

2018
Financial Statements
With
Auditor's Letters

NOTES FOR NOTES, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

(With Independent Auditor's Report Thereon)

NOTES FOR NOTES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Audited Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 11



PATTERSON, HARDEE & BALLENTINE, P.C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the accounts receivable and net assets with donor restrictions balances were understated in previously issued financial statements. Our opinion is not modified with respect to that matter.

Patterson Hardee & Ballentine

August 14, 2019

NOTES FOR NOTES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current Assets:

Cash	\$ 413,028	
Accounts receivable	4,000	
Prepaid expenses	<u>7,974</u>	
Total current assets		425,002

Property and Equipment, net 327,804

Assets Held for Sale 4,823

Assets Whose Use is Limited

Contributions receivable 2,204,297

Total assets \$ 2,961,926

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable and accrued expenses \$ 62,807

Total current liabilities 62,807

Total liabilities 62,807

Net Assets:

Without donor restrictions 694,822

With donor restrictions 2,204,297

Total net assets 2,899,119

Total liabilities and net assets \$ 2,961,926

NOTES FOR NOTES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues:			
Corporate contributions	\$ 608,426	\$ -	\$ 608,426
Other contributions	676,906	-	676,906
In-kind contributions	160,014	-	160,014
Event income	58,323	-	58,323
Partner sustainability and earned contractor income	190,282	-	190,282
Other income	113,703	-	113,703
Net assets released from restrictions	530,973	(530,973)	-
Total public support and revenues	<u>2,338,627</u>	<u>(530,973)</u>	<u>1,807,654</u>
Expenses:			
Program services	<u>2,222,100</u>	<u>-</u>	<u>2,222,100</u>
Total program services	<u>2,222,100</u>	<u>-</u>	<u>2,222,100</u>
Supporting services:			
Management and general	131,098	-	131,098
Fundraising	136,212	-	136,212
Total supporting services	<u>267,310</u>	<u>-</u>	<u>267,310</u>
Total expenses	<u>2,489,410</u>	<u>-</u>	<u>2,489,410</u>
Decrease in net assets	<u>(150,783)</u>	<u>(530,973)</u>	<u>(681,756)</u>
Net assets - beginning of year, as previously reported	845,605	-	845,605
Prior period adjustment	<u>-</u>	<u>2,735,270</u>	<u>2,735,270</u>
Net assets - beginning of year, as restated	<u>845,605</u>	<u>2,735,270</u>	<u>3,580,875</u>
Net assets at end of year	<u>\$ 694,822</u>	<u>\$ 2,204,297</u>	<u>\$ 2,899,119</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>		
	<u>Services</u>	<u>and</u>	<u>Fundraising</u>	<u>Total</u>
		<u>General</u>		
Salaries and payroll taxes	\$ 1,424,852	\$ 78,789	\$ 118,669	\$ 1,622,310
Donated rent	329,068	-	-	329,068
Bank fees	-	112	1,121	1,233
Depreciation	138,729	-	-	138,729
Insurance	11,433	2,858	-	14,291
Event Expense	12,541	738	1,661	14,940
Postage	5,195	1,299	1,508	8,002
Professional fees	6,000	36,821	-	42,821
Studio expenses	14,216	1,229	195	15,640
Supplies	97,352	-	-	97,352
Telephone and website	2,165	461	922	3,548
Travel	36,104	-	9,146	45,250
Sponsorship	2,500	-	-	2,500
In-Kind instruments	116,129	-	-	116,129
Advertising	244	244	-	488
Printing	3,031	-	-	3,031
Employee and worker screening	1,013	113	-	1,126
Meals	8,164	4,083	1,361	13,608
Fees and licenses	6,056	4,351	1,629	12,036
Outreach activities	6,723	-	-	6,723
Loss on sale of asset	585	-	-	585
Total expenses	<u>\$ 2,222,100</u>	<u>\$ 131,098</u>	<u>\$ 136,212</u>	<u>\$ 2,489,410</u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities:		
Decrease in net assets		\$(681,756)
Adjustments to reconcile decrease in net assets		
to net cash used in operating activities:		
Depreciation	138,729	
Loss on sale of asset	585	
Changes in:		
Accounts receivable	13,597	
Prepaid expenses	(7,974)	
Assets held for sale	4,099	
Asset whose use is limited	530,973	
Accounts payable and accrued expenses	17,182	
Total adjustments		<u>697,191</u>
Net cash provided by operating activities		15,435
Cash Flows From Investing Activities:		
Proceeds from sale of asset	<u>7,750</u>	
Net cash provided by investing activities		<u>7,750</u>
Net increase in cash		23,185
Cash - beginning of year		<u>389,843</u>
Cash - end of year		<u><u>\$ 413,028</u></u>

