

**LITTLE KIDS ROCK, INC.**  
**(A NOT-FOR-PROFIT ORGANIZATION)**

Financial Statements for the  
Six Month Period Ended June 30, 2017  
Independent Auditors' Report

# **LITTLE KIDS ROCK, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Little Kids Rock, Inc.

We have audited the accompanying financial statements of Little Kids Rock, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the six month period 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.

### **Auditors' 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 Little Kids Rock, Inc. as of June 30, 2017 and the changes in its net assets, functional expenses and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

*Quillari Canino LLC*

Fairfield, New Jersey  
November 15, 2017

# LITTLE KIDS ROCK, INC.

## STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2017

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	<u>Total</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Unrestricted cash and cash equivalents	\$ 1,831,700
Restricted cash	411,828
Accounts receivable	303
Inventory	64,483
Unconditional promises to give, net	2,352,597
Prepaid expenses and other current assets	105,348
Total current assets	<u>4,766,259</u>
 SECURITY DEPOSITS	 12,501
 LONG-TERM UNCONDITIONAL PROMISES TO GIVE, NET	 <u>211,285</u>
 TOTAL	 <u><u>\$ 4,990,045</u></u>
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 123,167
Accrued expenses	58,177
Deferred revenue	492,000
Compensated absences payable	148,702
Total liabilities	<u>822,046</u>
 NET ASSETS:	
Unrestricted net assets	527,234
Temporarily restricted net assets	3,640,765
Total net assets	<u>4,167,999</u>
 TOTAL	 <u><u>\$ 4,990,045</u></u>

# LITTLE KIDS ROCK, INC.

## STATEMENT OF ACTIVITIES FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUES:</b>			
Contributions	\$ 849,177	\$ 2,779,817	\$ 3,628,994
Related party reimbursements	-	84,207	84,207
Special events	28,750	164,093	192,843
Merchandise sales	2,249	-	2,249
Other income	872	-	872
Net assets released from restrictions			
Satisfaction of purpose restrictions	<u>1,522,937</u>	<u>(1,522,937)</u>	<u>-</u>
 Total public support and revenues	 <u>2,403,985</u>	 <u>1,505,180</u>	 <u>3,909,165</u>
<b>EXPENSES:</b>			
Program services:			
Music education	1,446,773	-	1,446,773
Musical instruments	<u>586,925</u>	<u>-</u>	<u>586,925</u>
Total program services	<u>2,033,698</u>	<u>-</u>	<u>2,033,698</u>
 Supporting services:			
Management and general	69,340	-	69,340
Cost of direct benefit to donors	59,889	-	59,889
Fundraising	<u>578,927</u>	<u>-</u>	<u>578,927</u>
 Total supporting services	 <u>708,156</u>	 <u>-</u>	 <u>708,156</u>
 Total expenses	 <u>2,741,854</u>	 <u>-</u>	 <u>2,741,854</u>
 CHANGE IN NET ASSETS	 (337,869)	 1,505,180	 1,167,311
 NET ASSETS, BEGINNING OF YEAR	 <u>865,103</u>	 <u>2,135,585</u>	 <u>3,000,688</u>
 NET ASSETS, END OF YEAR	 <u>\$ 527,234</u>	 <u>\$ 3,640,765</u>	 <u>\$ 4,167,999</u>

# LITTLE KIDS ROCK, INC.

## STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017

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	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 1,167,311
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Allowance for unconditional promises to give	24,481
(Increase) decrease in operating assets	
Accounts receivable	-
Inventory	(14,616)
Unconditional promises to give, net	(1,390,526)
Prepaid expenses and other current assets	(56,555)
Security deposits	-
Increase (decrease) in operating liabilities	
Accounts payable	(39,404)
Accrued expenses	(2,197)
Deferred revenue	492,000
Compensated absences payable	5,768
Net cash provided by operating activities	<u>186,262</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	186,262
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,057,266</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,243,528</u></u>

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017

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### 1. NATURE OF ACTIVITIES

Little Kids Rock, Inc. (the "Organization") was incorporated in the State of California in 2001. The Organization is operated exclusively for charitable and educational purposes, with a particular focus on music education. Business and administrative functions of the Organization are located in the State of New Jersey. The following descriptions provide more detail regarding specific programs run by the Organization:

*Mentorship:* The Organization provides training and support for teachers and other types of mentors enrolled in the music education program in order to help facilitate and establish a safe, nurturing, supportive and fun environment for students.

