

MUSICIANS ON CALL, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2010

MUSICIANS ON CALL, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



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, 2010, 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, 2009 financial statements and, in our report dated August 18, 2010, 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, 2010, 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

October 3, 2011

MUSICIANS ON CALL, INC.

BALANCE SHEET

DECEMBER 31, 2010

(With Summarized Financial Information for December 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 179,818	\$ 85,009
Investments (Note 3)	506,856	783,194
Accounts receivable		11,666
Contributions receivable (Note 4)	100,542	1,200
Security deposit	12,957	12,957
Prepaid expenses	22,288	16,614
Inventory	42,809	43,596
Trademark (net of accumulated amortization of \$247)	98	121
Fixed assets - net (Note 5)	<u>65,109</u>	<u>7,870</u>
Total assets	<u>\$ 930,477</u>	<u>\$ 962,227</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 45,544	\$ 35,364
Deferred revenue	<u>61,965</u>	<u>35,000</u>
Total liabilities	<u>107,509</u>	<u>70,364</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	645,405	765,274
Board designated	<u>128,264</u>	<u>126,589</u>
Total unrestricted net assets	<u>773,669</u>	<u>891,863</u>
Temporarily restricted (Note 6)	<u>49,299</u>	
Total net assets	<u>822,968</u>	<u>891,863</u>
Total liabilities and net assets	<u>\$ 930,477</u>	<u>\$ 962,227</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, 2010
(With Summarized Financial Information
for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Total
		2010	2009
Revenues and other support			
Contributions	\$ 357,501	\$ 112,375	\$ 360,519
In-kind contributions (Notes 2 and 9)	366,255	366,255	287,116
Grants	43,833	43,833	52,839
Special events			
Less direct costs of special events (Exhibit C)	\$ 322,873		
Service fee	(45,738)		
Investment income (Note 3)	277,135	277,135	424,952
Miscellaneous	32,500	32,500	30,000
Net assets released from restriction (Note 6)	33,783	33,783	53,910
	5,663	5,663	4,642
	63,076	(63,076)	
Total revenues and other support	1,179,746	49,299	1,229,045
			1,213,978
Expenses (Exhibit C)			
Program service - Facility Bedside Performances	894,793	894,793	673,029
Supporting services			
Management and general	206,114	206,114	165,395
Fund raising	197,033	197,033	263,918
Total expenses	1,297,940	-	1,297,940
			1,102,342
Change in net assets (Exhibit D)	(118,194)	49,299	(68,895)
			111,636
Net assets - beginning of year	891,863	891,863	780,227
Net assets - end of year (Exhibit A) (Note 6)	\$ 773,669	\$ 49,299	\$ 822,968
			\$ 891,863

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2010
(With Summarized Financial Information
for the Year Ended December 31, 2009)

	Program Service Facility Bedside Performances	Supporting Services			Direct Cost of Special Events	Total		
		Management and General	Fund			Total	2010	2009
			Raising					
	\$	291,021	\$	74,343	\$	478,839	\$	425,848
Salaries		23,222		6,193		38,704		31,579
Payroll taxes		28,840		10,003		46,216		42,183
Employee benefits		6,358				6,358		29,028
Music pharmacy		343,335				343,335		206,210
Donated professional services (Note 2 and 9)		24,179		358		48,427		50,852
Professional fees		62,529		7,807		100,916		32,242
Marketing								
Occupancy (including donated occupancy of \$15,600) (Notes 2 and 9)		58,118		6,419		71,081		70,819
Office supplies		9,322		920		11,162		14,103
Postage and delivery		4,290		2,125		6,415		8,187
Insurance		589		190		1,161		3,630
Printing and reproduction		5,985		322		6,307		16,535
Dues and subscriptions		1,184				1,289		2,194
Telephone		10,457		2,091		13,942		13,761
Depreciation and amortization					\$	5,860		8,939
Space rental, catering, and set-up						45,738		29,723
Travel and entertainment		16,931		2,321		21,288		20,883
Tickets and processing fees				83,279		87,426		114,925
Investment fees						3,808		3,442
Miscellaneous		8,433		662		9,214		10,117
Total expenses		894,793		197,033		1,347,486		1,135,200
Less expenses deducted directly from revenues on the statement of activities								
Investment fees						(3,808)		(3,442)
Special events						(45,738)		(29,416)
Total expenses reported by function on statement of activities (Exhibit B)		\$ 894,793	\$ 206,114	\$ 197,033	\$ 403,147	\$ -	\$ 1,297,940	\$ 1,102,342

