

EDUCATION THROUGH MUSIC, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

AUGUST 31, 2017 AND 2016

EDUCATION THROUGH MUSIC, INC.

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Lotz + Carr, LLP

New York, New York
December 6, 2017

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$2,426,458	\$1,942,942
Investments (Notes 1c, 1d and 4)	387,892	258,641
Unconditional promises to give (Notes 1e and 3)		
Unrestricted	83,500	-
Restricted to future programs	402,774	526,122
Accounts receivable	46,862	2,733
Prepaid expenses	69,819	23,669
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 6)	54,742	58,809
Security deposit	34,317	34,293
	<u> </u>	<u> </u>
Total Assets	<u><u>\$3,506,364</u></u>	<u><u>\$2,847,209</u></u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 55,113	\$ 67,477
	<u> </u>	<u> </u>
Commitment and Contingency (Note 7)		
Net Assets		
Unrestricted		
Operating	991,228	973,923
ETM Special Fund (Note 5)	377,490	249,402
Total Unrestricted	<u>1,368,718</u>	<u>1,223,325</u>
Temporarily restricted (Note 2)	2,082,533	1,556,407
Total Net Assets	<u>3,451,251</u>	<u>2,779,732</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u><u>\$3,506,364</u></u>	<u><u>\$2,847,209</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Revenues and Other Support		
Contributions (Note 9)	\$2,155,370	\$1,324,004
Benefit and event income	658,135	744,050
Less: Direct fundraising costs	(133,714)	(168,941)
Program income	1,791,511	1,807,853
Donated goods and services	33,810	18,114
Interest and dividend income	8,366	8,318
Unrealized gain on investments	16,133	8,593
Miscellaneous income	118	24
	<u>4,529,729</u>	<u>3,742,015</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>623,535</u>	<u>845,123</u>
Total Revenues and Other Support	<u>5,153,264</u>	<u>4,587,138</u>
Expenses		
Program Services		
Education	<u>4,085,300</u>	<u>3,510,829</u>
Supporting Services		
Management and general	413,404	271,586
Fundraising	509,167	547,482
Total Supporting Services	<u>922,571</u>	<u>819,068</u>
Total Expenses	<u>5,007,871</u>	<u>4,329,897</u>
Increase in Unrestricted Net Assets	<u>145,393</u>	<u>257,241</u>
Changes in Temporarily Restricted Net Assets		
Contributions (Notes 1e and 9)	1,149,661	1,228,157
Net assets released from restrictions	<u>(623,535)</u>	<u>(845,123)</u>
Increase in Temporarily Restricted Net Assets	<u>526,126</u>	<u>383,034</u>
Increase in net assets	671,519	640,275
Net assets, beginning of year	<u>2,779,732</u>	<u>2,139,457</u>
Net Assets, End of Year	<u><u>\$3,451,251</u></u>	<u><u>\$2,779,732</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 671,519	\$ 640,275
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	22,992	26,275
Net unrealized gain on investments	(16,133)	(8,593)
(Increase) decrease in:		
Unconditional promises to give	39,848	(314,622)
Accounts receivable	(44,129)	(2,043)
Prepaid expenses	(46,150)	46,398
Security deposit	(24)	(24)
Increase (decrease) in accounts payable and accrued expenses	(12,364)	33,021
Net Cash Provided By Operating Activities	<u>615,559</u>	<u>420,687</u>
 Cash Flows From Investing Activities		
Purchase of investments	(133,923)	(13,318)
Sale of investments	20,805	5,453
Acquisition of property and equipment	(18,925)	(40,000)
Net Cash Used By Investing Activities	<u>(132,043)</u>	<u>(47,865)</u>
 Net increase in cash and cash equivalents	483,516	372,822
Cash and cash equivalents, beginning of year	<u>1,942,942</u>	<u>1,570,120</u>
 Cash and Cash Equivalents, End of Year	 <u>\$2,426,458</u>	 <u>\$1,942,942</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2017 AND 2016****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. 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.

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, 2017 AND 2016****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. 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, 2017 AND 2016

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

j - Subsequent Events

The Organization has evaluated subsequent events through December 6, 2017, the date that the financial statements are considered available to be issued.

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. As of August 31, 2017, \$300,000 was due from one corporation.

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:

	<u>2017</u>	<u>2016</u>
Mutual funds		
Fixed funds	\$193,453	\$106,617
Equity funds	193,499	146,195
Cash awaiting investment	<u>940</u>	<u>5,829</u>
	<u>\$387,892</u>	<u>\$258,641</u>

The cost of investments at August 31, 2017 and 2016 was \$328,599 and \$215,481, respectively.

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

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:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
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	35,029
Logo design/website upgrades	5 years	<u>71,000</u>	<u>71,000</u>
		290,825	271,900
Less: Accumulated depreciation		<u>(236,083)</u>	<u>(213,091)</u>
		<u>\$ 54,742</u>	<u>\$ 58,809</u>

Depreciation expense for the years ended August 31, 2017 and 2016 was \$22,992 and \$26,275, 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, 2017 and 2016 was \$229,964 and \$168,996, respectively.

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017 AND 2016

Note 7 - Commitment and Contingency (continued)

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 2017 or 2016.

Note 9 - Significant Grants

During the year ended August 31, 2017, the Organization received approximately 51% of its contributions from three private foundations. During the year ended August 31, 2016, the Organization received approximately 42% of its contributions from two private foundations and one corporation.

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, 2017 and 2016, and our report thereon dated December 6, 2017, 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, 2017 with comparative totals for 2016 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
December 6, 2017

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2017 WITH COMPARATIVE TOTALS FOR 2016

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2017</u>	<u>2016</u>
	<u>Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Salaries and related costs	\$3,219,196	\$ 293,644	\$ 341,495	\$3,854,335	\$3,382,879
Contracted services	251,244	74,443	82,533	408,220	278,526
Non-personnel expenses	263,578	10,357	55,020	328,955	341,450
Facility and equipment	237,769	24,695	17,809	280,273	218,050
Travel and meetings	50,972	1,992	7,678	60,642	38,968
Other expenses	43,665	5,881	2,908	52,454	43,749
Total expenses before depreciation	4,066,424	411,012	507,443	4,984,879	4,303,622
Depreciation	18,876	2,392	1,724	22,992	26,275
Total Expenses, 2017	<u>\$4,085,300</u>	<u>\$ 413,404</u>	<u>\$ 509,167</u>	<u>\$5,007,871</u>	
Total Expenses, 2016	<u>\$3,510,829</u>	<u>\$ 271,586</u>	<u>\$ 547,482</u>		<u>\$4,329,897</u>

See independent auditors' report on supplementary information.