

**LITTLE KIDS ROCK, INC.**  
**(A Not-for-Profit Organization)**

Financial Statements as of and for the  
Year Ended December 31, 2012  
Independent Auditors' Report

# **LITTLE KIDS ROCK, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees 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 December 31, 2012, and the related statements of activities 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 of 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 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.

*Cullari Carrico Soojian Burke LLC*

Wayne, New Jersey  
April 8, 2013

# **LITTLE KIDS ROCK, INC.**

## **STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2012**

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### **ASSETS**

#### **CURRENT ASSETS:**

|                                     |                  |
|-------------------------------------|------------------|
| Cash and cash equivalents           | \$ 1,021,634     |
| Accounts receivable                 | 10,230           |
| Inventory                           | 24,388           |
| Unconditional promises to give, net | 423,471          |
| Prepaid expenses and other assets   | 12,627           |
| Total current assets                | <u>1,492,350</u> |

#### **FIXED ASSETS, NET**

LONG-TERM UNCONDITIONAL PROMISES TO GIVE, NET 150,756

TOTAL \$ 1,643,106

### **LIABILITIES AND NET ASSETS**

#### **CURRENT LIABILITIES:**

|                              |                |
|------------------------------|----------------|
| Accounts payable             | \$ 1,612       |
| Accrued expenses             | 91,229         |
| Compensated absences payable | 33,945         |
| Total current liabilities    | <u>126,786</u> |

#### **NET ASSETS:**

|                                   |                  |
|-----------------------------------|------------------|
| Unrestricted net assets           | 878,380          |
| Temporarily restricted net assets | 637,940          |
| Total net assets                  | <u>1,516,320</u> |

TOTAL \$ 1,643,106

# LITTLE KIDS ROCK, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2012

|                                                         | Unrestricted<br>Net Assets | Temporarily<br>Restricted<br>Net Assets | Total        |
|---------------------------------------------------------|----------------------------|-----------------------------------------|--------------|
| <b>PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS:</b>  |                            |                                         |              |
| Contributions                                           | \$ 466,864                 | \$ 1,122,176                            | \$ 1,589,040 |
| Special events                                          | 575,886                    | 131,279                                 | 707,165      |
| Fees for services                                       | 21,123                     | -                                       | 21,123       |
| Merchandise sales                                       | 13,430                     | -                                       | 13,430       |
| Other income                                            | 19,921                     | -                                       | 19,921       |
| Net assets released from restrictions                   |                            |                                         |              |
| Satisfaction of purpose restrictions                    | 784,291                    | (784,291)                               | -            |
| Total public support, revenues, and reclassifications   | 1,881,515                  | 469,164                                 | 2,350,679    |
| <b>EXPENSES:</b>                                        |                            |                                         |              |
| Program services:                                       |                            |                                         |              |
| Music education                                         | 1,214,477                  | -                                       | 1,214,477    |
| Musical instruments                                     | 443,888                    | -                                       | 443,888      |
| Total program services                                  | 1,658,365                  | -                                       | 1,658,365    |
| Supporting services:                                    |                            |                                         |              |
| Management and general                                  | 50,786                     | -                                       | 50,786       |
| Fund-raising                                            | 589,310                    | -                                       | 589,310      |
| Total supporting services                               | 640,096                    | -                                       | 640,096      |
| Total expenses                                          | 2,298,461                  | -                                       | 2,298,461    |
| CHANGE IN NET ASSETS BEFORE NON-OPERATING<br>ACTIVITIES | (416,946)                  | 469,164                                 | 52,218       |
| NON-OPERATING ACTIVITIES:                               |                            |                                         |              |
| Disposal of fixed assets                                | (11,046)                   | -                                       | (11,046)     |
| CHANGE IN NET ASSETS                                    | (427,992)                  | 469,164                                 | 41,172       |
| NET ASSETS, BEGINNING OF YEAR                           | 865,596                    | 168,776                                 | 1,034,372    |
| PRIOR PERIOD ADJUSTMENT                                 | 440,776                    | -                                       | 440,776      |
| NET ASSETS, END OF YEAR                                 | \$ 878,380                 | \$ 637,940                              | \$ 1,516,320 |

# LITTLE KIDS ROCK, INC.

## STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2012

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### CASH FLOWS FROM OPERATING ACTIVITIES:

|                       |    |        |
|-----------------------|----|--------|
| Changes in net assets | \$ | 41,172 |
|-----------------------|----|--------|

Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:

|                                                      |        |
|------------------------------------------------------|--------|
| Allowance for unconditional promises to give         | 25,000 |
| Discount on long-term unconditional promises to give | 7,101  |
| Disposal of fixed assets                             | 11,046 |
| Related depreciation on disposal of fixed assets     | 2,121  |

