

# 2019

## Financial Statements

NOTES FOR NOTES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

(With Independent Auditor's Report Thereon)

**NOTES FOR NOTES, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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**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, 2019, 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, 2019, 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*

July 24, 2020

**NOTES FOR NOTES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

**ASSETS**

Current Assets:		
Cash	\$ 555,936	
Accounts receivable	356,318	
Prepaid expenses	<u>10,028</u>	
Total current assets		922,282
 Property and Equipment, net		257,778
 Assets Held for Sale		17,561
 Assets Whose Use is Limited		
Contributions receivable (in-kind rent)		<u>2,402,425</u>
 Total assets		<u><u>\$ 3,600,046</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:		
Accounts payable and accrued expenses	\$ 79,474	
Total current liabilities		<u>79,474</u>
 Total liabilities		<u>79,474</u>
 Net Assets:		
Without donor restrictions	1,118,147	
With donor restrictions	<u>2,402,425</u>	
 Total net assets		<u>3,520,572</u>
 Total liabilities and net assets		<u><u>\$ 3,600,046</u></u>

See accompanying notes to financial statements.

**NOTES FOR NOTES, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues:			
Gross Special Event Revenue	\$ 186,318	\$ -	\$ 186,318
Less direct costs of special events	(18,384)	-	(18,384)
Net special events revenue	167,934	-	167,934
Corporate contributions	884,582	-	884,582
Grants	468,250	138,997	607,247
In-kind contributions	97,572	156,470	254,042
Partner sustainability and earned contractor income	61,232	750,000	811,232
Other income	409,922	-	409,922
Net assets released from restrictions	847,339	(847,339)	-
Total public support and revenues	2,936,831	198,128	3,134,959
Expenses:			
Program services	2,257,293	-	2,257,293
Total program services	2,257,293	-	2,257,293
Supporting services:			
Management and general	159,908	-	159,908
Fundraising	96,305	-	96,305
Total supporting services	256,213	-	256,213
Total expenses	2,513,506	-	2,513,506
Increase in net assets	423,325	198,128	621,453
Net assets - beginning of year	694,822	2,204,297	2,899,119
Net assets at end of year	\$ 1,118,147	\$ 2,402,425	\$ 3,520,572

**NOTES FOR NOTES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

		<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	\$ 1,552,275	\$ 105,022	\$ 72,051	\$ 1,729,348
Donated rent	345,342	-	-	345,342
Bank fees	-	227	3,310	3,537
Depreciation	128,017	-	-	128,017
Insurance	18,523	4,452	-	22,975
Event Expense	-	-	18,384	18,384
Professional fees	-	27,648	-	27,648
Supplies	78,438	4,802	19,500	102,740
Travel	40,526	16,476	-	57,002
In-Kind instruments	83,645	-	944	84,589
Advertising	-	-	500	500
Fees, licenses, compliance	-	1,281	-	1,281
Outreach activities	10,527	-	-	10,527
Loss on disposal of asset	-	-	-	-
Total expenses by function	<u>2,257,293</u>	<u>159,908</u>	<u>114,689</u>	<u>2,531,890</u>
Less expenses included with revenues on the statement of activities:				
Direct cost of special events	-	-	(18,384)	(18,384)
Total expenses	<u>\$ 2,257,293</u>	<u>\$ 159,908</u>	<u>\$ 96,305</u>	<u>\$ 2,513,506</u>

See accompanying notes to financial statements.



**NOTES FOR NOTES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Cash Flows From Operating Activities:		
Increase in net assets	\$	621,453
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	128,017	
Loss on disposal of asset	437	
Changes in:		
Accounts receivable	(352,318)	
Prepaid expenses	(2,054)	
Assets held for sale	(12,738)	
Asset whose use is limited	(198,128)	
Accounts payable and accrued expenses	16,667	
Total adjustments		(420,117)
Net cash provided by operating activities		201,336
Cash Flows From Investing Activities:		
Purchase of property and equipment	(58,428)	
Net cash used in investing activities		(58,428)
Net increase in cash		142,908
Cash - beginning of year		413,028
Cash - end of year	\$	555,936

See accompanying notes to financial statements.



**NOTES FOR NOTES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**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 in 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.

**Revenue**

We receive contributions from the general public, and grants from private organizations to fund our operations. We recognize this revenue as it is received or promised to us in accordance with generally accepted accounting principles for nonprofit organizations.

**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, 2019, there were no cash equivalents.

**NOTES FOR NOTES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contribution Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give are recorded when the promises are made. For the year ended December 31, 2019, we had unconditional promises to give (in the form of in-kind rent) valued at \$2,402,405. We use the allowance method to determine uncollectible accounts receivable. No allowance for uncollectible accounts receivable was considered necessary at year-end.

Prepaid Expenses

Prepaid expenses consist insurance policies paid by us in advance. For the year ended December 31, 2019, we had prepaid expenses of \$10,028.

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, 2019, no assets were considered to be impaired.

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, 2019.

Donated instruments	\$ 96,628
Donated rent (new leases)	156,470
Other	<u>944</u>
Total revenue	<u>254,042</u>
Donated rent	345,342
Donated instruments	83,645
Other	<u>944</u>
Total expense	<u>\$ 429,931</u>



**NOTES FOR NOTES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

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.

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.

Concentrations and Contingencies

At various times throughout 2019, 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.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates that will affect the Organization's revenue recognition. The first, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards).

**NOTES FOR NOTES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

NOTE 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

The core principle of this Update is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This Update requires entities to make new judgements and estimates and provide expanded disclosures about revenue.

The second, Accounting Standards Update No. 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, establishes standards for characterizing grants and similar contracts with resource providers as either exchange transactions or conditional contributions. We have adopted these standards retrospectively during 2019. The adoption of this standard had no effect on beginning net assets on our statement of activities for the year ended December 31, 2019.

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified on the statements of financial position and cash flows. The statements of financial position and cash flows have been presented to reflect this Accounting Standards Update at December 31, 2019, and certain reclassifications of prior year summarized amounts have been made to conform to the current year presentation.

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	\$ 555,936
Accounts receivable	356,318
	<u>\$ 912,254</u>

In the next fiscal year, we plan to receive 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 – Pledges Receivable

Contributions receivable consisted of the following at December 31, 2019:

Due within one year	\$ 639,847
Due within two to five years	<u>1,762,578</u>
	<u>\$ 2,402,425</u>

The restricted pledges receivable represent 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).



**NOTES FOR NOTES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 4 - Property and Equipment**

Property and equipment consisted of the following as of December 31, 2019:

Furniture and equipment	\$ 947,424
Less accumulated depreciation	<u>(689,646)</u>
Net property and equipment	<u>\$ 257,778</u>

**NOTE 5 – Assets held for sale**

Individuals have donated various equipment and instruments to us that we have held for sale. At December 31, 2019, the balance of assets held for sale is \$17,561.

**NOTE 6 – Accounts payable and accrued expenses**

Accounts payable and accrued expenses had a balance of \$79,474 at December 31, 2019. For the year ended December 31, 2019, approximately 72% of our total payables were due to two vendors.

**NOTE 7 – Net assets With Donor Restrictions**

Net assets with donor restrictions consisted of the following at December 31, 2019:

Donated rent receivable (in-kind)	\$ 691,425
Donated partner sustainability for operations	<u>1,711,000</u>
	<u>\$ 2,402,425</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, 2020, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

**NOTE 9 - Subsequent Events**

We have evaluated events subsequent to the year ending December 31, 2019. As of July 24, 2020, the date the financial statements were available to be issued, the COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of our operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the Organization expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.