

MUSICIANS ON CALL, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2012

MUSICIANS ON CALL, INC.

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Independent Auditor's Report

**Board of Directors
Musicians on Call, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Musicians on Call, Inc., which comprise the balance sheet as of December 31, 2012, and 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 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 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 Musicians on Call, Inc. as of December 31, 2012, 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 of America.

Report on Summarized Comparative Information

We have previously audited Musicians on Call, Inc.'s December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 18, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

June 25, 2013

MUSICIANS ON CALL, INC.

BALANCE SHEET

DECEMBER 31, 2012

(With Summarized Financial Information for December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 564,787	\$ 308,193
Investments (Note 3)	353,785	403,550
Certificates of deposit (Note 2)	100,027	
Contributions receivable (Note 4)	73,448	167,955
Security deposits	12,550	11,550
Prepaid expenses and other receivables	6,672	
Inventory	17,272	18,395
Trademark (net of accumulated amortization of \$293)	52	75
Fixed assets - net (Note 5)	61,338	76,343
	<hr/>	<hr/>
Total assets	\$ <u>1,189,931</u>	\$ <u>986,061</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 38,626	\$ 113,638
Deferred revenue	21,750	19,250
	<hr/>	<hr/>
Total liabilities	60,376	132,888
	<hr/>	<hr/>
Net assets (Exhibit B)		
Unrestricted		
Operating	862,144	650,808
Board designated	167,128	167,052
	<hr/>	<hr/>
Total unrestricted net assets	1,029,272	817,860
	<hr/>	<hr/>
Temporarily restricted (Note 6)	283	35,313
Permanently restricted (Note 6)	100,000	
	<hr/>	<hr/>
Total net assets	1,129,555	853,173
	<hr/>	<hr/>
Total liabilities and net assets	\$ <u>1,189,931</u>	\$ <u>986,061</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, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Contributions	\$ 815,489		\$ 100,000	\$ 915,489
In-kind contributions (Notes 2 and 9)	350,228			350,228
Grants	18,349			18,349
Special events				
Less direct expenses of special events (Exhibit C)	\$ 442,958			\$ 442,958
Management fee	(56,118)			(56,118)
Investment income (loss) (Note 3)	386,840			386,840
Miscellaneous	41,000			41,000
Net assets released from restriction (Note 6)	25,262			25,262
	1,024			1,024
	35,030	\$ (35,030)		
Total revenues and other support	1,673,222	(35,030)	100,000	1,738,192
Expenses (Exhibit C)				
Program service - Facility Bedside Performances	860,339			860,339
Supporting services				
Management and general	224,773			224,773
Fund raising	376,698			376,698
Total expenses	1,461,810			1,461,810
Change in net assets (Exhibit D)	211,412	(35,030)	100,000	30,205
Net assets - beginning of year	817,860	35,313		853,173
Net assets - end of year (Exhibit A)	\$ 1,029,272	\$ 283	\$ 100,000	\$ 1,129,555
				\$ 853,173

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012
(With Summarized Financial Information
for the Year Ended December 31, 2011)

	Program Service	Supporting Services			Direct Cost of Special Events	Total	
	Facility Bedside Performances	Management and General	Fund Raising	Total		2012	2011
Salaries	\$ 363,917	\$ 106,239	\$ 90,196	\$ 196,435		\$ 560,352	\$ 493,905
Payroll taxes	30,620	10,598	7,874	18,472		49,092	39,107
Employee benefits	24,468	9,500	7,451	16,951		41,419	38,836
Music pharmacy	8,898					8,898	28,645
Donated professional services (Notes 2 and 9)	338,773					338,773	342,342
Professional fees	137	20,255	64,363	84,618		84,755	153,347
Marketing	1,157		1,826	1,826		2,983	11,313
Occupancy (including donated occupancy of \$6,500) (Notes 2 and 9)	29,958	11,650	7,960	19,610		49,568	68,954
Office supplies	21,734	2,341	4,837	7,178		28,912	26,447
Postage and delivery	1,687	92	1,876	1,968		3,655	9,321
Insurance		9,820		9,820		9,820	3,343
Printing and reproduction	1,681					1,681	22,030
Dues and subscriptions	3,098	413	866	1,279		4,377	1,114
Telephone	7,255	929	3,046	3,975		11,230	16,885
Depreciation and amortization		17,410		17,410		17,410	6,970
Space rental, catering, and set-up					\$ 56,118	56,118	127,115
Travel and entertainment	15,186	5,348	13,438	18,786		33,972	23,549
Tickets and processing fees		19,147	168,957	188,104		188,104	94,440
Investment fees		2,691		2,691		2,691	3,421
Miscellaneous	11,770	11,031	4,008	15,039		26,809	13,856
Total expenses	860,339	227,464	376,698	604,162	56,118	1,520,619	1,524,940
Less expenses deducted directly from revenues on the statement of activities							
Investment fees		(2,691)		(2,691)		(2,691)	(3,421)
Special events					(56,118)	(56,118)	(127,115)
Total expenses reported by function on statement of activities (Exhibit B)	\$ 860,339	\$ 224,773	\$ 376,698	\$ 601,471	\$ -	\$ 1,461,810	\$ 1,394,404

