

MUSICIANS ON CALL, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2011

MUSICIANS ON CALL, INC.

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Independent Auditor's Report

Board of Directors Musicians on Call, Inc.

We have audited the accompanying balance sheet of Musicians on Call, Inc. as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Musicians on Call, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Musicians on Call, Inc.'s December 31, 2010 financial statements and, in our report dated October 3, 2011, we expressed an unqualified opinion on those financial statements.

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 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 Musicians on Call, Inc.'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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Musicians on Call, Inc. as of December 31, 2011, 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.

Loeb & Troper LLP

July 18, 2012

MUSICIANS ON CALL, INC.

BALANCE SHEET

DECEMBER 31, 2011

(With Summarized Financial Information for December 31, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 308,193	\$ 179,818
Investments (Note 3)	403,550	506,856
Contributions receivable (Note 4)	167,955	100,542
Security deposits	11,550	12,957
Prepaid expenses		22,288
Inventory	18,395	42,809
Trademark (net of accumulated amortization of \$270)	75	98
Fixed assets - net (Note 5)	<u>76,343</u>	<u>65,109</u>
Total assets	<u>\$ 986,061</u>	<u>\$ 930,477</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 113,638	\$ 45,544
Deferred revenue	<u>19,250</u>	<u>61,965</u>
Total liabilities	<u>132,888</u>	<u>107,509</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	650,808	645,405
Board designated	<u>167,052</u>	<u>128,264</u>
Total unrestricted net assets	817,860	773,669
Temporarily restricted (Note 6)	<u>35,313</u>	<u>49,299</u>
Total net assets	<u>853,173</u>	<u>822,968</u>
Total liabilities and net assets	<u>\$ 986,061</u>	<u>\$ 930,477</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Financial Information
for the Year Ended December 31, 2010)

	Unrestricted	Temporarily Restricted	Total
			2011 2010
Revenues and other support			
Contributions	\$ 487,669	\$	\$ 487,669 \$ 469,876
In-kind contributions (Notes 2 and 9)	360,398		360,398 366,255
Grants	148,840		148,840 43,833
Special events		\$ 519,754	
Less direct expenses of special events (Exhibit C)		(127,115)	
Management fee	392,639		392,639 277,135
Investment income (loss) (Note 3)	36,750		36,750 32,500
Miscellaneous	(6,160)		(6,160) 33,783
Net assets released from restriction (Note 6)	4,473		4,473 5,663
	13,986	\$ (13,986)	
Total revenues and other support	1,438,595	(13,986)	1,424,609 1,229,045
Expenses (Exhibit C)			
Program service - Facility Bedside Performances	936,774		936,774 894,793
Supporting services			
Management and general	204,845		204,845 206,114
Fund raising	252,785		252,785 197,033
Total expenses	1,394,404		1,394,404 1,297,940
Change in net assets (Exhibit D)	44,191	(13,986)	30,205 (68,895)
Net assets - beginning of year	773,669	49,299	822,968 891,863
Net assets - end of year (Exhibit A) (Note 6)	\$ 817,860	\$ 35,313	\$ 853,173 \$ 822,968

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011
(With Summarized Financial Information
for the Year Ended December 31, 2010)