*Music Education:* In accordance with its mission, the Organization provides music education to students, primarily from low income backgrounds in order to foster musicianship, to develop confidence, responsibility, discipline and other lifelong values.

*Musical Instruments:* The Organization purchases and provides musical instruments to provide the opportunity for students to participate in music production, recording and performances.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** --- The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of Presentation** --- The Organization presents its financial statements in accordance with guidance issued by the American Institute of Certified Public Accountants' Audit & Accounting Guide for *Not-for-Profit Entities* and the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

ASC Paragraphs 958-605-45-3 through 7, *Contributions Received*, requires that unconditional promises to give be recorded as receivables and revenue and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. ASC Paragraphs 958-205-45-2(a) through (d) establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Accordingly, net assets of the Organization and changes therein would be classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. This represents the portion of expendable funds available to support the Organization's programs and activities.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization had \$3,640,765 of temporarily restricted net assets at June 30, 2017.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions stipulate that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at June 30, 2017.

**Unrestricted cash and cash equivalents** --- The Organization considers all unrestricted cash, short-term securities and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

**Restricted cash** --- The Organization separately allocates cash receipts earmarked for donor intended purposes.

**Accounts receivable** --- Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management has determined not to record an allowance as they believe all outstanding accounts receivable at June 30, 2017 will be collected.

**Inventory** --- Inventory consists of musical instruments purchased and donated to the Organization during the six months that have not been distributed to music education programs by June 30, 2017. Inventory is stated at the lower of cost or market value and is typically released from storage within two months from its purchase. All instruments are purchased on an as needed basis. At June 30, 2017, inventories consisted of \$64,483 of musical instruments.

**Promises to give, revenue and support recognition** --- Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All amounts not expended in accordance with specific restrictions are recorded as a liability in the financial statements, as the Organization does not maintain any equity in the donation. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using interest rates consistent with unsecured individual credit rates applicable to the years in which the promises are to be received. The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**Fixed assets** --- Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 2-5 years. Depreciation is provided based upon the actual number of months in use during the year the costs are capitalized. The Organization's policy is to capitalize fixed assets with a purchase price of \$5,000 or more and a useful life of one year or more. Expenditures for maintenance, repairs and renewals of minor items are charged to earnings as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the statement of activities. Major renewal and improvements are capitalized.

**Compensated absences payable** --- Full time employees of the Organization may accrue paid time off up to thirty days based on date of hire. At June 30, 2017, the Organization accrued \$148,702 of expenses related to unused paid time off.

**Donated goods** --- Non-cash donations, recorded in contributions were fair valued at \$20,158 for the six month period ended June 30, 2017. These donations aided the Organization in accomplishing its mission.

**Donated services** --- Individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

**Income taxes** --- The Organization is a not-for-profit organization described under Section 501(c)(3) of the Internal Revenue Code ("I.R.C.") and is therefore exempt from federal income taxes under Section 501(a) of the I.R.C. The Organization is also exempt under corresponding state statutes in all 50 states. Accordingly, no provision for Federal or State income taxes has been presented in the accompanying financial statements.

The Organization adheres to FASB ASC Topic 740, *Income Taxes*, which provides guidance and clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. For the six month period ended June 30, 2017, the Organization has no material uncertain tax positions to be accounted for in the financial statements.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

**Income taxes (cont.)** --- The Organization files income tax returns with the Internal Revenue Service and all 50 U.S. State jurisdictions. The Organization's Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the IRS, generally for three years after they were filed. Each state has its own statutes governing the examination period. The Organization hires a third party to file registrations in all 50 states and as such, the third party maintains the compliance for these state filings, which are usually subject to examination for three to five years after they were filed.

**Use of estimates** --- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Functional allocation of expenses** --- Expenses are charged to each program based on direct expenditures incurred. Any program expenditures not directly chargeable are allocated to programs based on units of service and support costs are allocated to programs based on methods considered by management to be reasonable. Program expenses are those related to music education and musical instruments. Management and general relate to administrative expenses related to those programs. Fundraising includes direct and indirect costs of special events.

**Subsequent events** --- Management has evaluated subsequent events through November 15, 2017, the date on which the financial statements were available to be issued, and have determined that there are no subsequent events that require disclosure.

