

Music for Life Institute

Financial Statements with
Independent Auditor's Report

Year Ended March 31, 2020
(with Summarized Comparative Totals
for the Year Ended March 31, 2019)

Larson Gross 

Music for Life Institute

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Independent Auditor's Report

To the Board of Directors
Music for Life Institute
Bellingham, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Music for Life Institute, which comprise the statement of financial position as of March 31, 2020, 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 combined 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 combined 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 Music for Life Institute as of March 31, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements and Report on Summarized Comparative Information

The financial statements of Music for Life Institute, as of and for the year ended March 31, 2019, were audited by other auditors, whose report, dated November 15, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Larson Gross PLLC

Bellingham, Washington
August 28, 2020

Music for Life Institute

Statement of Financial Position

March 31, 2020

(With Comparative Totals for March 31, 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Current assets		
Cash	\$ 926,090	\$ 359,839
Certificates of deposit	302,780	-
Accounts receivable	3,553	311
Prepaid expenses	135,382	76,796
Due from related parties, net	<u>47,800</u>	<u>85,387</u>
Total current assets	1,415,605	522,333
Property and equipment, net	<u>7,470</u>	<u>7,477</u>
Total assets	<u><u>1,423,075</u></u>	<u><u>529,810</u></u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 16,335	\$ 20,993
Accrued liabilities	27,844	89,642
Deferred contributions	<u>1,000</u>	<u>50,500</u>
Total current liabilities	<u>45,179</u>	<u>161,135</u>
Net assets		
Without donor restrictions	1,342,526	286,800
With donor restrictions	<u>35,370</u>	<u>81,875</u>
Total liabilities and net assets	<u><u>\$ 1,423,075</u></u>	<u><u>\$ 529,810</u></u>

Music for Life Institute

Statement of Activities

Year Ended March 31, 2020

(With Summarized Comparative Totals for Year Ended March 31, 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Contributions				
General	\$ 2,209,510	\$ 35,370	\$ 2,244,880	\$ 1,752,627
Concert	626,550	-	626,550	714,376
Related party	653,671	-	653,671	-
Total contributions	3,489,730	35,370	3,525,100	2,467,003
Other	121,336	-	121,336	112,171
Net assets released from restrictions	81,875	(81,875)	-	-
Total support and revenue	3,692,942	(46,505)	3,646,437	2,579,174
Expenses				
Program services	2,039,497	-	2,039,497	1,984,101
Management and general	401,047	-	401,047	357,833
Fundraising	196,672	-	196,672	85,131
Total expenses	2,637,216	-	2,637,216	2,427,065
Changes in net assets	1,055,726	(46,505)	1,009,221	152,109
Net assets – beginning of year	286,800	81,875	368,675	216,566
Net assets – end of year	<u>\$ 1,342,526</u>	<u>\$ 35,370</u>	<u>\$ 1,377,896</u>	<u>\$ 368,675</u>

Music for Life Institute

Statement of Functional Expenses

Year Ended March 31, 2020

(With Comparative Totals for Year Ended March 31, 2019)

	Program Services	Management and General	Fundraising	2020	2019
Direct grants	\$ 1,075,902	\$ 456	\$ -	\$ 1,076,358	\$ 1,041,863
Wages and benefits	471,590	291,931	64,452	827,973	791,651
Travel	152,233	7,337	22,649	182,219	167,014
Fundraising costs	-	-	86,905	86,905	2,943
Computer-related	44,238	23,511	652	68,401	57,228
Interest and bank charges	48,162	5,625	5,738	59,525	53,488
Repairs and maintenance	53,431	1,827	-	55,258	25,817
Office and miscellaneous	27,405	23,856	663	51,924	41,196
Sub-contracts	25,334	5,032	12,108	42,474	41,014
Delivery, freight and postage	37,298	3,389	356	41,043	25,504
Occupancy costs	27,096	10,042	3,149	40,287	55,158
Equipment	20,293	3,865	-	24,158	9,978
Advertising and promotion	18,207	1,638	-	19,845	24,675
Professional fees - General Fund	4,471	12,146	-	16,617	34,864
Child medical and other care	14,224	12	-	14,236	19,081
Other	19,613	10,380	-	29,993	35,590
	<u>\$ 2,039,497</u>	<u>\$ 401,047</u>	<u>\$ 196,672</u>	<u>\$ 2,637,216</u>	<u>\$ 2,427,065</u>