	Program Service		Supporting Services			Total	
	Facility Bedside Performances	Management and General	Fund Raising	Total	Direct Cost of Special Events	2011	2010
Salaries	\$ 305,405	\$ 107,029	\$ 81,471	\$ 188,500		\$ 493,905	\$ 478,839
Payroll taxes	24,246	8,604	6,257	14,861		39,107	38,704
Employee benefits	22,040	10,323	6,473	16,796		38,836	46,216
Music pharmacy	28,645					28,645	6,358
Donated professional services (Note 2 and 9)	342,342					342,342	343,335
Professional fees	74,531	45,650	33,166	78,816		153,347	48,427
Marketing	8,761		2,552	2,552		11,313	100,916
Occupancy (including donated occupancy of \$15,600) (Notes 2 and 9)	56,700	6,127	6,127	12,254		68,954	71,081
Office supplies	19,280	2,410	4,757	7,167		26,447	11,162
Postage and delivery	3,607		5,714	5,714		9,321	6,415
Insurance	1,328	1,587	428	2,015		3,343	1,161
Printing and reproduction	6,214		15,816	15,816		22,030	6,307
Dues and subscriptions	1,004	110		110		1,114	1,289
Telephone	12,988	1,559	2,338	3,897		16,885	13,942
Depreciation and amortization		6,970		6,970		6,970	5,860
Space rental, catering, and set-up					\$ 127,115	127,115	45,738
Travel and entertainment	16,390		7,159	7,159		23,549	21,288
Tickets and processing fees	262	14,147	80,031	94,178		94,440	87,426
Investment fees		3,421		3,421		3,421	3,808
Miscellaneous	13,031	329	496	825		13,856	9,214
Total expenses	936,774	208,266	252,785	461,051	127,115	1,524,940	1,347,486
Less expenses deducted directly from revenues on the statement of activities							
Investment fees		(3,421)		(3,421)		(3,421)	(3,808)
Special events					(127,115)	(127,115)	(45,738)
Total expenses reported by function on statement of activities (Exhibit B)	\$ 936,774	\$ 204,845	\$ 252,785	\$ 457,630	\$ -	\$ 1,394,404	\$ 1,297,940

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**MUSICIANS ON CALL, INC.****STATEMENT OF CASH FLOWS****YEAR ENDED DECEMBER 31, 2011**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 30,205
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	6,970
Net realized and unrealized loss on investments	10,365
Decrease (increase) in assets	
Contributions receivable	(67,413)
Security deposits	1,407
Prepaid expenses	22,288
Inventory	24,414
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	68,094
Deferred revenue	<u>(42,715)</u>
Net cash provided by operating activities	<u>53,615</u>
Cash flows from investing activities	
Purchase of investments	(167,369)
Proceeds from sales of investments	260,310
Purchase of fixed assets	<u>(18,181)</u>
Net cash provided by investing activities	<u>74,760</u>
Net change in cash and cash equivalents	128,375
Cash and cash equivalents - beginning of year	<u>179,818</u>
Cash and cash equivalents - end of year	<u>\$ 308,193</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 1 - NATURE OF ENTITY

Musicians on Call, Inc. (the Organization) was founded in May 1999 with the mission of using music to promote and complement the healing process in health care facilities. The program activities consist of bedside performances by volunteer musicians and CD pharmacies (libraries) donated to facilities. The Organization is supported primarily by contributions. The Organization currently conducts activities in New York, Pennsylvania, Florida and Tennessee.

Musicians on Call, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. During 2011, the Organization requested that the Internal Revenue Service (IRS) withdraw its subordinate organization, a Tennessee chapter of Musicians on Call, Inc., from the group exemption, which was terminated. In addition, the IRS erroneously terminated Musicians on Call, Inc.'s status as an exempt organization. The Organization has been reinstated as a tax-exempt Organization as of September 13, 2011. The IRS error did not have an impact on the deductibility of the contributions made during this time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of 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 the reported amounts of assets and liabilities and 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.

Cash and cash equivalents - Cash and cash equivalents consist of short-term, highly liquid investments with original maturities when acquired of three months or less.

Investments - Investments are recorded at fair value. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - Receivables are charged to bad debt expense when they are determined to be uncollectible based on periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end, and other factors. Interest is not accrued or recorded on outstanding receivables. Management has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of December 31, 2011.

Inventory - Inventory consists of contributed compact discs (CDs) and digital versatile/video discs (DVDs) and is stated at fair value at the time of the donation.

Trademark - Trademark is stated at cost and is amortized on the straight-line method over 15 years.

