

Music for Life

Financial Statements
For the Years Ended
December 31, 2019 and 2018
With Independent Auditor's Report

Music for Life
Financial Statements
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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, 2019 and 2018, 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, 2019 and 2018, 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 21, 2020

Music for Life
Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 219,488	\$ 186,409
Grants receivable	37,360	29,776
Pledges receivable	-	179
Inventory for use	15,623	9,740
Inventory for sale	7,656	7,651
Total current assets	<u>280,127</u>	<u>233,755</u>
Total assets	<u>\$ 280,127</u>	<u>\$ 233,755</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,803	\$ 2,659
Credit card payable	194	106
Payroll liabilities	3,630	3,096
Total current liabilities	<u>7,627</u>	<u>5,861</u>
NET ASSETS:		
Without Donor Restrictions	227,877	200,118
With Donor Restrictions	44,623	27,776
Total net assets	<u>272,500</u>	<u>227,894</u>
	<u>\$ 280,127</u>	<u>\$ 233,755</u>

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Music for Life
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
SUPPORT AND REVENUE:		
Contributions	\$ 48,666	\$ 63,652
Donated services	4,175	3,720
Donated goods	2,869	-
Product sales	571	3,413
Interest	3,169	1,470
Net assets released from restrictions	<u>87,969</u>	<u>68,534</u>
Total support and revenue	<u>147,419</u>	<u>140,789</u>
EXPENSES:		
Cost of goods sold	800	2,965
Program services	109,524	137,233
General and administrative	5,400	5,506
Fundraising	<u>3,936</u>	<u>2,895</u>
Total expenses	<u>119,660</u>	<u>148,599</u>
Change in net assets without donor restrictions	<u>27,759</u>	<u>(7,810)</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	104,816	78,447
Net assets released from restriction	<u>(87,969)</u>	<u>(68,534)</u>
Change in net assets with donor restrictions	<u>16,847</u>	<u>9,913</u>
CHANGE IN NET ASSETS	44,606	2,103
NET ASSETS, BEGINNING OF YEAR	<u>227,894</u>	<u>225,791</u>
NET ASSETS, END OF YEAR	<u>\$ 272,500</u>	<u>\$ 227,894</u>

Music for Life
Statement of Functional Expenses
For the Year Ended December 31, 2019

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Cost of Goods sold</u>	<u>Total</u>
Advertising and promotions	\$ -	\$ -	\$ 3,936	\$ -	\$ 3,936
Dues and subscriptions		49	-	-	49
Guitars and accessories	10,907	-	-	800	11,707
Internet services	-	196	-	-	196
Insurance	3,015	-	-	-	3,015
Mailing, delivery and postage	134	58	-	-	192
Occupancy	4,794	-	-	-	4,794
Office expenses	-	922	-	-	922
Professional fees	23,774	4,175	-	-	27,949
Salary and wages	61,219	-	-	-	61,219
State registration fees	225	-	-	-	225
Training and teaching supplies	5,456	-	-	-	5,456
	<u>\$ 109,524</u>	<u>\$ 5,400</u>	<u>\$ 3,936</u>	<u>\$ 800</u>	<u>\$ 119,660</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
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 44,606	\$ 2,103
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in assets and liabilities affecting operations:		
Increase in grants receivable	(7,584)	(11,924)
Decrease in pledges receivable	179	1,892
(Increase) decrease in inventory	(5,888)	25,610
Increase in accounts payable	1,144	1,759
Increase (decrease) in credit card payable	88	(3,338)
Increase (decrease) in payroll liabilities	534	(57)
Net cash provided by (used in) operating activities	<u>33,079</u>	<u>16,045</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,079	16,045
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>186,409</u>	<u>170,364</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 219,488</u>	<u>\$ 186,409</u>

Music for Life

Notes to Financial Statements December 31, 2019 and 2018

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 STEAM Guitar Program, 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, 2019 and 2018

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, 2019. 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 2019, 2018 and 2017 are subject to examination by the IRS, generally for three years after it is filed.

Adoption of new accounting standard

In June 2018, the FASB issued ASU 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Effective January 1, 2019, Music For Life implemented the provisions of this standard on a modified prospective basis to agreements that were not completed at the effective date, or that were entered into after that date. There was no change resulting from the adoption of this standard.

