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## **Youth Music Project**

Financial Statements and Other Information  
as of and for the Year Ended December 31, 2014  
and Report of Independent Accountants

YOUTH MUSIC PROJECT

**TABLE OF CONTENTS**

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	<b>Page</b>
<b>Report of Independent Accountants</b>	3
<b>Financial Statements:</b>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
<b>Other Information:</b>	
Governing Board and Management	12
Inquiries and Other Information	13



## **REPORT OF INDEPENDENT ACCOUNTANTS**

*The Board of Directors  
Youth Music Project:*

We have audited the accompanying financial statements of the Youth Music Project, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities 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; 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. 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 organization'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 organization'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 the Youth Music Project 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.

A handwritten signature in black ink that reads "Gary McGee &amp; Co. LLP".

February 16, 2016

## YOUTH MUSIC PROJECT

**STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2014

**Assets:**

Cash and cash equivalents	\$ 256,777
Inventories	8,442
Prepaid expenses and other assets	8,694
Property and equipment ( <i>notes 3</i> )	587,344
 Total assets	 \$ 861,257

**Liabilities:**

Accounts payable and accrued expenses	26,856
Accrued payroll liabilities	3,719
Deferred revenues	19,683
 Total liabilities	 50,258

**Unrestricted net assets:**

Available for programs and general operations	223,655
Net investment in capital assets	587,344
 Total unrestricted net assets	 810,999
 Commitments and contingencies ( <i>notes 6 and 7</i> )	
Total liabilities and net assets	\$ 861,257

See accompanying notes to financial statements.

## YOUTH MUSIC PROJECT

**STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2014

	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Total</b>
<b>Revenues, gains, and other support:</b>			
Grants and contributions	\$ 1,026,773	23,000	1,049,773
In-kind donations	295,962	—	295,962
Special event, less direct costs of \$13,074	11,976	—	11,976
Tuition and other program service fees	138,136	—	138,136
Sales, less cost of goods sold and losses totalling \$81,511	(20,818)	—	(20,818)
Other	85	—	85
Total revenues and gains	1,452,114	23,000	1,475,114
Net assets released from restrictions ( <i>note 4</i> )	23,000	(23,000)	—
<b>Total revenues, gains, and other support</b>	<b>1,475,114</b>	<b>—</b>	<b>1,475,114</b>
<b>Expenses (<i>note 5</i>):</b>			
Program services	895,235	—	895,235
Management and general	223,581	—	223,581
Fundraising	85,043	—	85,043
Total expenses	1,203,859	—	1,203,859
Increase in net assets	271,255	—	271,255
Net assets at beginning of year	539,744	—	539,744
<b>Net assets at end of year</b>	<b>\$ 810,999</b>	<b>—</b>	<b>810,999</b>

See accompanying notes to financial statements.

## YOUTH MUSIC PROJECT

**STATEMENT OF CASH FLOWS**

YEAR ENDED DECEMBER 31, 2014

**Cash flows from operating activities:**

Cash received from grantors and contributors	\$ 1,074,823
Cash received from tuition and others	201,793
Cash paid to employees and suppliers	(909,931)
Net cash provided by operating activities	366,685

**Cash flows from investing activities:**

Capital expenditures	(136,105)
Net cash used in investing activities	(136,105)
Net increase in cash and cash equivalents	230,580
Cash and cash equivalents at beginning of year	26,197
Cash and cash equivalents at end of year	\$ 256,777

See accompanying notes to financial statements.

YOUTH MUSIC PROJECT

**NOTES TO FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2014

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**1. Organization**

Founded in 2012, the Youth Music Project is a nonprofit organization devoted to promoting music education for youth. The organization's mission is to provide outstanding rock, pop, and country music education for youth by offering low-cost lessons, free instrument use, and exceptional performance opportunities.

**2. Summary of Significant Accounting Policies**

The significant accounting policies followed by the organization are described below to enhance the usefulness of the financial statements to the reader.

**Basis of Accounting** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

**Basis of Presentation** – The Youth Music Project has adopted the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 958-605, *Revenue Recognition*, and FASB ASC No. 958-205, *Presentation of Financial Statements*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the organization and/or the passage of time.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

**Use of Estimates** – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, such differences, if any, would not be significant.

**Cash Equivalents** – For purposes of the financial statements, the Youth Music Project considers all liquid investments having initial maturities of three months or less to be cash equivalents.

**Inventories** – Inventories, which, at December 31, 2014, consist primarily of small musical accessories, apparel and beverages held for sale for the convenience of students, are carried at the lower of cost or market value.

At December 31, 2013, the Youth Music Project also held for sale music instruments valued at \$77,545. During the year ended December 31, 2014, this inventory was sold at a loss.

**Capital Assets and Depreciation** – Generally, property and equipment in excess of \$500 with a useful life of more than one year are capitalized and reported at cost when purchased, and initially at fair value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 5 to 12 years for furniture and equipment, and over the term of lease for leasehold improvements.

**Revenue Recognition** – The accompanying financial statements reflect the following revenue recognition standards and policies:

- *Grants and Contributions* – Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the promise was received by the organization. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Management estimates an allowance for uncollectible contributions receivable based on past collection history. All contributions are considered available for general operations unless specifically restricted by a donor.