Music for Life Institute

Statement of Cash Flows

Year Ended March 31, 2020

(With Summarized Comparative Totals for Year Ended March 31, 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 1,009,221	\$ 152,109
Adjustments to reconcile change in net assets to cash provided by operating activities		
Depreciation	4,729	3,821
Loss on sale of property and equipment	152	742
(Increase) decrease in assets:		
Accounts receivable	(3,242)	483
Prepaid expenses	(58,586)	6,476
Increase (decrease) in liabilities:		
Accounts payable	(4,659)	(16,140)
Accrued liabilities	(61,798)	-
Deferred contributions	(49,500)	33,500
	<u>836,318</u>	<u>180,991</u>
Net cash provided by operating activities	836,318	180,991
Cash flows from investing activity		
Purchase of certificates of deposit	(302,780)	-
Purchase of property and equipment	(5,523)	(2,864)
Proceeds from sale of equipment	649	-
Decrease (increase) in amounts due from related parties	37,587	(85,387)
	<u>(270,067)</u>	<u>(88,251)</u>
Net cash used by investing activities	(270,067)	(88,251)
Net increase in cash	566,251	91,998
Cash – beginning of year	<u>359,839</u>	<u>267,841</u>
Cash – end of year	<u>\$ 926,090</u>	<u>\$ 359,839</u>

Notes to Financial Statements

March 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies

Organization – Music for Life Institute (the "Organization") is a non-profit corporation registered under the Articles of Incorporation of the State of Delaware and is registered in the State of Washington. The Organization's primary focus is education through child sponsorship programs in West, East and South Africa, and children's choir programs.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned and expenses and losses are recognized when incurred.

Basis of presentation – Net assets, revenues, expenses, gains, and losses are classified 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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as net assets without donor restrictions.

Net assets with donor restrictions – Net assets that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate resources be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets for either specific or unspecific purposes. For the years ended March 31, 2020 and 2019 net assets with donor restrictions consisted of amounts restricted for sponsorships and programs.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. In addition, if a restriction is fulfilled in the same year in which the contribution is received, the Organization reports the support as net assets without donor restrictions.

Cash – Cash consists of checking and money market accounts. The Organization maintains its cash in bank accounts that may exceed federal insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Certificates of deposit – Certificates of deposit are valued at cost plus accrued interest.

Property and equipment – Property and equipment are recorded at cost. Additions, improvements or expenditures that exceed \$1,000 and add to productive capacity or extend the life of an asset are capitalized. Contributed property and equipment are recorded at fair value at the date of donation. Expenditures for repairs and maintenance are charged to operations. Depreciation is recorded using the declining balance method over of estimated useful lives of the assets, which range from 3 to 39 years.

Notes to Financial Statements

March 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies – (Continued)

Contributions – Contributions are recognized at the earlier of when received, or when an unconditional pledge is made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated goods and services – Donations of goods and services are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition under Accounting Standard Codification (ASC) 958-605-25-16, *Not-for-Profit Entities – Recognition of Contributed Services*.

Advertising – Advertising costs are expensed as incurred and totaled \$19,844 and \$24,675 for the years ended March 31, 2020 and 2019, respectively.

Income taxes – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is authorized to issue donation receipts for income tax purposes. The tax returns for the prior three years remain subject to examination by major tax jurisdictions.

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized in the statement of functional expenses. Expenses are charged to each program based on direct expenditures incurred, or where expenses are not directly chargeable, are allocated based on units of service or allocable space occupancy.

Allocation of joint expenses – The Organization allocates certain administrative costs, including some wages and shared office expenses, from Music for Life (Canada), a Canadian nonprofit organization related party, to share costs that advance the mission of both organizations. The allocation amounts are based on number months of touring in Canada vs. the USA for choir-related costs, number of gifts for donor services, and estimated percentage of time spent for administration and finance.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative financial information – The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to be in accordance with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the financial statements for the fiscal year ended March 31, 2019, from which the summarized information was derived.

Notes to Financial Statements

March 31, 2020 and 2019

Note 1 – Summary of Significant Accounting Policies – (Continued)

Reclassifications – Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s financial statement presentation.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 28, 2020, the date the financial statements were available to be issued.

Note 2 – Liquidity and Availability

The following represents the Organization’s financial assets available for general expenditures over the next twelve months as of March 31:

	<u>2020</u>	<u>2019</u>
Cash	\$ 926,090	\$ 359,839
Certificates of deposit	302,780	-
Accounts receivable	3,553	311
Due from related parties	47,800	85,387
Assets limited to use:		
Donor-restricted for specific purposes	(35,370)	(81,875)
	<u>\$ 1,244,853</u>	<u>\$ 363,663</u>

The Organization’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions. It is management's opinion that the Organization is not exposed to significant liquidity risk.

