

Music for Life

Financial Statements
For the Years Ended
December 31, 2018 and 2017
With Independent Auditor's Report



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Financial Statements
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With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS

Music for Life
Springfield, Virginia

We have audited the accompanying financial statements of Music for Life (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditor's 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 auditor's 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 organization'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 organization'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 Music for Life as of December 31, 2018 and 2017, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fitzgerald & Co., CPAs, P.C.

Vienna, Virginia
September 24, 2019

Music for Life
Statements of Financial Position
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 186,409	\$ 170,364
Grants receivable	29,776	17,852
Pledges receivable	179	2,071
Inventory for use	9,740	34,579
Inventory for sale	7,651	8,422
Total current assets	<u>233,755</u>	<u>233,288</u>
 Total assets	 <u>\$ 233,755</u>	 <u>\$ 233,288</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,659	\$ 900
Credit card payable	106	3,444
Payroll liabilities	3,096	3,153
Total current liabilities	<u>5,861</u>	<u>7,497</u>
NET ASSETS:		
Without Donor Restrictions	200,118	207,928
With Donor Restrictions	27,776	17,863
Total net assets	<u>227,894</u>	<u>225,791</u>
	 <u>\$ 233,755</u>	 <u>\$ 233,288</u>

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Music for Life
Statements of Activities
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
SUPPORT AND REVENUE:		
Contributions	63,652	52,638
Donated services	3,720	56,559
Product sales	3,413	485
Other income	1,470	902
Net assets released from restrictions	<u>68,534</u>	<u>51,603</u>
Total support and revenue	140,789	162,187
EXPENSES:		
Cost of goods sold	2,965	300
Program services	137,233	150,957
General and administrative	5,506	5,115
Fundraising	<u>2,895</u>	<u>2,869</u>
Total expenses	<u>148,599</u>	<u>159,241</u>
Change in net assets without donor restrictions	<u>(7,810)</u>	<u>2,946</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	78,447	45,704
Net assets released from restriction	<u>(68,534)</u>	<u>(51,603)</u>
Change in net assets with donor restrictions	<u>9,913</u>	<u>(5,899)</u>
CHANGE IN NET ASSETS	2,103	(2,953)
NET ASSETS, BEGINNING OF YEAR	<u>225,791</u>	<u>228,744</u>
NET ASSETS, END OF YEAR	<u><u>227,894</u></u>	<u><u>225,791</u></u>

Music for Life
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Cost of Goods sold</u>	<u>Total</u>
Advertising and promotions	\$ -	\$ -	\$ 2,895	\$ -	\$ 2,895
Dues and subscriptions		137	-	-	137
Student Scholarship	135				135
Guitars and accessories	42,586	-	-	2,965	45,551
Internet services	-	242	-	-	242
Insurance	3,016	-	-	-	3,016
Mailing, delivery and postage	122	-	-	-	122
Occupancy	4,404	-	-	-	4,404
Office expenses	-	942	-	-	942
Professional fees	23,092	4,185	-	-	27,277
Salary and wages	60,905	-	-	-	60,905
State registration fees	503	-	-	-	503
Training and teaching supplies	2,470	-	-	-	2,470
	<u>\$ 137,233</u>	<u>\$ 5,506</u>	<u>\$ 2,895</u>	<u>\$ 2,965</u>	<u>\$ 148,599</u>

Music for Life
Statement of Functional Expenses
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Cost of Goods sold</u>	<u>Total</u>
Advertising and promotions	\$ -	\$ -	\$ 2,869	\$ -	\$ 2,869
Dues and subscriptions	118	286	-	-	404
Guitars and accessories	11,587	-	-	300	11,887
Internet services	-	433	-	-	433
Insurance	3,018	-	-	-	3,018
Mailing, delivery and postage	148	-	-	-	148
Occupancy	4,097	-	-	-	4,097
Office expenses	-	1,422	-	-	1,422
Professional fees	69,760	2,974	-	-	72,734
Salary and wages	55,651	-	-	-	55,651
State registration fees	425	-	-	-	425
Training and teaching supplies	6,153	-	-	-	6,153
	<u>\$ 150,957</u>	<u>\$ 5,115</u>	<u>\$ 2,869</u>	<u>\$ 300</u>	<u>\$ 159,241</u>

Music for Life
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,103	\$ (2,953)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities affecting operations:		
(Increase) decrease in grants receivable	(11,924)	2,616
(Increase) decrease in pledges receivable	1,892	(2,071)
(Increase) decrease in inventory	25,610	(216)
Increase in accounts payable	1,759	591
Decrease in credit card payable	(3,338)	(3,274)
Decrease in payroll liabilities	(57)	117
Net cash provided by (used in) operating activities	<u>16,045</u>	<u>(5,190)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	16,045	(5,190)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>170,364</u>	<u>175,554</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 186,409</u>	<u>\$ 170,364</u>

Music for Life

Notes to Financial Statements December 31, 2018 and 2017

A. ORGANIZATION

Music for Life was originally formed as a chapter of Guitars not Guns; a federally exempt 501(C) (3) entity that incorporated in the state of California on July 24, 2000. Music for Life incorporated as an independent legal entity in 2010 and obtained its own federal tax exempt 501(C) (3) status under the name GnG NCA, which it continued to use until it legally changed its name to Music for Life effective December 11, 2014. Through April 2013, Music for Life continued its affiliation with Guitars not Guns.