Recent Accounting Pronouncements Not Yet Adopted:

Revenue Recognition - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes and replaces nearly all existing GAAP revenue recognition guidance, including industry-specific guidance. The core principle of the standard is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which Music For Life expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The standard requires significantly expanded disclosures about revenue recognition and is effective for fiscal years beginning after December 15, 2018. In response to the COVID-19 pandemic, the effective date of adoption for those private companies and not-for-profit entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020, has been deferred until fiscal years beginning after December 15, 2019. The expanded disclosures required in Topic 606 adds an additional burden of time so Music For Life has elected to defer implementation until the calendar year ended December 31, 2020. The adoption of this ASU will not have a material impact on its financial statements.

Leases - In February 2016, the FASB issued ASU 2016-02 "Leases (Topic 842)." The primary objective of the standard is to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset. The standard is effective for fiscal years beginning after December 15, 2019. In response to the COVID-19 pandemic, the effective date of adoption for those private companies and not-for-profit entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020, has been deferred until fiscal

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Notes to Financial Statements December 31, 2019 and 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

years beginning after December 15, 2021. Early adoption is permitted. The Foundation is currently evaluating the standard and its impact on its financial statements.

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, 2019 and 2018.

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 general and administrative expenses under professional 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 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, 2019 and 2018, total advertising costs incurred were \$2,869 and \$2,895, 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, 2019 and 2018 were \$44,623 and \$27,776, respectively and consisted of funds to be used to provide music classes in a specific geographic location and/or during a future time period.

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Notes to Financial Statements December 31, 2019 and 2018

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, 2019 and 2018 were \$87,969 and \$68,534, 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, 2019 and 2018.

F. AVAILABILITY AND LIQUIDITY

The following represents Music For Life's financial assets at December 31, 2019 and 2018:

Financial assets at year-end	2019	2018
Cash and cash equivalents	\$ 219,488	\$ 186,409
Grants Receivable	37,360	29,776
Pledges Receivable	<u>-</u>	<u>179</u>
Total financial assets	256,848	216,364
Less net financial assets subject to Donor restrictions	<u>(44,623)</u>	<u>(27,776)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 212,225</u>	<u>\$ 188,588</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

National economic turmoil could negatively affect our support and revenue, ability to continue delivering our missions services, and financial condition.

Prolonged turmoil in the national economy could have a negative impact on the operations and the financial condition of the organization. Economic uncertainty in many parts of United States, including uncertainty caused by COVID-19 pandemic, and by local business closures designed to limit social contact and reduce the spread of COVID-19, are situations that management is monitoring closely. The exposure to such risks may further increase if any of these economic conditions impact levels of charitable giving. Management has already seen about a 20% reduction in the level of giving by grant making entities that have traditionally provided funding for the organization's programs. In addition, the closure of schools and their conversion to a virtual learning environment, coupled with

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Notes to Financial Statements December 31, 2019 and 2018

G. SUBSEQUENT EVENTS (continued)

the closure of summer camps and recreational facilities typically used to provide music classes, made the organization move to a virtual delivery of its music classes. As result, expenditures have increased about 16% from 2019 due to the additional technology expenses and other costs incurred to deliver music equipment and supplies to the students. The additional technology costs incurred to transition to this new delivery method will be beneficial in the future as it allows the organization to provide classes to students living in areas in which physical classes were previously unavailable. While management believes that the worst of the financial impact to the organization is over, one cannot predict the future impact on the organization for the balance of 2020 or further into the future.

In April 2020 Music For Life applied for a loan and on May 5, 2020, it received loan proceeds in the amount of \$11,862 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides loans to qualifying businesses in the amount of 2.5 times the average monthly payroll expenses for the prior 12 months. The loan and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan will not be forgiven if the borrower doesn't return to the pre-pandemic level by December 31, 2020. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral period until the date on which the amount of forgiveness determined under Section 1006 of the CARES Act is remitted to the lender. Music For Life has met the requirements for forgiveness by using the proceeds of the loan for eligible expenses and anticipates it will receive full forgiveness of the loan amount once it can submit the application for forgiveness to the lender.

The Organization has evaluated all subsequent events through September 21, 2020, the date that the financial statements are available to be issued.