

**CHARITY MUSIC INC**

A Non-Profit Organization

**REPORT ON AUDITED FINANCIAL STATEMENTS**

**Years Ended DECEMBER 31, 2010**

**CHARITY MUSIC INC**  
Nonprofit Corporation

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**CHARITY MUSIC INC**  
Nonprofit Corporation

***Pugno Accounting & Tax Service***

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734-783-6666 - Fax 734-783-0366 Cell 734-341-8889

**INDEPENDENT AUDITORS' REPORT**

November 18, 2011

To the Board of Directors  
Charity Music Inc.  
Sterling Heights, Michigan

We have audited the accompanying statements of financial position of Charity Music Inc. ("CMI," a Michigan non-profit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of CMI's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of CMI as of December 31, 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Martin L. Pugno CPA, PC*

Martin L. Pugno, C.P.A., P.C.

**CHARITY MUSIC INC**  
Nonprofit Corporation

**STATEMENTS OF FINIANCIAL POSITIONS - Liabilities and Net Assets**

Year Ended December 31

<u>ASSETS</u>	<u>2010</u>
Cash and cash equivalents	\$ 5,692
Contributions receivable	0
Land and buildings	51,700
SalesForce Software	14,000
Furniture and office equipment	13,000
Musical instruments – at fair value	27,730
Sheet music, music books and records	20,245
Parts and accessories inventory	<u>12,025</u>
<b>Total assets</b>	<b>\$ 144,392</b>

LIABILITIES

Current liabilities	0
Long term liabilities	<u>0</u>
<b>Total liabilities</b>	<b>\$ 0</b>

NET ASSETS

Unrestricted	
Undesignated	65,692
Board Designated	0
Property, Plant & Equipment	78,700
Temporarily Restricted	0
Permanently Restricted	<u>0</u>
<b>Total net assets</b>	<b><u>\$ 144,392</u></b>
<b>Total Liabilities &amp; Net Assets</b>	<b><u>\$ 144,392</u></b>

Note: All CMI assets are classified as Unrestricted for the CY-2009 / CY-2010 reporting period. There are no Temporarily Restricted or Permanently Restricted assets for the audited reporting period.

**CHARITY MUSIC INC**  
Nonprofit Corporation

**STATEMENTS OF ACTIVITIES**

Year Ended December 31

**SUPPORT and REVENUE**

**CY-2010**

Contributions	\$ 80,917
Interest Revenue	0
Net gain(loss) on investments	0
Net Assets released from restrictions	<u>0</u>
<b>Total Support and Revenue</b>	<b>\$ 80,917</b>

**EXPENSES**

Program Services	\$ 60,708
Administration and General	4,715
Fundraising	<u>1,663</u>
<b>Total Expenses</b>	<b>\$ 67,086</b>

Increase (decrease) in net assets	\$ 13,831
Net assets, beginning of year	<u>130,561</u>
Net assets, end of year	<b>\$ <u>144,392</u></b>

Note: All CMI assets are classified as Unrestricted for the CY-2010 reporting period. There are no Temporarily Restricted or Permanently Restricted assets for the audited reporting period.

**CHARITY MUSIC INC**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
Year End December 31

2010

	Program Services	Admin General	Fund Raising	Total
<u>EXPENSES</u>				
Grants and allocations	2532	0	0	2532
Accounting fees	0	0	0	0
Legal fees	0	0	0	0
Supplies	4562	0	200	4762
Telephone	1432	0	0	1432
Postage and Shipping	2052	0	0	2052
Occupancy	5408	765	0	765
Equip. rental & maint.	4303	0	0	4303
Printing & Publications	793	0	272	1065
Travel	702	200	0	902
Conferences & Meetings	1044	0	0	1044
<u>Other Detailed Expenses</u>				
Professional Services	3619	0	0	3619
Staff development	0	0	0	0
Membership dues	900	0	245	1145
Reference materials	834	0	0	834
Banking fees	0	0	0	0
Taxes and assessments	1427	0	0	1427
Value of Unpaid Vol Serv	31100	2900	945	34945
Insurance	<u>0</u>	<u>850</u>	<u>0</u>	<u>850</u>
<b>TOTAL EXPENSES</b>	<u><b>60708</b></u>	<u><b>4715</b></u>	<u><b>1663</b></u>	<u><b>67086</b></u>
 % of Total Expenses listed for reference only.	 90.49%	 7.03%	 2.48%	

