

NOTES FOR NOTES, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015 AND 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 statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

EMPHASIS OF MATTER - RESTATEMENT

As discussed in Note 6 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
October 13, 2016

NOTES FOR NOTES, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Restated)
<u>ASSETS</u>		
Cash	\$ 315,227	\$ 393,217
Contributions receivable	705,139	185,000
Inventory	4,634	2,635
Property and equipment, net	<u>246,908</u>	<u>178,474</u>
TOTAL ASSETS	<u>\$ 1,271,908</u>	<u>\$ 759,326</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>\$ 26,825</u>	<u>\$ 9,183</u>
<u>NET ASSETS</u>		
Unrestricted	<u>1,245,083</u>	<u>750,143</u>
TOTAL NET ASSETS	<u>1,245,083</u>	<u>750,143</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,271,908</u>	<u>\$ 759,326</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Restated)
REVENUE AND SUPPORT - UNRESTRICTED		
Corporate contributions	\$ 1,159,480	\$ 681,752
Other contributions	114,752	43,780
In-kind contributions	190,030	164,505
Event income	99,605	119,157
Other income	<u>17</u>	<u>169</u>
TOTAL SUPPORT AND REVENUE	<u>1,563,884</u>	<u>1,009,363</u>
EXPENSES		
Program services	877,728	425,434
Supporting services:		
Management and general	92,409	42,326
Fundraising	<u>98,807</u>	<u>74,083</u>
TOTAL EXPENSES	<u>1,068,944</u>	<u>541,843</u>
CHANGE IN NET ASSETS	494,940	467,520
NET ASSETS - BEGINNING OF YEAR	<u>750,143</u>	<u>282,623</u>
NET ASSETS - END OF YEAR	<u>\$ 1,245,083</u>	<u>\$ 750,143</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 494,940	467,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
In-kind donations of equipment	(41,399)	(91,183)
Depreciation	58,621	41,654
(Increase) decrease in:		
Inventory	(1,999)	(1,652)
Contributions receivable	(520,139)	(185,000)
Increase (decrease) in:		
Accounts payable and accrued expenses	5,920	(248)
Accrued expenses	<u>11,722</u>	<u>4,390</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,666</u>	<u>235,481</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(85,656)</u>	<u>(4,099)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(85,656)</u>	<u>(4,099)</u>
NET INCREASE (DECREASE) IN CASH	(77,990)	231,382
CASH - BEGINNING OF YEAR	<u>393,217</u>	<u>161,835</u>
CASH - END OF YEAR	<u>\$ 315,227</u>	<u>\$ 393,217</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

		Supporting Services			
	Program	Management		Total	
	Services	and	Fundraising	Supporting	Total
		General		Services	
Salaries and payroll taxes	\$ 579,723	\$ 40,846	\$ 66,777	\$ 107,623	\$ 687,346
Rent	102,886	-	-	-	102,886
Bank fees	-	200	931	1,131	1,131
Depreciation	58,621	-	-	-	58,621
Insurance	8,533	-	-	-	8,533
Event expense	-	-	31,099	31,099	31,099
Postage	2,940	555	-	555	3,495
Printing	4,910	-	-	-	4,910
Professional fees	-	27,203	-	27,203	27,203
Supplies	51,416	-	-	-	51,416
Telephone and website	-	3,180	-	3,180	3,180
Travel	25,299	10,842	-	10,842	36,141
Miscellaneous	43,400	9,583	-	9,583	52,983
	<u>\$ 877,728</u>	<u>\$ 92,409</u>	<u>\$ 98,807</u>	<u>\$ 191,216</u>	<u>\$ 1,068,944</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Total Supporting 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, 2015 AND 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, Memphis, Santa Barbara, Los Angeles, San Francisco Bay Area, Ventura, Santa Monica, Atlanta, Detroit, New York, New Orleans, and Cleveland.

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, 2015 or 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, 2015 or 2014.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 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 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. The Organization did not have a formal capitalization policy as of December 31, 2015. 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.

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, 2015 AND 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. 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.

Subsequent Events

The Organization has evaluated events and transactions that occurred between December 31, 2015 and October 13, 2016, 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, 2015 AND 2014

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 404,311	\$ 322,488
Furniture and fixtures	<u>49,185</u>	<u>3,953</u>
	453,496	326,441
Less accumulated depreciation	<u>(206,588)</u>	<u>(147,967)</u>
Total property and equipment, net	<u>\$ 246,908</u>	<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 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 40% and 38% of the Organization's revenues were from one donor during the years ended December 31, 2015 and 2014, respectively. Contributions receivable from one donor amounted to \$625,000 and \$150,000 at December 31, 2015 and 2014, respectively.

NOTES FOR NOTES, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015 AND 2014

NOTE 6 - RESTATEMENT OF PRIOR YEAR

For the year ended December 31, 2014, the Organization failed to recognize \$35,000 of contribution revenue as a receivable at December 31, 2014 that was promised during 2014 and collected by the Organization during 2015. The effect of this adjustment on the prior period was to increase contributions receivable and revenue for the year ended December 31, 2014 by \$35,000.