

EDUCATION THROUGH MUSIC, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

AUGUST 31, 2009 AND 2008

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, 2009 and 2008, 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, 2009 and 2008, 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
December 18, 2009

EDUCATION THROUGH MUSIC, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents (Notes 1b and 10)	\$ 371,844	\$ 436,468
Investments (Notes 1c and 4)	129,973	143,925
Unconditional promises to give (Notes 1d and 3)		
Unrestricted	2,500	56,201
Restricted to future programs and periods	155,130	287,373
Accounts receivable	153	954
Prepaid expenses	18,090	20,674
Property and equipment, at cost, net of accumulated depreciation (Notes 1f and 6)	32,538	22,117
Security deposit	10,100	10,100
	<u> </u>	<u> </u>
Total Assets	<u>\$ 720,328</u>	<u>\$ 977,812</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 11,952</u>	<u>\$ 22,489</u>
Commitment and Contingency (Note 7)		
Net Assets		
Unrestricted		
Operating	272,802	287,125
ETM Special Fund (Note 5)	125,762	138,825
Temporarily restricted (Note 2)	<u>309,812</u>	<u>529,373</u>
Total Net Assets	<u>708,376</u>	<u>955,323</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$ 720,328</u>	<u>\$ 977,812</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Changes in Unrestricted Net Assets		
Revenues and Other Support		
Contributions (Note 9)	\$ 431,660	\$ 473,792
Benefit and event income	203,136	194,610
Less: Direct fundraising costs	(78,360)	(42,003)
Program income	508,895	344,830
Donated services	10,214	46,300
Investment income	5,821	21,846
Unrealized loss on investments	(17,897)	(15,568)
Realized gain (loss) on investments	(230)	340
Miscellaneous income	1,503	1,451
	<u>1,064,742</u>	<u>1,025,598</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	<u>473,931</u>	<u>646,859</u>
Total Unrestricted Revenues and Other Support	<u>1,538,673</u>	<u>1,672,457</u>
Expenses		
Program Services		
Education	<u>1,332,315</u>	<u>1,333,838</u>
Supporting Services		
Management and general	141,424	165,837
Fundraising	<u>92,320</u>	<u>118,187</u>
Total Supporting Services	<u>233,744</u>	<u>284,024</u>
Total Expenses	<u>1,566,059</u>	<u>1,617,862</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(27,386)</u>	<u>54,595</u>
Changes in Temporarily Restricted Net Assets		
Contributions	254,370	305,942
Net assets released from restrictions	<u>(473,931)</u>	<u>(646,859)</u>
Decrease in Temporarily Restricted Net Assets	<u>(219,561)</u>	<u>(340,917)</u>
Decrease in net assets	(246,947)	(286,322)
Net assets, beginning of year	<u>955,323</u>	<u>1,241,645</u>
Net Assets, End of Year	<u>\$ 708,376</u>	<u>\$ 955,323</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Decrease in net assets	\$ (246,947)	\$ (286,322)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:		
Depreciation expense	19,594	12,634
Donated securities	(11,046)	(44,946)
Net unrealized loss on investments	17,897	15,568
Realized (gain) loss on investment	230	(340)
(Increase) decrease in:		
Unconditional promises to give	185,944	228,804
Accounts receivable	801	10,399
Prepaid expenses	2,584	(8,724)
Security deposit	-	(138)
Decrease in accounts payable and accrued expenses	<u>(10,537)</u>	<u>(4,330)</u>
Net Cash Used By Operating Activities	<u>(41,480)</u>	<u>(77,395)</u>
Cash Flows From Investing Activities		
Purchase of investments	(24,099)	(72,282)
Sale of investments	30,970	109,826
Acquisition of property and equipment	<u>(30,015)</u>	<u>(9,039)</u>
Net Cash Provided (Used) By Investing Activities	<u>(23,144)</u>	<u>28,505</u>
Net decrease in cash and equivalents	(64,624)	(48,890)
Cash and cash equivalents, beginning of year	<u>436,468</u>	<u>485,358</u>
Cash and Cash Equivalents, End of Year	<u>\$ 371,844</u>	<u>\$ 436,468</u>

See notes to financial statements.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2009 AND 2008****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 was required to adopt Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective September 1, 2008. SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction costs. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels.

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.

EDUCATION THROUGH MUSIC, INC.**NOTES TO FINANCIAL STATEMENTS****AUGUST 31, 2009 AND 2008****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****c - Investments (continued)**

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

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.

