

2020
Financial Statements
With
Auditor's Letters

NOTES FOR NOTES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2020

(With Independent Auditor's Report Thereon)

NOTES FOR NOTES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2020

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Audited Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Notes for Notes, Inc.

We have audited the accompanying financial statements of Notes for Notes, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 from 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 entity'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 entity'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 Notes for Notes, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Patterson Hardee & Ballentine

May 27, 2021

NOTES FOR NOTES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020

ASSETS

Current Assets:

Cash	\$ 378,128	
Accounts receivable	42,945	
Prepays and other assets	10,368	
Total current assets		\$ 431,441

Property and Equipment, net	242,079
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Assets Whose Use is Limited

Donated rent receivable (in-kind)	407,098	
Partner sustainability receivable	1,348,000	
Total assets whose use is limited		1,755,098

Total assets	<u>\$ 2,428,618</u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 13,257	
Accrued expenses	46,196	
Total current liabilities		\$ 59,453

Total liabilities	<u>59,453</u>
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Net Assets:

Without donor restrictions	614,067	
With donor restrictions	1,755,098	

Total net assets	<u>2,369,165</u>
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Total liabilities and net assets	<u>\$ 2,428,618</u>
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See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public Support and Revenue:			
Corporate contributions	\$ 259,877	\$ -	\$ 259,877
Individual contributions	22,172	-	22,172
Foundations	50,954	-	50,954
Grants	152,203	-	152,203
In-kind contributions	54,245	-	54,245
Partner sustainability and earned contractor income	390,001	-	390,001
Other income	333,213	-	333,213
Net assets released from restrictions	647,327	(647,327)	-
Total public support and revenues	<u>1,909,992</u>	<u>(647,327)</u>	<u>1,262,665</u>
Expenses:			
Program services	2,127,956	-	2,127,956
Total program services	<u>2,127,956</u>	<u>-</u>	<u>2,127,956</u>
Supporting services:			
Management and general	134,717	-	134,717
Fundraising	151,399	-	151,399
Total supporting services	<u>286,116</u>	<u>-</u>	<u>286,116</u>
Total expenses	<u>2,414,072</u>	<u>-</u>	<u>2,414,072</u>
Change in net assets	(504,080)	(647,327)	(1,151,407)
Net assets - beginning of year	<u>1,118,147</u>	<u>2,402,425</u>	<u>3,520,572</u>
Net assets at end of year	<u>\$ 614,067</u>	<u>\$ 1,755,098</u>	<u>\$ 2,369,165</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>and</u>		
		<u>General</u>		
Salaries and payroll taxes	\$ 1,550,527	\$ 76,609	\$ 136,117	\$ 1,763,253
Donated rent	325,118	-	-	325,118
Bank fees	-	73	927	1,000
Depreciation	111,627	-	-	111,627
Insurance	31,668	2,032	-	33,700
Professional fees	-	38,174	-	38,174
Supplies	75,846	16,406	4,950	97,202
Travel	1,067	333	-	1,400
In-kind instruments and other donations	31,015	-	-	31,015
Advertising	-	-	9,405	9,405
Fees, licenses, compliance	-	1,090	-	1,090
Outreach activities	1,088	-	-	1,088
Total expenses	<u>\$ 2,127,956</u>	<u>\$ 134,717</u>	<u>\$ 151,399</u>	<u>\$ 2,414,072</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows From Operating Activities:		
Change in net assets		\$ (1,151,407)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	111,627	
Changes in:		
Accounts receivable	313,373	
Prepays and other assets	(340)	
Assets held for sale	17,561	
Asset whose use is limited	647,327	
Accounts payable	1,926	
Accrued expenses	(21,947)	
Total adjustments		<u>1,069,527</u>
Net cash used in operating activities		(81,880)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(95,928)	
Net cash used in investing activities		<u>(95,928)</u>
Net change in cash		(177,808)
Cash - beginning of year		<u>555,936</u>
Cash - end of year		<u><u>\$ 378,128</u></u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities and Program Description

The terms "we", "us", "our", or "Organization" are used throughout these notes to the financial statements to identify Notes for Notes, Inc., a not-for-profit organization. We were incorporated in California during 2007.

We design, equip and staff after-school recording studios inside Boys & Girls Clubs, offering youth the opportunity to explore, create and record music for free. Notes for Notes studios contain professional instruments such as guitars, basses, drums, keyboards, synthesizers and equipment, including DJ gear and digital music workstations. Notes for Notes studios include full recording facilities. Other than providing access to the equipment and resources, the Organization educates youth about careers both on the stage and behind the scenes. Notes for Notes, Inc. has studio locations all over the country, with locations in California, Colorado, Georgia, Illinois, Louisiana, Michigan, Minnesota, New York, Ohio, Tennessee, Texas, and Washington, D.C.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets and changes, therein, are classified and reported as follows:

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 objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors. Restrictions fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as without donor restrictions.