**CHARITY MUSIC INC**  
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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES**

Nature of Activities – Charity Music, Inc. ("CMI") is a 501(c) (3) nonprofit community service organization whose mission is to help cultivate positive youth development by providing Musical Instruments on loan, at no cost, to at-risk and disadvantaged youth who wish to explore their hidden musical talents.

A basic goal is to facilitate effective, diverse partnerships, within the nonprofit community in a continued effort for positive youth development.

CMI received their tax exempt status letter as a non-profit public charity under section 501(c) (3) of the Internal Revenue Code under EIN 20-2155382 on January 4, 2006, with a retroactive effective date of January 15, 2005.

It successfully evolved from an initiative begun in 1996 by Roger A. Fachini, Sr., while serving in his capacity as President/CEO of the Macomb Symphony Orchestra launched the first Musical Instrument Donation Drive. While the program was well received, the request for Instruments far exceeded the donations, and the program was suspended. Since his retirement as Staff Industrial Engineer from General Dynamics Land Systems in 2003, Mr. Fachini has been instrumental in establishing Charity Music, Inc. as an award winning nonprofit organization dedicated to the recycling, repair, and distribution of Musical Instruments to individuals, and organizations in need.

Youth Development Activities:

As an outgrowth of its mission and vision, CMI has established the *Charity Music Volunteer Center*. A comprehensive administrative, conference, music library, and multi-service youth development facility. Designed to promote positive development among youth, the facility provides a multitude of volunteer opportunities structured to accommodate Student Interns and Court Mandated Community Service objectives.

In addition to the *Charity Music Volunteer Center*, CMI has other broad youth development program areas. The *Charity Music Intermezzi Project* provides musical instruments to homeless students throughout Michigan in support of the McKinney – Vento Homeless Assistance Act: Education of Homeless Children and Youth. Additionally, the *Music Mentors* program allows young people with opportunities to take leadership roles in the community, learn decision-making skills, and help shape their own initiatives, such as the recently formed *Detroit Drumline*.

The Charity Music *Detroit Drumline* has been selected to perform with rock artist Nickelback in the 2011 United Way Detroit Lions Halftime Ceremony at Ford Field on Thanksgiving Day. This truly unique youth development experience will consist of Charity Music Mentors performing in harmony with over 50 drummers representing several various Detroit area schools.

**CHARITY MUSIC INC**  
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**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 1: ORGANIZATION AND NATURE OF ACTIVITIES (continued)**

Community Engagement Activities:

As the premier musical instrument and entertainment resource to other nonprofit and social service agencies, CMI works in support of various agencies to strengthen community resources by providing musical instruments, training, and volunteer opportunities to those in need.

In addition to being a United Way of Southeastern Michigan agency, CMI is also an active member of the Michigan Nonprofit Association, Professional Fundraisers Association, Music Therapy Association, Society of Nonprofit Organizations, Guidestar, and the Foundation Center.

By engaging with other organizations in collaborative efforts, CMI is able to influence youth policies and, hopefully, influence systems to better support youth and their communities.

For example, in partnership with the Walt Disney Give A Day – Get A Day program, it brought a national volunteer program to Michigan. In gratitude for their service, over 1,060 CMI volunteers throughout Michigan received complementary tickets to Disney (with a retail value of over \$80,000)

Volunteerism:

CMI is an all-volunteer organization, which relies heavily on the services provided by its all-volunteer workforce. It is a certifying organization for the President's Volunteer Service Award, and works in cooperation with various service groups such as Serve Net, Volunteer Match, Idealist, and Volunteer Solutions. Future plans include the hiring of administrative and program staff as needed. Intern and Court Mandated volunteers currently provide over 10,000 hours of service annually.

