

NOTES FOR NOTES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014

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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 statement of financial position as of December 31, 2014, and the related statements of activities, cash flows and functional expenses 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, 2014, 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.

Kraft CPAs PLLC

Nashville, Tennessee
November 4, 2015

NOTES FOR NOTES, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

Cash	\$ 393,217
Contributions receivable	150,000
Inventory	2,635
Property and equipment, net	<u>178,474</u>
TOTAL ASSETS	<u>\$ 724,326</u>

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 9,183</u>
NET ASSETS	
Unrestricted	<u>715,143</u>
TOTAL NET ASSETS	<u>715,143</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 724,326</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

REVENUE AND SUPPORT - UNRESTRICTED	
Corporate contributions	\$ 646,752
Other contributions	43,780
In-kind contributions	164,505
Event income	119,157
Other income	<u>169</u>
TOTAL SUPPORT AND REVENUE	<u>974,363</u>
EXPENSES	
Program services	425,434
Supporting services:	
Management and general	42,326
Fundraising	<u>74,083</u>
TOTAL EXPENSES	<u>541,843</u>
CHANGE IN NET ASSETS	432,520
NET ASSETS - BEGINNING OF YEAR	<u>282,623</u>
NET ASSETS - END OF YEAR	<u>\$ 715,143</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 432,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
In-kind donation equipment	(91,183)
Depreciation	41,654
(Increase) decrease in:	
Inventory	(1,652)
Contributions receivable	(150,000)
Increase (decrease) in:	
Accounts payable and accrued expenses	(248)
Accrued expenses	<u>4,390</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 235,481

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment (4,099)

NET CASH USED IN INVESTING ACTIVITIES (4,099)

NET INCREASE IN CASH 231,382

CASH - BEGINNING OF YEAR 161,835

CASH - END OF YEAR \$ 393,217

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

		Supporting Services			
	Program	Management		Total	
	Services	and	Fundraising	Supporting	Total
		General		Services	
Salaries and payroll taxes	\$ 280,839	\$ 15,161	\$ 49,217	\$ 64,378	\$ 345,217
Rent	56,603	-	-	-	56,603
Bank fees	-	146	-	146	146
Depreciation	41,654	-	-	-	41,654
Insurance	3,466	1,430	-	1,430	4,896
Event expense	-	-	23,866	23,866	23,866
Postage	-	1,605	-	1,605	1,605
Printing	-	46	-	46	46
Supplies	11,417	-	-	-	11,417
Telephone and website	-	5,069	-	5,069	5,069
Travel	8,433	3,552	1,000	4,552	12,985
Miscellaneous	23,022	15,317	-	15,317	38,339
	<u>\$ 425,434</u>	<u>\$ 42,326</u>	<u>\$ 74,083</u>	<u>\$ 116,409</u>	<u>\$ 541,843</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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 Nashville, Santa Barbara, Los Angeles, San Francisco Bay Area, Atlanta, Detroit and New York.

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, 2014.
- *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, 2014.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

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 receivables 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 market.

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. The Organization did not have a formal capitalization policy as of December 31, 2014. 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 lives.

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, 2014

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.

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. No amounts for services have been reflected in the statements of activity because the criteria for recognition of such volunteer effort under Statement of Financial Accounting Standards No. 116 have not been satisfied. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Organization's program services.

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. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2014 and November 4, 2015, the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2014:

Equipment	\$ 322,488
Furniture and fixtures	3,953
	<hr/> 326,441
Less accumulated depreciation	<hr/> (147,967)
	<hr/>
Total property and equipment, net	<u>\$ 178,474</u>

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 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 38% of the Organization's revenues were from one donor during the year ended December 31, 2014. Contributions receivable from one donor amounted to \$150,000 at December 31, 2014.