

Music for Life

Financial Statements
For the Years Ended
December 31, 2016 and 2015
With Independent Auditor's Report

Music for Life

Financial Statements

For the Years Ended December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
November 1, 2017

Music for Life
Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 175,554	\$ 157,989
Grants receivable	20,468	-
Inventory for use	35,460	40,444
Inventory for sale	7,325	7,064
Total current assets	<u>\$ 238,807</u>	<u>\$ 205,497</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 309	\$ 2,576
Credit card payable	6,718	4,456
Payroll liabilities	3,036	-
Total current liabilities	<u>10,063</u>	<u>7,032</u>
NET ASSETS:		
Unrestricted	204,982	198,465
Temporarily restricted net assets	23,762	-
Total net assets	<u>228,744</u>	<u>198,465</u>
	<u>\$ 238,807</u>	<u>\$ 205,497</u>

Music for Life
Statements of Activities
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
SUPPORT AND REVENUE:		
Contributions	\$ 37,623	\$ 32,267
Donated services	118,800	-
Product sales	3,267	2,156
Net assets released from restrictions	<u>23,174</u>	<u>8,000</u>
Total support and revenue	182,864	42,423
EXPENSES:		
Cost of goods sold	1,080	1,640
Program services	169,499	17,507
General and administrative	3,649	2,614
Fundraising	<u>2,119</u>	<u>1,629</u>
Total expenses	<u>176,347</u>	<u>23,390</u>
Change in unrestricted net assets	<u>6,517</u>	<u>19,033</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	46,936	3,500
Net assets released from restriction	<u>(23,174)</u>	<u>(8,000)</u>
Change in temporarily restricted net assets	<u>23,762</u>	<u>(4,500)</u>
CHANGE IN NET ASSETS	30,279	14,533
NET ASSETS, BEGINNING OF YEAR	<u>198,465</u>	<u>183,932</u>
NET ASSETS, END OF YEAR	<u>\$ 228,744</u>	<u>\$ 198,465</u>

Music for Life

Statement of Functional Expenses

For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Cost of Goods sold</u>	<u>Total</u>
Advertising and promotions	\$ -	\$ -	\$ 2,119	\$ -	\$ 2,119
Dues and subscriptions	196	145	-	-	341
Guitars and accessories	15,069	-	-	1,080	16,149
Internet services	-	558	-	-	558
Insurance	3,152	-	-	-	3,152
Mailing, delivery and postage	26	123	-	-	149
Occupancy	3,663	-	-	-	3,663
Office expenses	105	80	-	-	185
Professional fees	123,993	2,725	-	-	126,718
Salary and wages	21,204	-	-	-	21,204
State registration fees	290	-	-	-	290
Training and teaching supplies	1,801	18	-	-	1,819
	<u>\$ 169,499</u>	<u>\$ 3,649</u>	<u>\$ 2,119</u>	<u>\$ 1,080</u>	<u>\$ 176,347</u>

**Music for Life
Statement of Functional Expenses
For the Year Ended December 31, 2015**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Cost of Goods sold</u>	<u>Total</u>
Advertising and promotions	\$ -	\$ -	\$ 1,629	\$ -	\$ 1,629
Dues and subscriptions	317	-	-	-	317
Guitars and accessories	5,787	-	-	1,640	7,427
Internet services	-	215	-	-	215
Insurance	2,340	-	-	-	2,340
Mailing, delivery and postage	87	126	-	-	213
Occupancy	3,407	-	-	-	3,407
Office expense	-	113	-	-	113
Professional fees	3,375	2,160	-	-	5,535
Temporary help	682	-	-	-	682
State registration fees	202	-	-	-	202
Training and teaching supplies	1,310	-	-	-	1,310
	<u>\$ 17,507</u>	<u>\$ 2,614</u>	<u>\$ 1,629</u>	<u>\$ 1,640</u>	<u>\$ 23,390</u>

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Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 30,279	\$ 14,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Inventory donated, net of contributions received	-	5,589
Changes in assets and liabilities affecting operations:		
(Increase) decrease in grants receivable	(20,468)	4,500
(Increase) decrease in inventory	4,723	(8,742)
Increase (decrease) in accounts payable	(2,267)	2,202
Increase in credit card payable	2,262	711
Increase in payroll liabilities	3,036	-
Net cash provided by operating activities	<u>17,565</u>	<u>18,793</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,565	18,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>157,989</u>	<u>139,196</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 175,554</u>	<u>\$ 157,989</u>

Music for Life

Notes to Financial Statements

December 31, 2016 and 2015

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 an after school music and mentoring program 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 program provides each student with a musical instrument and case, music book and other related items. Music for Life also facilitates the implementation of the STEM Guitar Project 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 – Music for Life reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. There were no permanently restricted net assets as of December 31, 2016 and 2015.

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.

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, 2016. 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 2016, 2015 and 2014 are subject to examination by the IRS, generally for three years after it is filed.

Music for Life

Notes to Financial Statements

December 31, 2016 and 2015

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 as of December 31, 2016 and 2015 is zero.

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 – Contributions received are unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. The Organization reports gifts of cash as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

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.

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 allocated between program and the supporting services benefited.

Advertising - The Organization charges advertising costs to expense as incurred. For the years ended December 31, 2016 and 2015, total advertising costs incurred were \$2,119 and \$1,629, respectively.

C. TEMPORARILY RESTRICTED NET ASSETS

Net assets are temporarily restricted when donors restrict the use of their donation to a specific purpose. Temporarily restricted net assets as of December 31, 2016 and 2015 were \$23,762 and zero respectively and consisted of funds to be used to provide music classes in a specific geographic location.

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Notes to Financial Statements

December 31, 2016 and 2015

D. NET ASSETS RELEASED FROM RESTRICTION

Net assets are released from donors' restrictions when the expenses are incurred that satisfy the donor restricted purpose. Net assets released from restrictions as of December 31, 2016 and 2015 were \$23,174 and \$8,000, respectively and consisted of amounts used to provide music classes in different geographic locations.

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, 2016 and 2015.

F. DONATED SERVICES

The Organization received pro bono services from a major consulting firm to create a database management system to store and query data related to the Performance Measurement Plan to assist in curriculum evaluation, adjustments, and future types of programs to be offered. The value of the donated services was \$118,800 and is included in professional fees in the accompanying Statement of Functional Expenses.

G. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through November 1, 2017, the date that the financial statements are available to be issued.