### 3. CONCENTRATIONS OF CREDIT RISK

**Arising from cash deposits in excess of insured limits** --- The Organization maintains its cash accounts in two financial institutions. During the year, cash balances may exceed federally insured limits of \$250,000. Management believes that the Organization has no significant risk of loss on these amounts due to the failure of the institutions.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 4. PROMISES TO GIVE

Total unconditional promises to give consist of the following at June 30, 2017:

Unrestricted promises	\$ 981,655
Temporarily restricted promises:	
Program expansion:	
General	1,000,000
Chicago	115,600
Connecticut	5,000
Denver	100,000
Fort Collins	180,000
Los Angeles	24,500
Miami	5,000
Philadelphia	5,000
San Francisco Bay Area	50,000
Amp Up NYC, LLC	84,207
Modern Band Summit	35,000
Gross unconditional promises to give	<u>2,585,962</u>
Less: Discount for long-term pledges	8,715
Allowance on uncollectible pledges	<u>13,365</u>
Net unconditional promises to give	<u>\$ 2,563,882</u>
Amounts due in:	
Less than one year	\$ 2,365,962
One to five years	<u>220,000</u>
Total	<u>\$ 2,585,962</u>

### 5. COMMITMENTS

The Organization leases office space in Northern New Jersey for program operations and administration. The lease was renewed on September 1, 2016 and extends through August 31, 2018. Rent expense relating to office space amounted to \$58,696 for the six month period ended June 30, 2017.

Future payments due under all operating leases in effect at June 30, 2017 are as follows:

June 30, 2018	\$ 120,838
June 30, 2019	<u>20,255</u>
Total	<u>\$ 141,093</u>

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Location (general program operations):	
Chicago	\$ 87,175
Connecticut	125,567
Denver	86,052
Los Angeles	284,463
San Francisco Bay Area	15,422
Technology curriculum	48,104
Program expansion	2,723,691
Modern Band Summit	<u>270,291</u>
Total temporarily restricted net assets	<u>\$ 3,640,765</u>

Net assets were released from donor restrictions by incurring expenses satisfying purpose restrictions specified by donors during the six month period ended June 30, 2017 as follows:

Location (general program operations):	
Atlanta	8,679
Chicago	264,450
Connecticut	172,766
Dallas	122,359
Denver	126,203
Detroit	27,813
Fort Collins	73,750
Los Angeles	188,288
Miami	500
New Jersey	8,000
New York	2,500
Pasadena	42,000
San Francisco Bay Area	155,578
San Bernadino County	33,393
Tampa	50,500
Unaffiliated	63,151
Amp Up NYC, LLC	89,317
Technology curriculum	50,831
Program expansion	16,365
Modern Band Summit	<u>26,494</u>
Grand total restrictions released	<u>\$ 1,522,937</u>

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2017 (CONTINUED)

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### 7. FRINGE BENEFITS

The Organization provides its employees with group health, dental, and vision insurance. Insurance is effective 30 days from an employee's date of hire. Little Kids Rock assumes responsibility for 90% of monthly premiums for an employee's coverage and 50% of monthly premiums for an employee's dependent's coverage. For the six month period ended June 30, 2017, the Organization incurred expenses related to these benefits of \$114,738.

### 8. RETIREMENT PLAN

The Organization offers a 403(b) retirement plan which matches employee contributions up to a maximum of 3% of the employee's salary. The Organization incurred expenses of \$28,988 for its share of contributions into the plan for the six month period ended June 30, 2017.

### 9. RELATED PARTY TRANSACTIONS

In September 2013, Little Kids Rock, Inc. entered into an agreement with Berklee College of Music, Inc. (a Massachusetts not-for-profit) educational institution in order to form Amp Up NYC, LLC, (a Delaware limited liability company). The joint venture was established in order to create an education enterprise (Amp Up NYC, LLC) to benefit elementary, middle and high school students of New York City (the "City), by expanding "Modern Band" music curriculum to the City's elementary schools in cooperation with the New York City Department of Education.

**Promises to give, revenue and support recognition ---** Little Kids Rock and Amp Up NYC, LLC are financially interrelated entities. Accordingly, contributions attributed to Amp Up NYC, LLC are classified as temporarily restricted revenue and are released from restriction when the funds are transferred to Amp Up NYC, LLC. The Organization received \$89,317 in temporarily restricted contributions during the six month period ended June 30, 2017. Amounts of \$89,317 were released and distributed to Amp Up NYC, LLC during the six month period ended June 30, 2017. Amp Up NYC, LLC reimbursed the Organization for program and administration expenses in the amount of \$84,207 during the six month period ended June 30, 2017. Additionally, the Organization receives contributions for the benefit of Amp Up NYC, LLC.