Support for Our Military:

The CMI *Notes of Appreciation – Music for Our Military* program, provides musical instruments and live entertainment to the over 157 VA Facilities nationwide. It is currently funded by the Kroger Community Rewards Program, Macy's Shop for a Cause, and the Bon Ton stores Community Day program.

Mission of the program is to provide a Guitar and Electric Keyboard to each of the 157 VA facilities. Musicians on tour have indicated that they would provide volunteer performances at the facilities if instruments were readily available.

Vintage Musical Instrument Exhibit:

CMI maintains a Vintage Musical Instrument exhibit which contains both antique and vintage collectables. The exhibit is made available, at no charge to businesses, libraries, schools, and other locations wishing to put the items on display for viewing by the general public.

Charity Music Library:

CMI maintains an extensive music library of over 5000 pieces of sheet music and other training materials. Jazz, Classical, Rock, to name a few and made available, at no charge to those in need. The library is currently funded by both the Macy's Shop for a Cause, and Kroger's Community Rewards Program.

**CHARITY MUSIC INC**  
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**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 2: SIGNIFICANT ACCOUNTING PRACTICES**

Accrual Basis - The financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred.

Contributions and Promises to Give - Contributions are recognized when the donor makes a promise to give to CMI that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. CMI had no restricted assets for CY 2009 or CY 2010.

Contributed Services - Many individuals volunteer their time and perform a variety of tasks that assist CMI in running its various programs. During the year ended December 2010, the value of contributed services included in the financial statements is recorded as 2912 volunteer hours at \$12.00 per hour for a total of \$34,944, and represent only a portion of the total actual volunteer hours expended.

Recently implemented software upgrades have corrected the discrepancy of underestimated Volunteer hours. Newly established accounting procedures by CMI call for the inclusion of *all* volunteer hours in future financial reports.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. CMI's significant estimates include its useful lives for property and equipment depreciation.

Membership Fees — CMI charges an annual musical instrument rental fee of \$35 to participate in rental program. These fees are recognized immediately as revenue and are not amortized over the life of the annual rental. Free sponsorships are available for families who have an economic hardship.

Cash and Cash Equivalents - CMI considers all highly liquid investments not held by an investment manager with an initial maturity, when purchased, of one year or less to be cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices.

Property and Equipment - Property and equipment are recorded at cost, or at fair value at the time of donation if donated, and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to 10 years. CMI's policy is to capitalize assets with a basis of \$5,000 or more.

Allocation of Expenses by Activity - In the statements of functional expenses, employee compensation is allocated between program activities, fund development activities, and general and administrative activities based on the actual or estimated time devoted to these activities. Other expenses have been allocated on various appropriate bases, as determined by management.

**CHARITY MUSIC INC**  
Nonprofit Corporation

**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 2: SIGNIFICANT ACCOUNTING PRACTICES (continued)**

Concentration of Credit Risk - Financial instruments which potentially subject CMI to concentrations of credit risk consist principally of cash, cash equivalents, investments, and pledges receivable.

CMI places its cash and cash equivalents with high credit qualified institutions; as of August 30, 2011, the amounts held by CMI in cash at its financial institution did not exceed the federally insured limit. Investments, when authorized, will be diversified in various money market funds, registered investment companies, equities, and fixed income securities.

**NOTE 3: RECLASSIFICATIONS**

Reclassifications — no reclassifications have been made to the 2009 or 2010 financial statements

**NOTE 4: GRANT COMMITMENTS**

Grant Commitments - CMI records a grant commitment as an expense when the grant is approved unless future payments of a multi-year grant are contingent on certain conditions being met by the grantee. When these conditions are met, CMI records the commitment as an expense and a grant commitment outstanding if the amount is not paid by the end of the reporting period.

There are no Unpaid Grant Commitments for the 2009 or 2010 financial reporting period

**NOTE 5: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily Restricted Assets - There are no Temporarily Restricted assets at this time

**NOTE 6: PERMANENTLY RESTRICTED NET ASSETS**

Permanently Restricted Assets - There are no Permanently Restricted assets at this time

# CHARITY MUSIC INC

Nonprofit Corporation

## NOTES TO FINANCIAL STATEMENTS (continued)

### NOTE 7: EMPLOYEE BENEFIT PLANS

Employee Benefit Plans - As an all-volunteer organization CMI does not currently sponsor a defined contribution retirement plan covering full-time employees.