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ (68,895)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation and amortization	5,860
Net realized and unrealized gain on investments	(26,904)
Decrease (increase) in assets	
Accounts receivable	11,666
Contributions receivable	(99,342)
Prepaid expenses	(5,674)
Inventory	787
Increase in liabilities	
Accounts payable and accrued expenses	10,180
Deferred revenue	26,965
Net cash used by operating activities	<u>(145,357)</u>
Cash flows from investing activities	
Purchase of investments	(334,921)
Proceeds from sales of investments	638,163
Purchase of fixed assets	<u>(63,076)</u>
Net cash provided by investing activities	<u>240,166</u>
Net change in cash and cash equivalents	94,809
Cash and cash equivalents - beginning of year	<u>85,009</u>
Cash and cash equivalents - end of year	<u>\$ 179,818</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, 2010

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, 2010

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.

Inventory - Inventory consists of contributed compact discs (CDs) 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 more 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. Leasehold improvements are amortized over the life of the lease or the estimated useful life of the asset whichever is shorter.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by a donor and funds limited as to use by third-party payors. 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, 2010

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 of music used in the programs.

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

Service fee - Service fee is recorded when earned.

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. When material, rent is recorded on the straight-line basis.

Summarized financial information for 2009 - 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, 2009, from which the summarized information was derived.

Restatement - Donated professional fees in 2009 were restated to correct the amounts shown in revenues and expenses in 2009.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

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, 2010.

Cash equivalents and 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, 2010

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, 2007 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 3, 2011, 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, 2010:

	<u>Level 1</u>
Cash equivalents	\$ 222,446
Money market	5,243
Mutual funds - fixed income	98,887
Mutual funds - equities	<u>180,280</u>
	\$ <u>506,856</u>

Investment income is as follows:

Interest and dividends	\$ 10,687
Unrealized gain	36,791
Realized loss	<u>(9,887)</u>
	37,591
Investment fees	<u>(3,808)</u>
	\$ <u>33,783</u>

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The Organization received promises to give.

2011	\$ 60,667
2012	22,500
2013	<u>17,375</u>
	<u>\$ 100,542</u>

Discount is immaterial to record. One pledge in the amount of \$62,375 represents a significant portion of the total contributions receivable balance as of December 31, 2010.

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Website	\$ 63,076	5 years
Furniture and equipment	49,308	7 years
Leasehold improvements	<u>9,374</u>	5 years
	121,758	
Accumulated depreciation and amortization	<u>(56,649)</u>	
	<u>\$ 65,109</u>	

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Website	<u>\$ 49,299</u>
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Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of:

Website	<u>\$ 63,076</u>
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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

NOTE 7 - LEASED SPACE

The Organization occupies 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 entered into a new office lease that expires on July 31, 2016. The Organization also entered into a sublease on the space, which will be netted against expense. The sublease expired on June 30, 2010 and was extended until June 30, 2011. The rent expense for the year was \$64,313 (including electricity). The Organization received rental income of \$8,832 from a sublease on the space, which was netted against expense.

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

2011	\$ 46,864
2012	45,563
2013	46,930
2014	48,340
2015	49,791
Thereafter	<u>29,547</u>
	<u>\$ 267,035</u>

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

2011	\$ 7,041
2012	6,300
2013	6,300
2014	6,300
2015	6,300
Thereafter	<u>6,300</u>
	<u>\$ 38,541</u>

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2010****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 2010, in-kind contributions were received as follows:

Professional services	\$ 343,335
Music inventory of CDs and DVDs	7,320
Office space	<u>15,600</u>
	<u>\$ 366,255</u>