

EDUCATION THROUGH MUSIC, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2010 AND 2009

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 statements of financial position of Education Through Music, Inc. (a not-for-profit corporation) as of August 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Through Music, Inc. as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
February 7, 2011

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$ 263,894	\$ 371,844
Investments (Notes 1c and 4)	142,541	129,973
Unconditional promises to give (Notes 1d and 3)		
Unrestricted	72,120	2,500
Restricted to future periods and programs	135,400	155,130
Accounts receivable	44,524	153
Prepaid expenses	17,156	18,090
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 6)	19,020	32,538
Security deposit	<u>10,100</u>	<u>10,100</u>
Total Assets	<u><u>\$ 704,755</u></u>	<u><u>\$ 720,328</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 10,839</u>	<u>\$ 11,952</u>
Commitment and Contingency (Note 7)		
Net Assets		
Unrestricted		
Operating	265,061	272,802
ETM Special Fund (Note 5)	137,648	125,762
Temporarily restricted (Note 2)	<u>291,207</u>	<u>309,812</u>
Total Net Assets	<u>693,916</u>	<u>708,376</u>
Total Liabilities and Net Assets	<u><u>\$ 704,755</u></u>	<u><u>\$ 720,328</u></u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Changes in Unrestricted Net Assets		
Revenues and Other Support		
Contributions (Note 9)	\$ 443,098	\$ 431,660
Benefit and event income	145,565	203,136
Less: Direct fundraising costs	(35,279)	(78,360)
Program income	731,030	508,895
Donated legal services	10,983	10,214
Investment income	4,596	5,821
Unrealized gain (loss) on investments	15,864	(17,897)
Realized loss on investments	(6,566)	(230)
Miscellaneous income	95	1,503
	<u>1,309,386</u>	<u>1,064,742</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>290,005</u>	<u>473,931</u>
	<u>1,599,391</u>	<u>1,538,673</u>
Expenses		
Program Services		
Education	<u>1,318,316</u>	<u>1,332,315</u>
Supporting Services		
Management and general	154,257	141,424
Fundraising	<u>122,673</u>	<u>92,320</u>
Total Supporting Services	<u>276,930</u>	<u>233,744</u>
	<u>1,595,246</u>	<u>1,566,059</u>
	<u>4,145</u>	<u>(27,386)</u>
Changes in Temporarily Restricted Net Assets		
Contributions	271,400	254,370
Net assets released from restrictions	<u>(290,005)</u>	<u>(473,931)</u>
	<u>(18,605)</u>	<u>(219,561)</u>
Decrease in net assets	(14,460)	(246,947)
Net assets, beginning of year	<u>708,376</u>	<u>955,323</u>
	<u>\$ 693,916</u>	<u>\$ 708,376</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (14,460)	\$ (246,947)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation expense	15,399	19,594
Donated securities	(1,519)	(11,046)
Net unrealized (gain) loss on investment	(15,864)	17,897
Realized loss on investments	6,566	230
(Increase) decrease in:		
Unconditional promises to give	(49,890)	185,944
Accounts receivable	(44,371)	801
Prepaid expenses	934	2,584
Decrease in accounts payable and accrued expenses	(1,113)	(10,537)
Net Cash Used By Operating Activities	<u>(104,318)</u>	<u>(41,480)</u>
Cash Flows From Investing Activities		
Purchase of investments	(37,811)	(24,099)
Sale of investments	36,060	30,970
Acquisition of property and equipment	(1,881)	(30,015)
Net Cash Used By Investing Activities	<u>(3,632)</u>	<u>(23,144)</u>
Net decrease in cash and equivalents	(107,950)	(64,624)
Cash and cash equivalents, beginning of year	<u>371,844</u>	<u>436,468</u>
Cash and Cash Equivalents, End of Year	<u>\$ 263,894</u>	<u>\$ 371,844</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2010 AND 2009****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.

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, 2010 AND 2009****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (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 amount depends on future events and circumstances and therefore, valuation estimates may differ from the value realized upon disposition of individual positions.

d - Contributions and Unconditional Promises to Give

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

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

e - Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

f - Property and Equipment

Property and equipment are capitalized at cost and are being depreciated using the straight-line method over the estimated useful lives of the assets or for leasehold improvements, the life of the lease.

g - Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

h - Tax Status

Education Through Music, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2010 AND 2009

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

i - Subsequent Events

The Organization has evaluated subsequent events through February 7, 2011, 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 periods and 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.

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>2010</u>	<u>2009</u>
Mutual funds		
Fixed funds	\$ 52,665	\$ 50,958
Equity funds	60,136	78,229
Cash awaiting investment	<u>29,740</u>	<u>786</u>
	<u>\$142,541</u>	<u>\$129,973</u>

The cost of investments at August 31, 2010 and 2009 was \$144,485 and \$147,781, respectively.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2010 AND 2009

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>2010</u>	<u>2009</u>
Musical instruments	5 years	\$ 89,259	\$ 87,378
Furniture and equipment	3-5 years	36,533	41,579
Leasehold improvements	Life of lease	<u>26,619</u>	<u>26,619</u>
		152,411	155,576
Less: Accumulated depreciation		<u>(133,391)</u>	<u>(123,038)</u>
		<u>\$ 19,020</u>	<u>\$ 32,538</u>

Depreciation expense for the years ended August 31, 2010 and 2009 was \$15,399 and \$19,594, respectively.

Note 7 - Commitment and Contingency

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

<u>Year Ending August 31,</u>	
2011	\$89,668
2012	53,061

The Organization subleases a portion of this space on a month to month basis from which the Organization receives annual rental payments of \$15,000.

Rent expense (net of sublease income) for the years ended August 31, 2010 and 2009 was \$86,276 and \$83,679, respectively.

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2010 AND 2009

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 2010 or 2009.

Note 9 - Significant Grants

During the year ended August 31, 2010, the Organization received approximately 9% of its contributions from a governmental agency. During the year ended August 31, 2009, the Organization received approximately 18% of its contributions from a private foundation and governmental agency.

Note 10 - Concentration of Credit Risk

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

Note 11 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

ADDITIONAL INFORMATION



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**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

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

Our report on our audits of the basic financial statements of Education Through Music, Inc. for 2010 and 2009 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended August 31, 2010 with comparative totals for 2009, and Schedules of Unconditional Promises to Give and Temporarily Restricted Net Assets as of August 31, 2010 and 2009 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
February 7, 2011

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2010 WITH COMPARATIVE TOTALS 2009

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2010 Total</u>	<u>2009 *</u>
	<u>Education</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Expenses</u>	<u>Total Expenses</u>
Salaries and related costs	\$1,087,136	\$ 113,955	\$ 89,313	\$1,290,404	\$1,225,236
Contracted services	35,426	18,643	1,680	55,749	89,484
Non-personnel expenses	75,895	5,791	13,888	95,574	75,385
Facility and equipment	72,266	9,534	10,376	92,176	89,579
Travel and meetings	19,850	782	1,429	22,061	31,997
Other expenses	14,700	4,243	4,940	23,883	34,784
Total expenses before depreciation	1,305,273	152,948	121,626	1,579,847	1,546,465
Depreciation	13,043	1,309	1,047	15,399	19,594
Total Expenses, 2010	<u>\$1,318,316</u>	<u>\$ 154,257</u>	<u>\$ 122,673</u>	<u>\$1,595,246</u>	
Total Expenses, 2009	<u>\$1,332,315</u>	<u>\$ 141,424</u>	<u>\$ 92,320</u>		<u>\$1,566,059</u>

* Certain amounts have been reclassified for comparative purposes.

See independent auditors' report on additional information.