

EDUCATION THROUGH MUSIC, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2007 AND 2006

EDUCATION THROUGH MUSIC, INC.

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INDEPENDENT AUDITOR'S 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, 2007 and 2006, 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, 2007 and 2006, and the results of its operations 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
November 30, 2007

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2007 AND 2006

	2007	2006
Assets		
Cash and cash equivalents (Note 1b)	\$ 485,358	\$ 349,993
Investments (Notes 1c and 4)	151,751	133,616
Unconditional promises to give (Notes 1d and 3)		
Unrestricted	44,388	73,880
Restricted to future periods	527,990	351,726
Accounts receivable	11,353	8,483
Prepaid expenses	11,950	3,894
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 6)	25,712	31,067
Security deposit	9,962	9,825
	\$1,268,464	\$ 962,484
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 26,819	\$ 19,795
Commitment (Note 7)		
Net Assets		
Unrestricted		
Operating	224,774	162,016
ETM Special Fund (Note 5)	146,581	131,124
Temporarily restricted (Note 2)	870,290	649,549
Total Net Assets	1,241,645	942,689
	\$1,268,464	\$ 962,484

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	2006
Changes in Unrestricted Net Assets		
Revenues and Other Support (Note 9)		
Contributions	\$ 373,475	\$ 394,357
Benefit and event income	238,868	226,387
Less: Direct fundraising costs	(54,614)	(78,274)
Program income	306,319	222,713
Donated services	35,000	16,199
Investment income	17,224	8,428
Unrealized gain on investments	9,807	2,720
Realized loss on investments	(247)	(975)
Miscellaneous income	208	1,274
	926,040	792,829
Net assets released from restrictions		
Satisfaction of time restrictions	531,825	379,100
	1,457,865	1,171,929
Expenses		
Program Service		
Education	1,115,768	919,013
Supporting Services		
Management and general	147,148	126,391
Fundraising	116,734	113,189
Total Supporting Services	263,882	239,580
Total Expenses	1,379,650	1,158,593
Increase in Unrestricted Net Assets	78,215	13,336
Changes in Temporarily Restricted Net Assets		
Contributions	752,566	516,171
Net assets released from restrictions	(531,825)	(379,100)
Increase in Temporarily Restricted Net Assets	220,741	137,071
Increase in net assets	298,956	150,407
Net assets, beginning of year	942,689	792,282
Net Assets, End of Year	\$1,241,645	\$ 942,689

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	2006
Cash Flows From Operating Activities		
Increase in net assets	\$ 298,956	\$ 150,407
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	12,568	14,551
Donated securities	(45,798)	(61,485)
Realized loss on investment	247	975
Net unrealized gain on investment	(9,807)	(2,720)
Loss on sale of collection item	-	2,649
(Increase) decrease in:		
Unconditional promises to give	(146,772)	(20,586)
Accounts receivable	(2,870)	26,127
Prepaid expenses	(8,056)	(114)
Security deposit	(137)	(95)
Increase (decrease) in accounts payable and accrued expenses	7,024	(22,067)
Net Cash Provided By Operating Activities	105,355	87,642
 Cash Flows From Investing Activities		
Purchase of investments	(368,175)	(30,713)
Sale of investments	405,398	84,662
Acquisition of property and equipment	(7,213)	(17,735)
Proceeds from sale of collection item	-	1,351
Net Cash Provided By Investing Activities	30,010	37,565
 Net increase in cash and cash equivalents	135,365	125,207
Cash and cash equivalents, beginning of year	349,993	224,786
 Cash and Cash Equivalents, End of Year	\$ 485,358	\$ 349,993

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2007 AND 2006****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 as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

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.

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.

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

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

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.

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 at August 31, 2007 are due within one year. Uncollectible promises are expected to be insignificant.