### (Increase) decrease in operating assets

|                                |           |
|--------------------------------|-----------|
| Accounts receivable            | 3,971     |
| Inventory                      | (24,388)  |
| Unconditional promises to give | (606,328) |
| Prepaid expenses               | (7,029)   |
| Adoption of ASC 958            | 440,776   |

### Increase (decrease) in operating liabilities

|                              |          |
|------------------------------|----------|
| Accounts payable             | (51,472) |
| Accrued expenses             | 91,229   |
| Compensated absences payable | 33,945   |

|                                         |          |
|-----------------------------------------|----------|
| Net cash (used in) operating activities | (32,856) |
|-----------------------------------------|----------|

|                                           |          |
|-------------------------------------------|----------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (32,856) |
|-------------------------------------------|----------|

|                                              |           |
|----------------------------------------------|-----------|
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 1,054,490 |
|----------------------------------------------|-----------|

|                                        |              |
|----------------------------------------|--------------|
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 1,021,634 |
|----------------------------------------|--------------|

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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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 and in accordance with the American Institute of Certified Public Accountants' Audit & Accounting Guide for *Not-for-Profit Entities*. Significant accounting policies are described below:

**Basis of Presentation** --- The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Paragraphs 958-605-45-3 through 7, *Contributions Received*, and ASC Paragraphs 958-205-45-2(a) through (d). 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.

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.

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 AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (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 \$637,940 of temporarily restricted net assets for the year ending December 31, 2012.

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 in 2012.

**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.

**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 allowable 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 have determined all outstanding accounts receivable at December 31, 2012 will be collected.

**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.

Additionally, funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position.

**Inventory** --- Inventory consists of musical instruments (guitars, keyboards, etc.) purchased during the year that have not been distributed to schools or other music education programs at December 31, 2012. 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 December 31, 2012, inventories consisted of \$24,388 of musical instruments.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (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.

**Impairment of long-lived assets** --- The Organization continually evaluates whether current events or circumstances warrant adjustments to the carrying value or estimated useful lives of fixed assets in accordance with the provisions of ASC 360-10-05, *Impairment or Disposals of Long-Lived Assets*.

**Compensated absences payable** --- The Organization has a policy to compensate employees for personal time off ("PTO"). Employees accrue PTO based on their date of hire. Employees may not accrue more than 30 days of unused PTO at any time. At December 31, 2012, the Organization accrued \$33,945 of expenses related to unused PTO.

**Donated goods** --- Non-cash donations, recorded in contributions were fair valued at \$236,618 for the year ended December 31, 2012. 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 U.S. generally accepted accounting principles.

**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 year ended December 31, 2012, the Organization has no material uncertain tax positions to be accounted for in the financial statements.

The Organization files income tax returns in the United States federal and all 50 U.S. State jurisdictions. The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2009, 2010, and 2011 are 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.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

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

**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 mentorship, 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 based on methods considered by management to be reasonable.

**Subsequent events** --- Management has evaluated subsequent events through April 8, 2013, 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 three financial institutions. At December 31, 2012, cash balances in two accounts exceeded federally insured limits of \$250,000 by \$365,881. Management believes that the Organization has no significant risk of loss on these amounts due to the failure of the institutions.

**Funding dependence** --- For the year ended December 31, 2012, one donor accounted for more than 10% of the Organization's total revenues. The major donor is a grant awarding agency that bases its decisions on cause and need. Accordingly, there is no guarantee that such funding will continue.

### 4. PROMISES TO GIVE

Total unconditional promises to give consist of the following at December 31, 2012:

|                                      |    |                 |
|--------------------------------------|----|-----------------|
| Unrestricted promises                | \$ | 136,328         |
| Temporarily restricted promises:     |    |                 |
| Program expansion:                   |    |                 |
| New York                             |    | 100,000         |
| San Francisco                        |    | 100,000         |
| Nashville and Atlanta                |    | 20,000          |
| Colorado                             |    | 125,000         |
| Los Angeles                          |    | 25,000          |
| To be used before December 31, 2013  |    | <u>100,000</u>  |
| Gross unconditional promises to give |    | 606,328         |
| Less: Discount on long-term pledges  |    | (7,101)         |
| Allowance on uncollectible pledges   |    | <u>(25,000)</u> |
| Net unconditional promises to give   | \$ | <u>574,227</u>  |

# **LITTLE KIDS ROCK, INC.**

## **NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)**

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### **4. PROMISES TO GIVE (CONT.)**

|                    |                          |
|--------------------|--------------------------|
| Amounts due in:    |                          |
| Less than one year | \$ 363,828               |
| One to five years  | <u>242,500</u>           |
| Total              | <u><u>\$ 606,328</u></u> |

### **5. FIXED ASSETS**

A summary of the Organization's assets as of December 31, 2012 is as follows:

|                                |                         |
|--------------------------------|-------------------------|
| Equipment                      | <u>\$ 42,193</u>        |
| Less: accumulated depreciation | <u>31,147</u>           |
| Equipment, net                 | <u><u>\$ 11,046</u></u> |

The total depreciation expense charged to operations for the year ended December 31, 2012 was \$2,121.

