EDUCATION THROUGH MUSIC, INC.

FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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, 2020 and 2019, 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.

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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, 2020 and 2019, 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.

Lutz + Carr, LLP

New York, New York
April 28, 2021

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2020 AND 2019

	2020	2019
Assets		
Cash and cash equivalents (Notes 1b and 12)	$1,541,852	$1,965,690
Investments (Notes 1c, 1d and 5)	645,002	572,480
Unconditional promises to give (Notes 1e and 4)		
Without donor restrictions	69,500	149,654
With donor restrictions	100,000	320,000
Accounts receivable	135,973	17,045
Prepaid expenses	85,048	68,294
Property and equipment, at cost, net of accumulated depreciation (Notes 1g and 7)	162,765	208,671
Security deposit	34,562	34,562
Total Assets	$2,774,702	$3,336,396
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 176,519	$ 240,336
Deferred revenue	10,007	-
Loan payable (Note 8)	897,302	-
Deferred rent (Note 1h)	37,982	-
Total Liabilities	1,121,810	240,336
Commitment and Contingencies (Note 9)		
Net Assets (Deficit)		
Without Donor Restrictions		
Operating	54,783	866,631
ETM Special Fund (Note 6)	645,002	572,480
Total Without Donor Restrictions	699,785	1,439,111
With Donor Restrictions (Note 3)	953,107	1,656,949
Total Net Assets	1,652,892	3,096,060
Total Liabilities and Net Assets	$2,774,702	$3,336,396

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
Changes in Net Assets Without Donor Restrictions		
Revenues and Other Support		
Contributions (Note 11)	$2,075,175	$1,880,843
Benefit and event income	-	1,069,646
Less: Direct fundraising costs	-	(179,572)
Program income	2,404,844	2,210,113
Donated goods and professional fees	159,065	98,860
Interest and dividend income	18,656	34,752
Realized loss on investments	(1,646)	(886)
Unrealized gain (loss) on investments	61,363	(1,602)
Miscellaneous income	-	34
	4,717,457	5,112,188
Net assets released from restrictions		
Satisfaction of time and program restrictions	796,949	694,999
Total Revenues and Other Support	5,514,406	5,807,187
Expenses		
Program Services		
Education	5,411,091	4,902,829
Supporting Services		
Management and general	186,684	336,362
Fundraising	655,957	566,568
Total Supporting Services	842,641	902,930
Total Expenses	6,253,732	5,805,759
Increase (Decrease) in Net Assets Without Donor Restrictions	(739,326)	1,428
Changes in Net Assets With Donor Restrictions		
Contributions (Note 11)	93,107	535,500
Net assets released from restrictions	(796,949)	(694,999)
Decrease in Net Assets With Donor Restrictions	(703,842)	(159,499)
Decrease in net assets	(1,443,168)	(158,071)
Net assets, beginning of year	3,096,060	3,254,131
Net Assets, End of Year	$1,652,892	$3,096,060

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED AUGUST 31, 2020 AND 2019

	2020				2019			
	Program Services	Supporting Services			Program Services	Supporting Services		
	Education	Management and General	Fundraising	Total Expenses	Education	Management and General	Fundraising	Total Expenses
Salaries and related costs	$4,467,980	$ 121,098	$ 469,839	$5,058,917	$4,052,275	$ 176,369	$ 354,484	$4,583,128
Contracted services	238,261	37,822	93,160	369,243	150,427	132,456	110,335	393,218
Non-personnel expenses	231,969	5,237	35,665	272,871	271,438	6,876	61,043	339,357
Facility and equipment	343,025	14,589	37,755	395,369	328,334	17,057	30,435	375,826
Travel and meetings	26,214	295	524	27,033	35,330	244	5,705	41,279
Other expenses	60,972	5,943	14,231	81,146	52,845	1,726	3,526	58,097
Total expenses before depreciation	5,368,421	184,984	651,174	6,204,579	4,890,649	334,728	565,528	5,790,905
Depreciation	42,670	1,700	4,783	49,153	12,180	1,634	1,040	14,854
Total Expenses	$5,411,091	$ 186,684	$ 655,957	$6,253,732	$4,902,829	$ 336,362	$ 566,568	$5,805,759

