furniture and equipment	3-5 years	54,225	54,225
Leasehold improvements	Life of lease	63,689	63,689
Logo design/website upgrades	5 years	71,000	71,000
Salesforce software development	5 years	<u>178,857</u>	<u>178,857</u>
		479,417	479,417
Less: Accumulated depreciation		<u>(359,153)</u>	<u>(316,652)</u>
		<u>\$120,264</u>	<u>\$162,765</u>

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2021 AND 2020

Note 8 - Loans Payable - Paycheck Protection Program

On April 28, 2020, the Organization received a loan totaling \$897,302 under the Paycheck Protection Program (“PPP”) administered by the U.S. Small Business Administration. The loan included provisions for forgiveness if the Organization met certain employee retention requirements and the funds were used for eligible expenses. The loan was fully forgiven during fiscal year 2021.

On March 9, 2021, the Organization received a second loan totaling \$803,482 under the Paycheck Protection Program having an interest rate of 1% and a maturity of five years. The loan included the same forgiveness provisions as the first PPP loan. Management believes that it will meet the requirements for forgiveness of the loan during fiscal year 2022.

Note 9 - Commitment and Contingencies

a - The Organization occupies office space under a lease effective April 1, 2017 through March 31, 2024.

The future minimum annual obligation under this agreement is as follows:

<u>Year Ending August 31,</u>	
2022	\$328,833
2023	335,409
Thereafter, through March 31, 2024	197,919

Rent expense for the years ended August 31, 2021 and 2020 was \$319,972.

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

c - In March 2020, the COVID-19 pandemic was declared a national emergency. As a result, the Organization modified its instructional services to accommodate both remote and in-person instruction, in compliance with COVID prevention protocols implemented by the New York City Department of Education. The Organization also postponed its annual in-person fundraising gala. Management also immediately began to assess the potential impact of the loss of income, and took initial action to cut costs, making reductions where feasible. Office staff began working remotely to ensure safety.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2021 AND 2020****Note 9 - Commitment and Contingencies (continued)**

c - (continued)

The Organization applied for and received a second loan under the Paycheck Protection Program established by the CARES Act. To help offset losses of revenue, appeals were made to major donors to request special relief funding. While management continues to evaluate the potential impact that the resulting economic uncertainties may have on the Organization, it has taken steps to mitigate that impact. The Organization has made plans to adapt to reduced school budgets, instituting across-the-board budget cuts. The Organization has also created contingency plans to reduce staff via both furloughs and permanent layoffs if deemed necessary in response to drops in demand from schools for programming and drops in contributions revenue related to economic conditions and disruption to the Organization's annual fundraising events cycle.

Note 10 - 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 2021 or 2020.

Note 11 - Significant Grants

As of August 31, 2021 and 2020, approximately 34% and 44% of contributions came from a foundation and a government agency.

Note 12 - Concentration of Credit Risk

The Organization maintains its cash and cash equivalent balances in three financial institutions located in New York. From time to time, balances may exceed the Federal Depository Insurance Corporation limit.