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 the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Contributions, Support and Revenue

The Organization recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as with donor restrictions or without donor restrictions according to donor stipulations that limit the use of these assets due to either a time or purpose restriction. Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities and changes in net assets. Conditional contributions or promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contribution revenue as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributions, Support and Revenue (continued)

The Organization has adopted Accounting Standards Update ("ASU") No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605) during 2020, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes contributions, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of contributions have been enhanced in accordance with the standard.

Cash

For purposes of the Statement of Cash Flows, we consider all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. At December 31, 2020, there were no cash equivalents.

Prepaids and other assets

Prepaids and other assets consist of insurance policies paid by us in advance. For the year ended December 31, 2020, we had prepaid expenses of \$10,368.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. Depreciation is calculated using the straight line basis over the estimated useful lives of the respective assets. Purchases or donations of equipment over \$1,500 are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. For the year ended December 31, 2020, no assets were considered to be impaired.

Income Tax Status

We are a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and are classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements. We do not believe there are any uncertain tax positions. Further, we do not believe that we have any unrelated business income, which would be subject to federal taxes.

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. We allocate costs based on the methodology of time and effort spent based on management's best judgment as well as on an invoice by invoice basis through review of invoices in Bill.com.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1 - Summary of Significant Accounting Policies (continued)

Donated Goods, Facilities, and Services

Donated services are recorded in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed. Such services are recognized at fair value as support and expense in the period the services are performed. Income for donated rent is recognized on the effective date of the lease for the term of the lease.

The following amounts are reported as in-kind revenue on the Statement of Activities and in-kind expense on the Statement of Functional Expenses at December 31, 2020:

Donated instruments	\$ 9,814
Donated rent	40,791
Other	<u>3,640</u>
Total revenue	<u>\$ 54,245</u>
Donated rent	\$ 325,118
Donated instruments	27,375
Other	<u>3,640</u>
Total expense	<u>\$ 356,133</u>

Members of the Board of Directors have provided substantial assistance to us by donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

Concentrations and Contingencies

At various times throughout 2020, we had cash balances with financial institutions which exceeded the maximum amount insured by the Federal Deposit Insurance Corporation ("FDIC"). We have not experienced any losses in such accounts and do not believe that we are exposed to any significant credit risk in our cash.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2 - Availability and Liquidity

Financial assets available for general expenditure within one year of the statement of financial position, consist of the following:

Cash	\$ 378,128
Accounts receivable	<u>42,945</u>
	<u>\$ 421,073</u>

In the next fiscal year, we plan to receive, at a minimum, the same level of contributions, and consider contributions for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization has minimal amounts of liabilities in order to maintain most of its financial assets to be readily available. Cash is currently held in five bank accounts. This cash is readily available. We manage our liquidity and reserves following three guiding principles: Operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. If our analysis of liquid assets reveals inadequate funds for near-term operating needs, we will immediately reduce spending of program and management and general expenditures.

NOTE 3 – Asset Whose Use is Limited

Contributions receivable consisted of the following at December 31, 2020:

Due within one year	\$ 604,076
Due within two to five years	<u>1,151,022</u>
	<u>\$ 1,755,098</u>

The assets whose use is limited represents donated rent (in-kind) and donated funding for operations for our locations. The restrictions on the pledges will be released as time elapses for rent and as the funding is received (NOTE 7).

NOTE 4 - Property and Equipment, net

Property and equipment consisted of the following as of December 31, 2020:

Furniture and equipment	\$ 1,043,352
Less accumulated depreciation	<u>(801,273)</u>
Property and equipment, net	<u>\$ 242,079</u>

NOTE 5 – Paycheck Protection Program Loan

During 2020, the Organization was the recipient of a loan, in the amount of \$331,073, under the Paycheck Protection Program ("PPP"). The PPP, established as a part of the Coronavirus Aid, Relief and Economic Security ("CARES") Act, provides for loans to small businesses to pay up to 24 weeks of payroll costs and benefits, interest on mortgages, rent and utilities. The loan was forgiven in full during 2020, and is therefore recognized as Other Income on the Statement of Activities.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 6 – Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses had a balance of \$59,453 at December 31, 2020. For the year ended December 31, 2020, approximately 85% of our total payables were due to three vendors.

NOTE 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2020:

Donated rent receivable (in-kind)	\$ 407,098
Partner sustainability receivable	<u>1,348,000</u>
	<u>\$ 1,755,098</u>

NOTE 8 - New Pronouncements

In February 2016, FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. The Update provides guidance about recording lease transactions on an organization's statements of financial position and activities. The amendments in this Update are effective for annual periods beginning after December 15, 2021, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

NOTE 9 – Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, management is continuing to evaluate the evolving situation and has implemented appropriate countermeasures, including COVID-19 contingency plans for fundraising events, limiting the number of individuals in our locations at any time, health screenings and temperature checks, and practicing social distancing in common areas.

NOTE 10 - Subsequent Events

We have evaluated events subsequent to the year ending December 31, 2020. As of May 27, 2021, the date the financial statements were available to be issued, no events subsequent to the statement of financial position date are considered necessary to be included in the financial statements for the year ended December 31, 2020.