See accompanying notes to financial statements.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018, there were no cash equivalents.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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. Unconditional promises to give within the next year are reflected as current contributions receivable and are recorded at net realizable value. Unconditional promises to give due after one year are reflected as long-term contributions receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. For the year ended December 31, 2018, we had unconditional promises to give of \$436,438. 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, 2018, we had prepaid expenses of \$7,974.

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, 2018, 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, 2018.

Donated instruments	\$	116,129
Other		<u>43,885</u>
Total revenue		<u>160,014</u>
Donated rent		329,068
Donated instruments		<u>116,129</u>
Total expense	\$	<u>445,197</u>

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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 2018, 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 Pronouncement

On August 8, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively and has not affected the beginning balance of net assets.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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	\$ 413,028
Contributions receivable	<u>4,000</u>
	<u>417,028</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, 2018:

Due within one year	\$ 597,886
Due within two to five years	<u>1,606,412</u>
	<u>\$ 2,204,297</u>

The restricted pledges receivable represents donated rent 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 8).

NOTE 4 - Property and Equipment

Property and equipment consisted of the following as of December 31, 2018:

Furniture and equipment	\$ 889,746
Less accumulated depreciation	<u>(561,942)</u>
Net property and equipment	<u>\$ 327,804</u>

NOTE 5 – Undeposited funds

At December 31, 2018, we had undeposited funds of \$55,756. This amount represents checks that we received for donations intended for the 2018 year that were received before year end and were not deposited to the bank until January of the 2019 year. This amount is included in the cash balance.

NOTE 6 – Assets held for sale

Individuals have donated various equipment and instruments to us that we have held for sale. At December 31, 2018, the balance of assets held for sale is \$4,823.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 7 – Accounts payable and accrued expenses

Accounts payable and accrued expenses had a balance of \$62,807 at December 31, 2018. For the year ended December 31, 2018, approximately 47% of our total payables were due to one vendor.

NOTE 8 – Net assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2018:

Donated rent receivable (in-kind)	\$ 880,297
Donated contribution receivable for operations	<u>1,324,000</u>
	<u>\$ 2,204,297</u>

NOTE 9 - New Pronouncements

In June 2018, FASB issued Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958)*. The update will assist organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance. This update will also assist in determining whether a contribution is conditional. This update should be applied on a modified prospective basis for annual periods beginning after December 15, 2018. We are currently evaluating the impact of adopting this statement.

In May 2014, FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The Update provides guidance about recording contract revenue on an organization's statement of activities. The amendments in this Update are effective for annual periods beginning after December 15, 2018, and for annual periods and interim periods thereafter with early adoption permitted for annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this statement.

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, 2019, and for annual periods and interim periods thereafter with early adoption permitted. We are currently evaluating the impact of adopting this statement.

In August 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the Statement of Cash Flows. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the impact of adopting this statement.

In November 2016, FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments will be effective for the organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of adopting this guidance on the financial statements.

NOTE 10 - Prior period adjustment

A prior period adjustment at the beginning of the fiscal year was made to correct an error in the previously reported contributions receivable and restricted net assets balance. An adjustment of \$2,735,270 that represents in-kind rent promises was made to increase beginning contributions receivable and beginning net assets with donor restrictions.

NOTES FOR NOTES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 11 - Subsequent Events

We have evaluated events subsequent to the year ended December 31, 2018. As of August 14, 2019, the date that the financial statements were available to be issued, we are not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.