Music for Life is a volunteer based charity that provides music educational programs and mentoring to at-risk and other deserving youth as well as underserved adults who may not otherwise have the opportunity. Music for Life is a community based organization that provides these individuals a positive alternative to the self-destructive behaviors of substance abuse, crime, truancy, and gang activity. Their programs provide each student with a musical instrument and case, music book and other related items. Music for Life has three programs in operation: (1) an after-school guitar program in the neighborhoods where the students live; (2) an after-school band orchestra program in middle and high school; and (3) the STEM Guitar Project, all in the metropolitan DC area. Music for Life is supported primarily through donor contributions, grants, and product sales.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The records of Music for Life are maintained on the accrual basis of accounting, under which revenue is recognized when earned and expenses are recorded as incurred.

Financial statement presentation - The financial statements of Music for Life have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires it 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 objective of Music for Life. These net assets may be used at the discretion of the Foundation's management and the 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 Music for Life or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Use of estimates and assumptions - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Music for Life

Notes to Financial Statements
December 31, 2018 and 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes - The Organization is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization complies with the accounting for uncertainty in income taxes guidance, FASB Codification topic 740, "Accounting for Income Taxes". The accounting guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties and disclosures required. There are no uncertain tax positions as of December 31, 2018. The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in the applicable operating expense account. The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ended 2018, 2017 and 2016 are subject to examination by the IRS, generally for three years after it is filed.

New Accounting Pronouncement – On August 18, 2016, FASB issued ASU 2016-14, "Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities". The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Music for Life has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Cash and cash equivalents - The Organization considers all short-term investments with original maturities of three months or less to be cash equivalents.

Pledges and grants receivable – Pledges and grants receivable consists of amounts due from donors within one year. Payments are received by the Organization under various payment plans. The Organization maintains an allowance for doubtful accounts based on the expected collectability of all receivables. The allowance for doubtful accounts was zero as of both December 31, 2018 and 2017.

Inventory - Inventory consists of T-shirts, guitars, educational books, videos and printed information. Inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory is classified as for use (items to be used in fulfillment of its mission) and for sale (donated items which cannot be used in fulfillment of its mission). Donated items are recorded at their fair market value at the time of the contribution.

Contributions – Music for Life records contributions received as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. Donor restricted contributions are reported as support with donor restrictions and are then reclassified to net assets without restrictions upon fulfillment of the restriction.

Donated services – Donated services are recognized at fair value if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would otherwise need to be purchased. Donated services are recorded as both revenue and support and program services, and therefore, there is no effect on the change in net assets.

Music for Life

Notes to Financial Statements December 31, 2018 and 2017

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing program and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been categorized based in their nature between program and the supporting services benefited, and none have been allocated.

Advertising - The Organization charges advertising costs to expense as incurred. For the years ended December 31, 2018 and 2017, total advertising costs incurred were \$2,895 and \$2,869, respectively.

C. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions occur when donors restrict the use of their donation to a specific purpose or period of time. Net assets with donor restrictions as of December 31, 2018 and 2017 were \$27,776 and \$17,863, respectively and consisted of funds to be used to provide music classes in a specific geographic location and/or during a future time period.

D. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets are released from donors' restrictions when the expenses are incurred that satisfy the donor restricted purpose. Net assets released from restrictions during the year ended December 31, 2018 and 2017 were \$68,534 and \$51,603, respectively and consisted of amounts used to provide music classes in different geographic locations and/or during the respective calendar year.

E. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject Music for Life to concentrations of credit risk consist of cash. Music for Life maintains its operating cash accounts in a national financial institution whose deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Organization had no uninsured cash balances at December 31, 2018 and 2017.

Music for Life

Notes to Financial Statements December 31, 2018 and 2017

F. AVAILABILITY AND LIQUIDITY

The following represents Music for Life's financial assets at December 31, 2018 and 2017:

Financial assets at year-end	2018	2017
Cash and cash equivalents	\$ 186,409	\$ 170,364
Grants Receivable	29,776	17,852
Pledges Receivable	<u>179</u>	<u>2,071</u>
Total financial assets	216,334	190,287
Net assets with donor restrictions	27,776	17,863
Less net assets with purpose restrictions to be met in less than one year	<u>(27,776)</u>	<u>(17,863)</u>
Less amount available to be used within one year	<u>(0)</u>	<u>(0)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 216,364</u>	<u>\$ 190,287</u>

Music for Life's goal is generally to maintain financial assets to meet 365 days of operating expenses (approximately \$150,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

G. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through September 24, 2019, the date that the financial statements are available to be issued.