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, 2012**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 276,382
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	17,410
Net realized and unrealized gain on investments	(21,661)
Contribution restricted for investment in endowment	(100,000)
Decrease (increase) in assets	
Contributions receivable	94,507
Security deposits	(1,000)
Prepaid expenses and other receivables	(6,672)
Inventory	1,123
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(75,012)
Deferred revenue	2,500
	<hr/>
Net cash provided by operating activities	187,577
	<hr/>
Cash flows from investing activities	
Purchase of investments	(103,601)
Proceeds from sales of investments	75,000
Purchase of fixed assets	(2,382)
	<hr/>
Net cash used by investing activities	(30,983)
	<hr/>
Cash flows from financing activities	
Proceeds from contributions restricted for investment in endowment	100,000
	<hr/>
Net change in cash	256,594
Cash - beginning of year	308,193
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Cash - end of year	\$ 564,787

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, 2012

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, California, Massachusetts, Washington, D.C., North Carolina, Illinois and Tennessee.

Musicians on Call, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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.

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.

Certificates of deposit - Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

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.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2012.

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. The website is amortized on the straight-line method over its estimated useful life.

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 and permanently restricted net assets - Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

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.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2011 - 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, 2011, from which the summarized information was derived.

Fair Value Measurements

Fair Value Measurements 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.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

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, 2012 as compared to those used at December 31, 2011.

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.

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, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through June 25, 2013, which is the date the financial statements were available to be issued.

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MUSICIANS ON CALL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the assets at fair value at December 31, 2012:

	<u>Level 1</u>
Money market	\$ <u>170,523</u>
Mutual funds	
Large cap	93,672
Mid cap	17,725
Long-term bond	15,629
Intermediate-term bond	27,343
Multisector bond	<u>28,893</u>
Total mutual funds	<u>183,262</u>
Total investments	<u>\$ 353,785</u>

Investment income is as follows:

Interest and dividends	\$ 6,292
Unrealized gain	11,283
Realized gain	<u>10,378</u>
	27,953
Investment fees	<u>(2,691)</u>
	<u>\$ 25,262</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

The Organization received promises to give which are due as follows:

2013	\$ <u>73,448</u>
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Three pledges in the amount of \$42,415 represent a significant portion of the total contributions receivable balance as of December 31, 2012.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Website	\$ 77,062	5 years
Furniture and equipment	<u>55,885</u>	7 years
	132,947	
Accumulated depreciation and amortization	<u>(71,609)</u>	
	<u>\$ 61,338</u>	

NOTE 6 - NET ASSETS

Temporarily restricted net assets are available for the following purpose:

Website \$ 283

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of:

Website \$ 35,030

Permanently Restricted Net Assets

The Organization's permanently restricted net assets consist of individual endowment funds, permanently restricted by donors, established to support activities of the Organization.

Interpretation of Relevant Law

The Board of Directors of the Organization has adopted the New York Prudent Management of Institutional Funds Act (NYPMIFA). NYPMIFA moves away from the "historic dollar value" standard, and permits charities to apply a spending policy to endowments based on certain specified standards of prudence. The Organization is now governed by the NYPMIFA spending policy, which establishes a maximum spending limit of 7%. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standards of prudence prescribed by NYPMIFA.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 6 - NET ASSETS (continued)

Return Objectives, Strategies Employed and Spending Policy

The objective of the Organization is to protect the principal endowment funds at the original amount designated by the donor while generating income for the activities of the Organization. The investment policy to achieve this objective is to invest in certificates of deposit. Investment income in relation to the endowment funds is recorded as unrestricted, since it is spent in the year that it is earned.

Funds with Deficiencies

The Organization does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

As of December 31, 2012, the endowment net asset composition of \$100,000 consists of permanently donor-restricted funds.

Changes in Endowment Net Assets for the Year Ended December 31, 2012

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ -
Contribution		100,000	100,000
Interest and dividends	27		27
Appropriation of endowment assets for expenditure	<u>(27)</u>	<u></u>	<u>(27)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>100,000</u>	\$ <u>100,000</u>

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 7 - LEASED SPACE

The Organization leases office space for the New York and Nashville offices, which expire in July 2016 and December 2014, respectively. The Nashville lease, which commenced on January 1, 2013, is cancelable after December 31, 2013, and has a one-year renewal option (through December 31, 2015). The Organization also entered into a sublease to rent a portion of the New York office space to an unrelated entity, which is netted against rent expense. The sublease for the New York office expires on July 31, 2013. The rent expense for the year was \$51,055 (including electricity and taxes). The Organization received rental income of \$7,987 from the sublease, which was netted against expense. The Organization also received donated space for its Miami office. The in-kind contributed amount for office space was \$6,500 for 2012 (see Note 9).

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

2013	\$ 52,930
2014	48,340
2015	49,791
2016	<u>29,547</u>
	<u>\$ 180,608</u>

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

2013	<u>\$ 3,675</u>
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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.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 9 - IN-KIND CONTRIBUTIONS

The Organization receives in-kind contributions for professional services, music inventory of CDs and DVDs and office space. During 2012, in-kind contributions were received as follows:

Professional services	\$ 338,773
Music inventory of CDs and DVDs	4,955
Office space	<u>6,500</u> (See Note 7)
	<u>\$ 350,228</u>

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