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, 2009 AND 2008

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

i - Subsequent Events

The Organization has evaluated subsequent events through December 18, 2009, 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 as follows:

	<u>Unrestricted</u>	<u>Future Programs and Periods</u>	<u>2009</u>	<u>2008</u>
Less than one year	\$2,500	\$155,130	\$157,630	\$302,132
One to five years	-	-	-	50,000
Less: Discount to present value	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,558)</u>
	<u>\$2,500</u>	<u>\$155,130</u>	<u>\$157,630</u>	<u>\$343,574</u>

Uncollectible promises to give are expected to be insignificant. Unconditional promises to give due after one year are discounted to net present value using a discount rate of 5%.

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>2009</u>	<u>2008</u>
Mutual funds		
Fixed funds	\$ 50,958	\$ 42,627
Equity funds	78,229	96,448
Cash awaiting investment	<u>786</u>	<u>4,850</u>
	<u>\$129,973</u>	<u>\$143,925</u>

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

Note 4 - Investments (continued)

The cost of investments at August 31, 2009 and 2008 was \$148,279 and \$144,334, respectively.

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 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.

Note 6 - Property and Equipment

Property and equipment consist of the following:

	<u>Life</u>	<u>2009</u>	<u>2008</u>
Instruments	5 years	\$ 87,378	\$ 85,722
Furniture and equipment	3-5 years	41,579	39,839
Leasehold improvements	Life of lease	<u>26,619</u>	<u>-</u>
		155,576	125,561
Less: Accumulated depreciation		<u>(123,038)</u>	<u>(103,444)</u>
		<u>\$ 32,538</u>	<u>\$ 22,117</u>

Depreciation expense for the years ended August 31, 2009 and 2008 was \$19,594 and \$12,634, 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>	
2010	\$87,481
2011	89,668
2012	53,061

EDUCATION THROUGH MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

Note 7 - Commitment and Contingency (continued)

a - (continued)

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, 2009 and 2008 was \$83,679 and \$57,206, 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 2009 and 2008.

Note 9 - Significant Grants

During the year ended August 31, 2009, the Organization received approximately 18% of its contributions from a private foundation and governmental agency. During the year ended August 31, 2008, the Organization received approximately 16% of its contributions from a private foundation.

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 2009 and 2008 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, 2009 with comparative totals for 2008 is presented for purposes of additional analysis and is 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
December 18, 2009

EDUCATION THROUGH MUSIC, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2009 WITH COMPARATIVE TOTALS 2008

	Program Service	Supporting Services		2009	2008
	Education	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 938,153	\$ 89,141	\$ 59,790	\$1,087,084	\$ 983,171
Payroll taxes and fringe benefits	119,224	11,329	7,599	138,152	115,635
Contracted arts instruction and curriculum development	16,193	-	-	16,193	30,999
Professional development and teaching artist training	32,192	-	859	33,051	43,507
Legal, technology and other consultants	28,653	-	-	28,653	71,110
Travel, meetings and conferences	13,037	5,763	-	18,800	30,564
Rent	67,780	9,205	6,694	83,679	57,206
Office supplies and equipment	14,322	1,361	913	16,596	20,826
Telephone, internet, and application service providers	10,486	997	668	12,151	9,644
Accounting	-	15,623	-	15,623	15,148
Bookkeeping	-	2,940	-	2,940	1,753
Promotional materials	9,262	-	412	9,674	27,145
Insurance	9,132	868	582	10,582	8,326
Program evaluation	13,670	-	-	13,670	78,456
Miscellaneous	12,459	1,239	830	14,528	16,365
Recruiting	930	1,800	-	2,730	460
Program materials and supplies	29,162	-	-	29,162	70,180
Indirect benefit and fundraising event expenses	-	-	13,197	13,197	24,733
Total expenses before depreciation expense	1,314,655	140,266	91,544	1,546,465	1,605,228
Depreciation expense	17,660	1,158	776	19,594	12,634
Total Expenses, 2009	<u>\$1,332,315</u>	<u>\$ 141,424</u>	<u>\$ 92,320</u>	<u>\$1,566,059</u>	
Total Expenses, 2008	<u>\$1,333,838</u>	<u>\$ 165,837</u>	<u>\$ 118,187</u>		<u>\$1,617,862</u>

See independent auditors' report on additional information.