Note 4 - Investments

Investments are reflected at fair market value which approximates cost and are invested as follows:

	2007	2006
Mutual funds		
Fixed funds	\$ 54,212	\$ 51,527
Equity funds	93,841	81,282
Cash awaiting investment	3,698	807
	\$151,751	\$133,616

Note 5 - ETM Special Fund

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

EDUCATION THROUGH MUSIC, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2007 AND 2006

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2007</u>	<u>2006</u>
Instruments	5 years	\$ 87,718	\$ 85,530
Furniture and equipment	3-5 years	<u>33,561</u>	<u>38,984</u>
		121,279	124,514
Less: Accumulated depreciation		<u>(95,567)</u>	<u>(93,447)</u>
		<u>\$ 25,712</u>	<u>\$ 31,067</u>

Depreciation expense for the years ended August 31, 2007 and 2006 was \$12,568 and \$14,551, respectively.

Note 7 - Commitment

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

<u>Year Ending August 31,</u>	
2008	\$64,166
2009	64,769
2010	67,413
2011	69,098
2012	38,057

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

Rent expense (net of sublease income) for the years ended August 31, 2007 and 2006 were \$50,027 and \$54,661, 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 2007 or 2006.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2007 AND 2006****Note 9 - Significant Grants**

During both years ended August 31, 2007 and 2006, the Organization received approximately 36% of its contributions from two contributors, including the U.S. Department of Education.

As of August 31, 2005, the Organization received a promise to give from the U.S. Department of Education of approximately \$277,000 and \$312,000 for the years ended August 31, 2007 and 2008, respectively. These payments were conditional upon, among other things, Congress appropriating sufficient funds under the program.

During the fiscal year ended August 31, 2006, Congress appropriated the necessary funding in order to make the \$277,000 portion of the grant unconditional and therefore it was included in temporarily restricted contributions. During the fiscal year ended August 31, 2007, Congress appropriated the necessary funding in order to make the \$312,000 portion of the grant unconditional and therefore it is included in temporarily restricted contributions.

Note 10 - 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 AUDITOR'S 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 2007 and 2006 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, 2007 with comparative totals for 2006 is 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
November 30, 2007

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2007 WITH COMPARATIVE TOTALS FOR 2006

	Program Service	Supporting Services		2007	2006 *
	Education	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 678,173	\$ 93,696	\$ 65,835	\$ 837,704	\$ 698,023
Payroll taxes and fringe benefits	83,714	11,368	8,268	103,350	105,943
Contracted arts instruction and curriculum development	25,957	-	-	25,957	32,249
Professional development and teaching artist training	9,142	840	545	10,527	3,244
Legal, technology and other consultants	45,965	2,000	1,750	49,715	42,238
Travel, meetings and conferences	23,210	2,803	-	26,013	13,045
Rent	35,519	8,505	6,003	50,027	54,661
Office supplies and equipment	19,578	2,658	1,934	24,170	18,060
Telephone, internet, and application service providers	10,117	1,374	999	12,490	11,990
Accounting	-	14,373	-	14,373	12,229
Bookkeeping	-	1,662	-	1,662	2,713
Promotional materials	16,435	-	152	16,587	10,989
Insurance	10,893	1,479	1,076	13,448	10,942
Program evaluation	85,000	-	-	85,000	80,007
Miscellaneous	14,679	1,995	1,450	18,124	9,812
Recruiting	100	3,720	-	3,820	2,200
Program materials and supplies	45,883	-	-	45,883	18,356
Indirect benefit and fundraising event expenses	-	-	28,232	28,232	17,341
Total expenses before depreciation expense	1,104,365	146,473	116,244	1,367,082	1,144,042
Depreciation expense	11,403	675	490	12,568	14,551
Total Expenses, 2007	<u>\$1,115,768</u>	<u>\$ 147,148</u>	<u>\$ 116,734</u>	<u>\$1,379,650</u>	
Total Expenses, 2006	<u>\$ 919,013</u>	<u>\$ 126,391</u>	<u>\$ 113,189</u>		<u>\$1,158,593</u>

* Certain amounts have been reclassified for comparative purposes.

See independent auditor's report on additional information.