Fixed assets - Fixed asset purchases are recorded at cost. Items with a cost in excess of \$500 and an estimated useful life of greater than one year are capitalized. Fixed assets are depreciated on the straight-line method over their estimated useful lives of 5 to 15 years for furniture and equipment.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by a donor. Board-designated funds represent unrestricted funds designated by Board action for future program growth and funding of deficits.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

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MUSICIANS ON CALL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed professional services - Contributed professional services are recorded at the estimated fair value of services donated by musicians and guides.

Contributed materials - Contributed materials are stated at fair value at the date of donation. The donated materials are CDs and DVDs of music used in the programs.

Contributed occupancy - Contributed occupancy is stated at fair value and includes the value of donated office space.

Management fee - This fee is recorded when earned based on services provided to an unrelated not-for-profit organization.

Music pharmacy - Music pharmacy represents compact discs of music distributed to patients at nursing homes and other health care facilities.

Functional expenses - The costs of providing the Organization's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating lease - Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Summarized financial information for 2010 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements and Disclosures

Accounting Standards Codification (ASC) Section 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 as compared to those used at December 31, 2010.

Money market - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes - The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through July 18, 2012, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the assets at fair value at December 31, 2011:

	<u>Level 1</u>
Money market	\$ <u>146,862</u>
Mutual funds	
Large cap	161,157
Mid cap	16,100
Long-term bond	14,050
Inflation-protected bond	14,764
Intermediate-term bond	24,789
Multisector bond	25,785
Intermediate government bond	<u>43</u>
Total mutual funds	<u>256,688</u>
Total investments	\$ <u>403,550</u>

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 3 - INVESTMENTS (continued)

Investment income (loss) is as follows:

Interest and dividends	\$ 7,626
Unrealized loss	(12,307)
Realized gain	<u>1,942</u>
	(2,739)
Investment fees	<u>(3,421)</u>
	<u>\$ (6,160)</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The Organization received promises to give.

2012	\$ 150,540
2013	<u>17,415</u>
	<u>\$ 167,955</u>

Discount is immaterial to record. Three pledges in the amount of \$101,200 represent a significant portion of total contributions receivable balance as of December 31, 2011.

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Website	\$ 77,062	5 years
Furniture and equipment	<u>53,503</u>	7 years
	130,565	
Accumulated depreciation and amortization	<u>(54,222)</u>	
	<u>\$ 76,343</u>	

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MUSICIANS ON CALL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Website	\$ <u>35,313</u>
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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of:

Website	\$ <u>13,986</u>
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NOTE 7 - LEASED SPACE

The Organization occupied office space under a noncancellable lease that expired on June 30, 2010. The lease was extended until June 30, 2011. In July 2011, the Organization moved and entered into a new office lease that expires on July 31, 2016. The Organization also entered into a sublease to rent a portion of the space to another unrelated entity, which will be netted against expense. The sublease for the new office expires on July 31, 2012, with a renewal option for one year. The rent expense for the year was \$61,273 (including electricity and taxes). The Organization received rental income of \$7,919 from the sublease, which was netted against expense. The Organization also received donated space for its Miami office. The in-kind contributions amount was \$15,600 for 2011 (see Note 9).

The Organization's future minimum lease payments are as follows:

2012	\$ 45,563
2013	46,930
2014	48,340
2015	49,791
2016	<u>29,547</u>
	 \$ <u>220,171</u>

The Organization's future minimum lease receipts are as follows:

2012	\$ <u>3,675</u>
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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2011****NOTE 8 - CONCENTRATIONS**

From time to time, financial instruments which potentially subject the Organization to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

NOTE 9 - IN-KIND CONTRIBUTIONS

The Organization receives in-kind contributions for space rental, music inventory of CDs and DVDs and professional services. During 2011, in-kind contributions were received as follows:

Professional services	\$ 342,342
Music inventory of CDs and DVDs	2,456
Office space	<u>15,600</u>
	<u>\$ 360,398</u>

In-kind professional services consist of professional musicians and trained guides who perform services for MOC's consumers. The amounts recorded are based on prevailing rates obtained from industry professionals at the estimated fair value of their services.