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Decrease in net assets	$(1,443,168)	$ (158,071)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation expense	49,153	14,854
Bad debt expense	13,500	-
Net realized and unrealized (gains) losses on investments	(59,717)	2,488
(Increase) decrease in:		
Unconditional promises to give	286,654	27,676
Accounts receivable	(118,928)	30,647
Prepaid expenses	(16,754)	(47,988)
Security deposit	-	(34)
Increase(decrease) in:		
Accounts payable and accrued expenses	(63,817)	112,934
Deferred revenue	10,007	-
Deferred rent	37,982	-
Net Cash Used By Operating Activities	(1,305,088)	(17,494)
Cash Flows From Investing Activities		
Purchase of investments	(50,843)	(23,636)
Sale of investments	38,038	18,011
Acquisition of property and equipment	(3,247)	(118,402)
Net Cash Used By Investing Activities	(16,052)	(124,027)
Cash Flows From Financing Activities		
Proceeds from loan payable	897,302	-
Net decrease in cash and cash equivalents	(423,838)	(141,521)
Cash and cash equivalents, beginning of year	1,965,690	2,107,211
Cash and Cash Equivalents, End of Year	$ 1,541,852	$1,965,690

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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, 2020 AND 2019

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 U.S. generally accepted accounting principles, 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, 2020 AND 2019

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 or for leasehold improvements, 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 - 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.

j - 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.

k - Subsequent Events
The Organization has evaluated subsequent events through April 28, 2021, the date that the financial statements are considered available to be issued.

l - 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.

m - New Accounting Pronouncements
During 2020, the Organization adopted Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the current guidance about whether a transfer of assets is a contribution or exchange transaction. In addition, the update requires that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a measurable, performance-related barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The adoption of this ASU resulted in no significant changes in the way the Organization recognizes revenue.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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

m - New Accounting Pronouncements (continued)

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principles of ASU 2014-09 is to clarify revenue recognition standards for contracts with customers. ASU 2014-09 is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of ASU 2014-09 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 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, 2020 AND 2019

Note 2 - Information Regarding Liquidity and Availability (continued)

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

	2020	2019
Financial Assets at Year End:		
Cash and cash equivalents	$1,541,852	$1,965,690
Investments	645,002	572,480
Unconditional promises to give	169,500	469,654
Accounts receivable	135,973	17,045
Total Financial Assets	2,492,327	3,024,869
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	(953,107)	(1,656,949)
ETM Special Fund	(645,002)	(572,480)
Plus: Net assets with donor restrictions expected to be met in less than one year	598,107	435,500
Financial Assets Available to Meet General Expenditures within One Year	$1,492,325	$1,230,940

In addition to these financial assets available within one year, the Organization maintains the ETM Special Fund of $645,002 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 88% of unconditional promises to give were from a foundation and two government organizations as of August 31, 2020. As of August 31, 2019, 66% of unconditional promises to give were from two foundations, a corporation and a government organization.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

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:

	2020	2019
Mutual funds:		
Fixed funds	$227,655	$211,073
Equity funds	186,504	177,546
Exchange traded funds	190,157	171,259
Cash awaiting investment	40,686	12,602
	$645,002	$572,480

The cost of investments at August 31, 2020 and 2019 was $505,092 and $493,933, 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:

	Life	2020	2019
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	178,857	175,610
		479,417	476,170
Less: Accumulated depreciation		(316,652)	(267,499)
		$162,765	$208,671

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2020 AND 2019

Note 8 - Loan Payable

On April 28, 2020, the Organization received a loan totaling $897,302 under the Paycheck Protection Program administered by the U.S. Small Business Administration. The loan bears interest at 1% per annum, is due on April 28, 2022, and may be forgiven if the Organization meets certain employee retention requirements and the funds are used for eligible expenses. The Organization expects the full amount of the loan to be forgiven during the year ended August 31, 2021.

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:

Year Ending August 31,	
2021	$322,385
2022	328,833
2023	335,409
Thereafter, through March 31, 2024	197,919

Rent expense for the years ended August 31, 2020 and 2019 was $367,427 and $319,056, respectively.

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.

Note 9 - Commitment and Contingencies (continued)

c - (continued)

The Organization applied for and received a 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 2020 or 2019.

Note 11 - Significant Grants

During the year ended August 31, 2020, the Organization received approximately 44% of its contributions from a foundation and a government agency. During the year ended August 31, 2019, the Organization received approximately 21% of its contributions from a foundation.

Note 12 - Concentration of Credit Risk

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