As part of the Organization’s liquidity management plan, cash in excess of daily requirements may be invested in short-term investments and money market funds.

Note 3 – Property and Equipment

Property and equipment consists of the following at March 31:

	<u>2020</u>	<u>2019</u>
Machinery and equipment	\$ 43,306	\$ 108,240
Furniture and fixtures	-	9,506
	43,306	117,746
Less accumulated depreciation	(35,836)	(110,269)
Property and equipment, net	<u>\$ 7,470</u>	<u>\$ 7,477</u>

Depreciation expense totaled \$4,729 and \$3,821 for the years ended March 31, 2020 and 2019, respectively.

Music for Life Institute

Notes to Financial Statements

March 31, 2020 and 2019

Note 4 – Related Party Balances and Transactions

Certain of the directors of the Organization also serve as members of the Boards of Directors of the following entities, which engage in transactions together: Friends in the West, Music for Life Institute (Canada), Music for Life Institute (Kenya), Music For Life Institute (Uganda), African Children’s Choir, Music For Life Academy Limited (UK), and Music For Life Trust (South Africa). The Organization and its related parties contribute funding to programs in Africa.

During the year, the Organization entered into the following transactions with related parties:

	<u>2020</u>	<u>2019</u>
Related Party Transactions		
African Children's Choir		
Contributions revenue	\$ 93,135	\$ 138,830
Friends in the West (US)		
Contributions revenue	560,536	-
Music For Life Insititute (CA)		
Bus lease charges	(5,459)	(7,278)
Music For Life Insititute (Kenya)		
Distributions	(189,188)	-
Music For Life Insititute (Uganda)		
Distributions	(643,491)	-
Music for Life Trust (South Africa)		
Distributions	(4,065)	-
	<u>\$ (188,532)</u>	<u>\$ 131,552</u>

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. Friends in the West dissolved as of March 31, 2020 and distributed all remaining cash to Music For Life Institute as a related party contribution.

At the end of the year, the amounts due from related parties are as follows:

	<u>2020</u>	<u>2019</u>
Due from related parties		
Music For Life Institute (Canada)	\$ 28,247	\$ 71,621
Music for Life Academy Limited (UK)	11,943	12,279
African Children's Choir	7,610	-
Friends in the West (US)	-	1,487
	<u>\$ 47,800</u>	<u>\$ 85,387</u>

Amounts due from related parties are non-interest bearing, unsecured, and have no specified terms of repayment.

Notes to Financial Statements

March 31, 2020 and 2019

Note 5 – Direct Grants

Direct grants were provided to organizations located in the following countries for the years ended March 31:

	<u>2020</u>	<u>2019</u>
Uganda	\$ 877,240	\$ 858,125
Kenya	189,788	172,108
Rwanda	5,866	7,013
South Africa	<u>4,065</u>	<u>8,576</u>
	<u>\$ 1,076,959</u>	<u>\$ 1,045,822</u>

Direct grants included distributions to related parties totaling \$836,744 for the year ended March 31, 2020 (see Note 4).

Note 6 – Impact of Accounting Method Change

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the ASC. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Organization adopted the requirements of Topic 606 as of April 1, 2019, utilizing the modified retrospective method of transition. The Organization did not recognize any adjustments in support and revenue, net assets, or any other financial statement line item as a result of adopting ASC 606.

Note 7 – Risk and Uncertainties

The Organization is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Organization’s business is uncertain and difficult to predict. The Organization’s operational and financial performance will depend on future developments, include the duration of the outbreak, operational limitations imposed by federal, state and local governments with respect to physical distancing measures, and customer demand for the Organization’s products and services. All the effects of the COVID-19 pandemic could have a significant adverse effect on the Organization’s operations.

Currency risk – Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As described in notes 4 and 5, the Organization receives contributions, pays direct grants and loans funds to/from related parties in Canada, Africa, and the United Kingdom, and consequently is impacted by fluctuations in foreign exchange rates and the volatility of these rates. The Organization does not use financial hedge instruments to mitigate this risk. It is management's opinion that the Organization is not exposed to significant currency risk.

Commitments and Contingencies – The Organization may be party to various legal proceedings in the ordinary course of operations, which, in the opinion of management, will not have a material adverse impact on its financial position or changes in its net assets.

Notes to Financial Statements

March 31, 2020 and 2019

Note 8 – Recent Accounting Pronouncement

In February 2016, the FASB issued accounting standards update (ASU) 2016-02, *Leases*, which requires lessees to record most leases with terms greater than 12 months on their statement of financial position by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is currently required for annual periods beginning after December 15, 2021. The Organization continues to evaluate the impact of the new accounting guidance on its financial statements.