Management evaluated fixed assets at year end and retired all existing assets. Accordingly, the balance of fixed assets, net was \$0 at December 31, 2012. No gain or loss has been recognized on the disposal.

### **6. 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 80% of monthly premiums for an employee's coverage and 20% of monthly premiums for an employee's dependent's coverage. During the year ended December 31, 2012, the Organization incurred expenses related to these benefits in of \$47,112.

### **7. RETIREMENT PLAN**

The Organization offers a 403(b) retirement plan. The Organization matches employee contributions up to a maximum of 3% of the employee's salary. The Organization incurred expenses of \$12,498 for its share of contributions into the plan for the year ended December 31, 2012.

### **8. COMMITMENTS**

The Organization leases facilities in Northern New Jersey for their administrative office. Rent expense relating to the facilities was approximately \$28,554 for the year ended December 31, 2012. The lease expires June 30, 2013 with the option of renewal. Future payments due during 2013 for all operating leases in effect at December 31, 2012 are \$14,556. No long term leases exist.

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

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### 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and locations at December 31, 2012:

|                                            |                   |
|--------------------------------------------|-------------------|
| Geographic location:                       |                   |
| Colorado                                   | \$ 224,590        |
| Pasadena                                   | 26,730            |
| Shreveport                                 | 62                |
| San Diego                                  | 25,000            |
| Total geographic location                  | <u>\$ 276,382</u> |
| Purpose restriction:                       |                   |
| Program expansion                          | 4,070             |
| Music videos                               | 10,000            |
| Time restricted                            | 208,599           |
| Total purpose restriction                  | <u>\$ 222,669</u> |
| Program expansion, by geographic location: |                   |
| San Francisco Bay Area                     | 113,889           |
| Los Angeles                                | 25,000            |
| Total purpose restriction                  | <u>\$ 138,889</u> |
| Total temporarily restricted net assets    | <u>\$ 637,940</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the purpose and location restrictions specified by donors during the year ended December 31, 2012 as follows:

|                                                 |                   |
|-------------------------------------------------|-------------------|
| Geographic location restriction, released:      |                   |
| Atlanta                                         | \$ 40,000         |
| Chicago                                         | 25,500            |
| Colorado                                        | 150,410           |
| Newark / Jersey City                            | 50,000            |
| Memphis                                         | 4,004             |
| Nashville                                       | 6,300             |
| Pasadena                                        | 5,332             |
| Shreveport                                      | 7,729             |
| Tampa                                           | 132,709           |
| Total geographic location, restriction released | <u>\$ 421,984</u> |
| Purpose, restriction released:                  |                   |
| Content Development                             | \$ 20,000         |
| Keyboards and Amps                              | 725               |
| Music Videos                                    | 2,275             |
| Total purpose restriction accomplished          | <u>\$ 23,000</u>  |

# LITTLE KIDS ROCK, INC.

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012 (CONTINUED)

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### 9. TEMPORARILY RESTRICTED NET ASSETS (CONT.)

|                                                            |                   |
|------------------------------------------------------------|-------------------|
| Purpose restriction by geographic location, released:      |                   |
| Los Angeles:                                               |                   |
| General operations                                         | \$ 25,000         |
| Instruments                                                | 6,596             |
| Program expansion                                          | 50,000            |
| New York:                                                  |                   |
| General operations                                         | 175,500           |
| Program expansion                                          | 2,500             |
| San Francisco Bay Area:                                    |                   |
| General operations                                         | 42,100            |
| Program expansion                                          | 37,611            |
| Total purpose restriction by geographic location, released | <u>\$ 339,307</u> |
| Grand total restrictions released                          | <u>\$ 784,291</u> |

### 10. PRIOR PERIOD ADJUSTMENT

**Unconditional promises to give** --- During the year, the Organization adopted ASC 958-310-30 *Initial measurement of unconditional promises to give*. As a result, the Organization identified gross long-term promises received during the year ended December 31, 2011 of \$442,500. Consistent with ASC 958-310-30-5, the Organization followed present value techniques and applied a discount to these pledges which amounted to \$6,390. Total net unconditional promises to give at December 31, 2011 amounted to \$436,110. As of December 31, 2012 and 2011, management has determined not to record an allowance for these unconditional promises as they have been receiving the promised amounts.

**Security deposit** --- Consistent with ASC 958-210-45 *Other presentation matters*, the Organization recognized the security deposit of \$4,666 consistent with its building lease agreement, as an other current asset.