

NOTES FOR NOTES, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Notes for Notes, Inc. (the "Organization"), a California not-for-profit corporation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows and functional expenses 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 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
November 14, 2018

NOTES FOR NOTES, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash	\$ 389,843	\$ 705,810
Contributions receivable	17,597	258,479
Inventory	8,922	4,634
Property and equipment, net	<u>474,868</u>	<u>568,335</u>
 TOTAL ASSETS	 <u>\$ 891,230</u>	 <u>\$ 1,537,258</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 45,625</u>	<u>\$ 38,021</u>
 NET ASSETS		
Unrestricted	<u>845,605</u>	<u>1,499,237</u>
 TOTAL NET ASSETS	 <u>845,605</u>	 <u>1,499,237</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 891,230</u>	 <u>\$ 1,537,258</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT - UNRESTRICTED		
Corporate contributions	\$ 537,211	\$ 1,011,335
Other contributions	445,232	110,703
In-kind contributions	375,184	512,606
Event income	10,773	32,491
Other income	<u>18,343</u>	<u>8,317</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,386,743</u>	 <u>1,675,452</u>
 EXPENSES		
Program services	1,733,147	1,125,780
Supporting services:		
Management and general	145,933	117,826
Fundraising	<u>161,295</u>	<u>177,692</u>
 TOTAL EXPENSES	 <u>2,040,375</u>	 <u>1,421,298</u>
 CHANGE IN NET ASSETS	 (653,632)	 254,154
 NET ASSETS - BEGINNING OF YEAR	 <u>1,499,237</u>	 <u>1,245,083</u>
 NET ASSETS - END OF YEAR	 <u>\$ 845,605</u>	 <u>\$ 1,499,237</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (653,632)	\$ 254,154
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
In-kind donations of equipment	(48,836)	(386,602)
Depreciation	142,303	76,632
(Increase) decrease in:		
Contributions receivable	240,882	446,660
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>7,604</u>	<u>11,196</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(315,967)</u>	<u>402,040</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>-</u>	<u>(11,457)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>-</u>	<u>(11,457)</u>
NET (DECREASE) INCREASE IN CASH	(315,967)	390,583
CASH - BEGINNING OF YEAR	<u>705,810</u>	<u>315,227</u>
CASH - END OF YEAR	<u>\$ 389,843</u>	<u>\$ 705,810</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries and payroll taxes	\$ 1,092,636	\$ 87,351	\$ 155,538	\$ 242,889	\$ 1,335,525
Rent	187,582	-	-	-	187,582
Bank fees	-	10	663	673	673
Depreciation	142,303	-	-	-	142,303
Insurance	10,836	1,912	-	1,912	12,748
Event expense	-	-	1,627	1,627	1,627
Postage	3,682	920	393	1,313	4,995
Printing	6,015	-	-	-	6,015
Professional fees	-	38,624	-	38,624	38,624
Studio expenses	179,226	-	-	-	179,226
Supplies	44,323	1,594	-	1,594	45,917
Telephone and website	363	2,989	-	2,989	3,351
Travel	37,834	2,102	2,102	4,204	42,038
Miscellaneous	28,348	10,431	972	11,403	39,751
	<u>\$ 1,733,147</u>	<u>\$ 145,933</u>	<u>\$ 161,295</u>	<u>\$ 307,228</u>	<u>\$ 2,040,375</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting Services	
Salaries and payroll taxes	\$ 785,391	\$ 53,962	\$ 170,117	\$ 224,079	\$ 1,009,470
Rent	128,397	-	-	-	128,397
Bank fees	-	12	1,892	1,904	1,904
Depreciation	76,632	-	-	-	76,632
Insurance	8,497	1,499	-	1,499	9,996
Event expense	-	-	3,634	3,634	3,634
Postage	2,663	666	6	672	3,335
Printing	5,544	-	-	-	5,544
Professional fees	-	34,602	-	34,602	34,602
Supplies	51,347	4,516	-	4,516	55,863
Telephone and website	524	2,910	-	2,910	3,433
Travel	36,767	2,043	2,043	4,085	40,852
Miscellaneous	30,019	17,617	-	17,617	47,636
	<u>\$ 1,125,781</u>	<u>\$ 117,827</u>	<u>\$ 177,692</u>	<u>\$ 295,518</u>	<u>\$ 1,421,298</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 - GENERAL

Notes for Notes, Inc. (the “Organization”) is a 501(c)(3) non-profit organization, founded in California in 2007, that designs, equips and staffs after-school recording studios inside Boys & Girls Clubs, offering youth the opportunity to explore, create and record music for free. Notes for Notes studios are packed with professional instruments such as guitars, basses, drums, keyboards, synthesizers and equipment, including DJ gear and digital music workstations. The Notes for Notes studios also include full recording facilities. Besides 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, Louisiana, Michigan, Minnesota, New York, Ohio, Tennessee, Texas, Illinois and Washington, D.C.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. The Organization had no temporarily restricted net assets at December 31, 2017 or 2016.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets at December 31, 2017 or 2016.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Contributions Receivable

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

Contributions receivable are recorded for contributions that have been pledged but not yet received. The amount recorded is considered fully collectible and no allowance for uncollectible amounts is deemed necessary.

Inventory

Inventory consists of instruments and gear held for sale and is reported at the lower of cost (specific identification method) or net realizable value.

Property and Equipment

Property and equipment are reported at cost at the date of purchase or at estimated fair value at the date of the gift to the Organization. During 2017, the Organization set a policy to capitalize purchases with a cost of \$1,500 or more and an expected useful life greater than one year. When depreciable assets are disposed, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss included in the operations for the period. Depreciation is calculated by the straight-line method over the asset's estimated useful life, which is typically 5 years.

Program and Supporting Services

The following program and supporting services classifications are included in the accompanying financial statements:

Program Service - expenses related to the equipping and staffing of after-school recording studios inside Boys & Girls Clubs offering youth the opportunity to explore, create and record music for free. The Organization provides music studios equipped with professional instruments, equipment and full recording facilities. The Organization also educates youth about careers both on and off the stage.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supporting Services:

Management and General - relates to the overall direction of the agency. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the agency. Specific activities include agency oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

In-Kind Donation of Space

Boys & Girls Clubs provide space to the Organization at no cost. The value of the donated facilities was \$184,526 and 126,004 in 2017 and 2016, respectively, and is reported as revenue and expense in the Statements of Activities and Functional Expenses, respectively.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

Donated Materials and Services

The Organization records the value of donated goods or services when there is an objective basis available to measure their value. Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills and would have otherwise been purchased by the Organization. A substantial number of unpaid volunteers have contributed their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2017 and November 14, 2018, the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements

Recent Authoritative Guidance

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the organization on January 1, 2019. This standard will not have a material impact on the Organization’s statement of cash flows.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 844,335	\$ 795,499
Furniture and fixtures	<u>56,056</u>	<u>56,056</u>
	900,391	851,555
Less accumulated depreciation	<u>(425,523)</u>	<u>(283,220)</u>
Total property and equipment, net	<u>\$ 474,868</u>	<u>\$ 568,335</u>

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017 AND 2016

NOTE 4 - INCOME TAXES

The Organization qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization files a U.S. Federal Form 990 and California Form 199 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Organization's cash balances may, at times, exceed statutory limits. The Organization has not experienced any losses in such accounts and management considers this to be a normal business risk.

Approximately 25% of the Organization's revenues were from two donors during the year ended December 31, 2017, and 43% were from two donors during the year ended December 31, 2016, respectively. There were no concentrations in contribution receivables at December 31, 2017 (contributions receivable from one donor amounted to \$225,000 at December 31, 2016).