

2021
Financial Statements
With
Auditor's Letters

NOTES FOR NOTES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Independent Auditor's Report Thereon)

NOTES FOR NOTES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2021

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PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Notes for Notes, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 10 to the financial statements, restricted partner sustainability receivable was overstated in previously issued financial statements. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Notes for Notes, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Notes for Notes, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Notes for Notes, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Patterson Handley & Ballentine

August 30, 2022

NOTES FOR NOTES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021

ASSETS

Current Assets:

Cash and restricted cash	\$ 735,961	
Accounts receivable	405,344	
Prepays and other assets	439	
Assets held for sale	13,868	
Total current assets		\$ 1,155,612

Property and equipment, net	157,133
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Assets Whose Use is Limited

Donated rent receivable (in-kind)	415,759	
Partner sustainability receivable	960,000	
Total assets whose use is limited		1,375,759

Total assets	\$ 2,688,504
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 8,215	
Accrued expenses	53,774	
Total liabilities		\$ 61,989

Net Assets:

Without donor restrictions	1,230,467	
With donor restrictions	1,396,048	

Total net assets	2,626,515
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Total liabilities and net assets	\$ 2,688,504
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NOTES FOR NOTES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Corporate contributions	\$ 558,976	\$ -	\$ 558,976
Individual contributions	155,910	20,289	176,199
Foundations	41,461	-	41,461
Grants	382,967	-	382,967
In-kind contributions	109,686	269,713	379,399
Partner sustainability and earned contractor income	584,802	375,000	959,802
Other income	366,850	-	366,850
Net assets released from restrictions	624,052	(624,052)	-
Total public support and revenues	<u>2,824,704</u>	<u>40,950</u>	<u>2,865,654</u>
Expenses:			
Program services	<u>1,933,688</u>	<u>100,000</u>	<u>2,033,688</u>
Total program services	<u>1,933,688</u>	<u>100,000</u>	<u>2,033,688</u>
Supporting services:			
Management and general	153,555	-	153,555
Fundraising	<u>121,061</u>	<u>-</u>	<u>121,061</u>
Total supporting services	<u>274,616</u>	<u>-</u>	<u>274,616</u>
Total expenses	<u>2,208,304</u>	<u>100,000</u>	<u>2,308,304</u>
Change in net assets	616,400	(59,050)	557,350
Net assets - beginning of year, as previously reported	614,067	1,755,098	2,369,165
Prior period adjustment	<u>-</u>	<u>(300,000)</u>	<u>(300,000)</u>
Net assets - beginning of year, restated	<u>614,067</u>	<u>1,455,098</u>	<u>2,069,165</u>
Net assets at end of year	<u>\$ 1,230,467</u>	<u>\$ 1,396,048</u>	<u>\$ 2,626,515</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

		<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	\$ 1,359,003	\$ 77,339	\$ 120,470	\$ 1,556,812
Donated rent	341,159	-	-	341,159
Bank fees	-	-	740	740
Depreciation	92,541	-	-	92,541
Insurance	32,909	6,880	-	39,789
Professional fees	-	46,974	-	46,974
Supplies	54,704	14,510	(3,617)	65,597
Travel	13,761	-	-	13,761
In-kind instruments and other donations	40,538	-	-	40,538
Advertising	-	-	867	867
Bad debt expense	100,000	-	-	100,000
Fees, licenses, compliance	-	7,852	-	7,852
Outreach activities	1,674	-	-	1,674
Total expenses	<u>\$ 2,033,688</u>	<u>\$ 153,555</u>	<u>\$ 121,061</u>	<u>\$ 2,308,304</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cash Flows From Operating Activities:		
Change in net assets	\$	557,350
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	92,541	
Changes in:		
Accounts receivable	(362,399)	
Prepays and other assets	9,929	
Assets held for sale	(13,868)	
Assets whose use is limited	79,339	
Accounts payable	(5,042)	
Accrued expenses	7,578	
Total adjustments		(191,922)
Net cash provided by operating activities		365,428
Cash Flows From Investing Activities:		
Purchase of property and equipment	(7,595)	
Net cash used in investing activities		(7,595)
Net change in cash		357,833
Cash and restricted cash - beginning of year		378,128
Cash and restricted cash - end of year	\$	735,961

SUPPLEMENTAL CASH FLOW INFORMATION

During 2021, the Organization was the recipient of a loan, in the amount of \$331,073, under the Paycheck Protection Program ("PPP2"). The loan was forgiven in full during 2021, and is therefore recognized as Other Income on the Statement of Activities.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 2006.