- *In-Kind Contributions* – In accordance with FASB ASC No. 958-605, Revenue Recognition, significant services received which create or enhance a non-financial asset or require specialized skills that the organization would have purchased if not donated are recognized in the statement of activities. During the year ended December 31, 2014, the Youth Music Project recorded \$42,798 in accounting and administrative services, and \$9,704 in program services.

In-kind contributions of equipment and other materials and the free use of facilities are recorded when there is an objective basis upon which to value the contributions and where the contributions are an essential part of the organization's activities. During the year ended December 31, 2014, the Youth Music Project recorded \$26,385 in donated music instruments and \$8,030 in donated software licenses, \$6,869 in other program materials, and \$202,176 in the free use of facilities.

- *Contributions of Capital Assets* – Contributions of capital assets without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets with donor restrictions to be used to acquire equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.
- *Tuition and Other Program Service Fees* – Tuition and other program service fees are recorded as revenue during the year the related services are provided. Tuition assistance is available for students who qualify for free/reduced lunch under federal financial income guidelines. Tuition and fees received for future fiscal years are reported as deferred revenues. These amounts will be recognized as revenue in the fiscal year to which they apply.

**Advertising and Marketing Expenses** – Advertising and marketing costs are charged to expense as they are incurred.

**Concentrations of Credit Risk** – The Youth Music Project's financial instruments consist primarily of cash, which may subject the organization to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC").

All checking and savings accounts, money market deposit accounts, and certificates of deposit are insured by the FDIC for up to \$250,000 for each depositor, for each insured bank, for each account ownership category

**Income Taxes** – The Youth Music Project is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. In addition, the organization has been recognized as a public charity under Sections 170(b)(1)(a)(vi) and 509(a)(1) of the Internal Revenue Code. Contributions to the Youth Music Project qualify for applicable charitable contribution deductions.

**Subsequent Events** – As required by FASB ASC No. 855, *Subsequent Events*, subsequent events have been evaluated by management through February 16, 2016, which is the date the financial statements were available to be issued.

**Other Significant Accounting Policies** – Other significant accounting policies are set forth in the financial statements and the following notes.

### **3. Property and Equipment**

A summary of property and equipment at December 31, 2014 is as follows:

Furniture and equipment	\$ 636,161
Leasehold improvements	25,501
	661,662
Less accumulated depreciation	(74,318)
	\$ 587,344

### **4. Net Assets Released from Restrictions**

During the year ended December 31, 2014, the organization incurred \$23,000 in expenses in satisfaction of the restricted purposes specified by the donors, or by occurrence of other events specified by donors.

## **5. Expenses**

The costs of providing the various programs and other activities of the Youth Music Project 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.

Costs by their natural classification are summarized as follows:

Salaries and related expenses	\$ 564,834
Professional services	148,518
Occupancy	219,443
Marketing and advertising	52,498
Printing and publications	41,356
Supplies	30,202
Recruitment and training	28,172
Community event expenses	21,253
Technology	15,532
Equipment repair and maintenance	11,971
Insurance	4,056
Travel expenses	2,545
Telephone	2,481
Postage	1,008
Other	9,384
Depreciation	50,606
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	\$1,203,859

The value of the free rent received during the year ended December 31, 2014 totaled \$202,176 and has been recorded as in-kind revenue and expense in the accompanying statement of activities

## **7. Current Concentrations**

During the year ended December 31, 2014, the Youth Music Project received \$978,052 in cash contributions, \$202,176 in the free use of facilities, and \$52,501 in donated services from companies owned or controlled by members of the Board of Directors and the Executive Director. It is management's intention that the majority of future funding for the Youth Music Project will come from contributions from unrelated parties, such as foundations, corporations and individuals, as well as tuition and program service fee revenues.

## **6. Operating Lease Commitment**

On June 23, 2013, the Youth Music Project entered into a lease agreement for the use of its facility with an organization controlled by members of its Board of Directors. The lease has an initial term of five years, and can be renewed for two additional five-year terms. No rent payment is due during the initial term of the lease. The monthly rent payment for the first five-year renewal period has been established at \$17,545, and will be increased based on the Consumer Price Index for the second five-year renewal period.

## **8. Statement of Cash Flows Reconciliation**

The following presents a reconciliation of the increase in net assets (as reported on the statement of activities) to net cash provided by operating activities (as reported on the statement of cash flows) for the year ended December 31, 2014:

Increase in net assets	\$271,255
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<i>Adjustments to reconcile increase in net assets to net cash provided by operating activities:</i>	
Depreciation	50,606
In-kind donation of equipment	(34,415)
<i>Net changes in:</i>	
Inventories	69,166
Prepaid expenses and other assets	(8,694)
Accounts payable and accrued expenses	26,856
Accrued payroll liabilities	(10,968)
Deferred revenues	2,879
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Total adjustments	95,430
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Net cash provided by operating activities	\$366,685
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YOUTH MUSIC PROJECT

**GOVERNING BOARD AND MANAGEMENT**

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**Board of Directors**

David Bany  
*President and Treasurer*

Sarah Bany  
*Vice President*

Mary Jaeger  
*Secretary*

**Management**

Rachael Bany  
*Executive Director*

YOUTH MUSIC PROJECT

**INQUIRIES AND OTHER INFORMATION**

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**Web site**

[www.youthmusicproject.org](http://www.youthmusicproject.org)