### NOTE 8: OPERATING LEASES

Operating Leases - CMI leases approximately 800 square feet of office and retail space located in the Hayes Plaza at 40736 Hayes Road, Clinton Township, MI 48038. The lease agreement originated in July 2010. Annual rental expense for 2010 was \$5,400 and paid full a year in advance. Current lease July 1, 2011 to June 30, 2012 is \$5,400 and paid full year in advance. July 1, 2012 to June 30, 2013 lease is \$5,400 due July 1, 2013.

An additional facility occupied by CMI consists of 1200 square feet located at 40734 Hayes Road, Clinton Township, MI 48038. Donated on a month to month basis, this space is located directly next door to the Charity Music Volunteer center for storage of musical instruments and the Charity Music Library.

### NOTE9: ENDOWMENT INVESTMENTS

Endowment Investments - CMI has no Endowment Investments at this time.

### NOTE 10: PLEDGES RECEIVABLE

Pledges Receivable: CMI has no Pledges receivable as of Dec 30, 201

### NOTE 11: PROPERTY AND EQUIPMENT

Property and Equipment – Assets as of December 30, 2010 consisted of the following amounts:

Land and Building	51,700
Computer and related software	14,000
Furniture and office equipment	13,000

**CHARITY MUSIC INC**  
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**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 12: BONDS PAYABLE**

Bonds Payable - CMI has no Bonds payable at this time.

**NOTE 13: LINES OF CREDIT**

Lines of Credit - CMI has no lines of credit at this time

**NOTE 14: CAPITALIZED EQUIPMENT LEASES**

Capitalized Equipment Leases - CMI has no capitalized leases at this time

**NOTE 15: CHARITY MUSIC INC LEASES**

Lease Income - CMI does not currently lease any of their real estate, or sub lease any portion of their facility.

**NOTE 16: CONTINGENT LIABILITIES**

Contingent Liabilities - CMI is subject to potential litigation in the normal course of providing its services to the community. In management's opinion, CMI is adequately insured to cover the costs, if any, of such potential litigation and currently maintains a \$ 1,000,000 Directors and Officers liability insurance policy through Brownrig Companies, Ltd. Management is not aware of any pending litigation involving Charity Music, Inc.

INTERNAL REVENUE SERVICE  
P. O. BOX 2508  
CINCINNATI, OH 45201

DEPARTMENT OF THE TREASURY

Date: **JAN 04 2006**

CHARITY MUSIC INC  
C/O ROGER A FACHINI SR  
14975 CONGRESS DR  
STERLING HEIGHTS, MI 48313-4420

Employer Identification Number:  
20-2155382  
DLN:  
17053354088005  
Contact Person: RENE E RAILLEY NORTON ID# 31172  
Contact Telephone Number:  
(877) 829-5500  
Accounting Period Ending:  
December 31  
Public Charity Status:  
170(b)(1)(A)(vi)  
Form 990 Required:  
Yes  
Effective Date of Exemption:  
January 19, 2005  
Contribution Deductibility:  
Yes

Dear Applicant:

We are pleased to inform you that upon review of your application for tax exempt status we have determined that you are exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. Contributions to you are deductible under section 170 of the Code. You are also qualified to receive tax deductible bequests, devises, transfers or gifts under section 2055, 2106 or 2522 of the Code. Because this letter could help resolve any questions regarding your exempt status, you should keep it in your permanent records.

Organizations exempt under section 501(c)(3) of the Code are further classified as either public charities or private foundations. We determined that you are a public charity under the Code section(s) listed in the heading of this letter.

Please see enclosed Information for Exempt Organizations Under Section 501(c)(3) for some helpful information about your responsibilities as an exempt organization.

Sincerely,



Lois G. Lerner  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures: Information for Organizations Exempt Under Section 501(c)(3)

Letter 947 (DO/CG)