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, Georgia, Illinois, 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, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition

Revenue is measured based on consideration specified in a contract with a customer. The Organization recognizes revenue when it satisfies a performance obligation which is determined by a series of services performed or upon delivery of a promised good or service. Contract terms are determined based on the expected completion dates of each performance obligation.

Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in the contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and are therefore, accounted as part of the existing contract.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in the new revenue recognition standard. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our service contracts satisfied at a point in time have a single performance obligation that is based on the service specifically described in the contracts.

Performance Obligations Satisfied at a Point in Time

All of our revenue is recognized at a point in time rather than over time. Upon fulfillment of the performance obligation, which is the delivery of the service and reimbursement requests to the customer, the customer is provided an invoice demonstrating transfer of control to the customer. The Organization believes that point in time recognition remains appropriate for this segment and will continue to recognize revenues upon completion of the performance obligation and issuance of an invoice.

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, 2021, there were no cash equivalents.

Prepays and other assets

Prepays and other assets consist of insurance policies paid by us in advance. For the year ended December 31, 2021, we had prepaid expenses of \$439.

Assets Held for Sale

At December 31, 2021, we included purchased and donated musical instruments on the statement of financial position that are held for sale. Accounting principles generally accepted in the United States of America require that assets that are held for sale be recorded as a separate line item on the statement of financial position. The estimated fair market value of these assets at December 31, 2021, was \$13,868. As of August 30, 2022, these assets were not sold.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

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, 2021, 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.

Bad Debt Expense

Bad debt expense is related to the write-off of a pledge receivable due to the closing of a facility.

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, 2021:

Donated instruments	\$ 29,579
Donated rent	<u>349,820</u>
Total revenue	<u>\$ 379,399</u>
Donated rent	\$ 341,159
Donated instruments	<u>40,538</u>
Total expense	<u>\$ 381,697</u>

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1 – Summary of Significant Accounting Policies (continued)

Donated Goods, Facilities, and Services (continued)

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 2021, 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.

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	\$ 735,961
Accounts receivable	<u>405,344</u>
	<u>\$ 1,141,305</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.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 3 – Asset Whose Use is Limited

Contributions receivable consisted of the following at December 31, 2021:

Due within one year	\$ 576,271
Due within two to five years	<u>799,488</u>
	<u>\$ 1,375,759</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, 2021:

Furniture and equipment	\$ 1,050,947
Less accumulated depreciation	<u>(893,814)</u>
Property and equipment, net	<u>\$ 157,133</u>

NOTE 5 – Paycheck Protection Program Loan

During 2021, the Organization was the recipient of a loan, in the amount of \$331,073, under the Paycheck Protection Program ("PPP2"). The PPP2, 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 2021, and is therefore recognized as Other Income on the Statement of Activities.

NOTE 6 – Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses had a balance of \$61,989 at December 31, 2021. For the year ended December 31, 2021, approximately 94% of our total payables were due to two vendors. Accrued expenses consist mainly of credit card payables and accrued payroll.

NOTE 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2021:

Donated rent receivable (in-kind)	\$ 415,759
Partner sustainability receivable	960,000
Cash for musical gear and equipment	<u>20,289</u>
	<u>\$ 1,396,048</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.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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 – Prior Period Adjustment

Beginning restricted partner sustainability receivable and net assets with donor restrictions were decreased by \$300,000 to correct errors in previously reported balances.

NOTE 11 – Subsequent Events

We have evaluated events subsequent to the year ending December 31, 2021. As of August 30, 2022, 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, 2021.