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

Financial Statements as of and for the
Year Ended December 31, 2013 (with Comparative
Totals for the Year Ended December 31, 2012)
Independent Auditors' Report

LITTLE KIDS ROCK, INC.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Little Kids Rock, Inc., which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years 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.

Report on Summarized Comparative Information

We have previously audited Little Kids Rock's 2012 financial statements, and our report dated April 8, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cullari Carriero Sanguiliano Burke LLC

Wayne, New Jersey
February 14, 2014

LITTLE KIDS ROCK, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012)

	Unrestricted	Temporarily Restricted	Total 2013	Total 2012
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 852,669	$ -	$ 852,669	$ 1,021,634
Accounts receivable	4,666	-	4,666	10,230
Inventory	-	21,911	21,911	24,388
Unconditional promises to give, net	169,189	501,275	670,464	423,471
Prepaid expenses	28,250	-	28,250	7,961
Interfund (due to) from	(292,176)	292,176	-	
Total current assets	762,598	815,362	1,577,960	1,487,684
SECURITY DEPOSITS	12,486	-	12,486	4,666
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, NET	8,287	-	8,287	150,756
TOTAL	$ 783,371	$ 815,362	$ 1,598,733	$ 1,643,106
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	$ 71,941	$ -	$ 71,941	$ 80,841
Accrued expenses	18,000	-	18,000	12,000
Compensated absences payable	68,051	-	68,051	33,945
Total current liabilities	157,992	-	157,992	126,786
NET ASSETS:				
Unrestricted net assets	625,379	-	625,379	878,380
Temporarily restricted net assets	-	815,362	815,362	637,940
Total net assets	625,379	815,362	1,440,741	1,516,320
TOTAL	$ 783,371	$ 815,362	$ 1,598,733	$ 1,643,106

LITTLE KIDS ROCK, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2012)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total 2013	Total 2012
PUBLIC SUPPORT AND REVENUES:				
Contributions	$ 1,436,428	$ 870,685	$ 2,307,113	$ 1,589,040
Special events	214,986	532,514	747,500	707,165
Fees for services	-	-	-	21,123
Merchandise sales	447	-	447	13,430
Other income	20,255	-	20,255	19,921
Net assets released from restrictions				
Satisfaction of purpose restrictions	1,225,777	(1,225,777)	-	-
Total public support, revenues, and reclassifications	2,897,893	177,422	3,075,315	2,350,679
EXPENSES:				
Program services:				
Music education	1,701,838	-	1,701,838	1,214,477
Musical instruments	475,523	-	475,523	443,888
Total program services	2,177,361	-	2,177,361	1,658,365
Supporting services:				
Management and general	95,153	-	95,153	50,786
Fund-raising	878,380	-	878,380	589,310
Total supporting services	973,533	-	973,533	640,096
Total expenses	3,150,894	-	3,150,894	2,298,461
CHANGE IN NET ASSETS BEFORE NON-OPERATING ACTIVITIES	(253,001)	177,422	(75,579)	52,218
NON-OPERATING ACTIVITIES:				
Disposal of fixed assets	-	-	-	(11,046)
CHANGE IN NET ASSETS	(253,001)	177,422	(75,579)	41,172
NET ASSETS, BEGINNING OF YEAR	878,380	637,940	1,516,320	1,034,372
PRIOR PERIOD ADJUSTMENT	-	-	-	440,776
NET ASSETS, END OF YEAR	$ 625,379	$ 815,362	$ 1,440,741	$ 1,516,320

LITTLE KIDS ROCK, INC.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (75,579)	$ 41,172
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Allowance for unconditional promises to give	46,175	25,000
Discount on long-term unconditional promises to give	1,713	7,101
Disposal of fixed assets	-	11,046
Related depreciation on disposal of fixed assets	-	2,121
(Increase) decrease in operating assets		
Accounts receivable	5,564	3,971
Inventory	2,477	(24,388)
Unconditional promises to give	(152,412)	(606,328)
Prepaid expenses	(20,289)	(7,029)
Security deposits	(7,820)	
Adoption of ASC 958	-	440,776
Increase (decrease) in operating liabilities		
Accounts payable	(8,900)	(51,472)
Accrued expenses	6,000	91,229
Compensated absences payable	34,106	33,945
Net cash used in operating activities	(168,965)	(32,856)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(168,965)	(32,856)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,021,634	1,054,490
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 852,669	$ 1,021,634

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:

<u>Unrestricted net assets</u> - 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.

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 $815,362 and $637,940 of temporarily restricted net assets for the years ending December 31, 2013 and 2012 respectively.

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 2013 or 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, 2013 and 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. 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 purchased during the year that have not been distributed to music education programs by year end. 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, 2013 and 2012, inventories consisted of $21,911 and $24,388 of musical instruments.

Reclassification --- Certain amounts from prior year financial statements have been reclassified to conform to the current year presentation.

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 --- Full time employees of the Organization may accrue paid time off up to thirty days based on date of hire. At December 31, 2013 and 2012, the Organization accrued $68,051 and $33,945 of expenses related to unused paid time off.

Donated goods --- Non-cash donations, recorded in contributions were fair valued at $229,341 and $236,618 for the year ended December 31, 2013 and 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, 2013 and 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 2010, 2011, 2012 and 2013 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.

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 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 February 14, 2014, the date on which the financial statements were available to be issued, and have determined that except as detailed in Note 11 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.

Funding dependence --- For the years ended December 31, 2013 and 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, 2013 and 2012:

	2013	2012
Unrestricted promises	$ 179,189	$ 136,328
Temporarily restricted promises:		
Program expansion:		
Colorado	125,000	125,000
Dallas	215,000	-
Los Angeles	33,660	25,000
Nashville and Atlanta	-	20,000
New York	52,500	100,000
San Francisco	101,290	100,000
Tampa	20,000	-
To be used before December 31, 2013	-	100,000
Gross unconditional promises to give	726,639	606,328
Less: Discount on long-term pledges	(1,713)	(7,101)
Allowance on uncollectible pledges	(46,175)	(25,000)
Net unconditional promises to give	$ 678,751	$ 574,227

4. PROMISES TO GIVE (CONT.)

	2013	2012
Amounts due in:		
Less than one year	$ 716,639	$ 363,828
One to five years	10,000	242,500
Total	$ 726,639	$ 606,328

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and locations at December 31, 2013 and 2012:

	2013	2012
Purpose restriction by geographic location:		
Colorado		
General operations	$ 135,121	$ 224,590
Dallas		
General operations	215,000	-
Los Angeles		
General operations	74,788	-
Program expansion	22,070	25,000
Pasadena		
General operations	25,191	26,730
San Diego		
General operations	-	25,000
San Francisco Bay Area		
General operations	253,412	-
Program expansion	81,385	113,889
Shreveport		
General operations	-	62
	$ 806,967	$ 415,271
Purpose restriction:		
Program expansion	4,070	4,070
Music videos	4,325	10,000
Time restricted	-	208,599
Total purpose restriction	$ 8,395	$ 222,669
Total temporarily restricted net assets	$ 815,362	$ 637,940

5. TEMPORARILY RESTRICTED NET ASSETS (CONT.)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose and location restrictions specified by donors during the years ended December 31, 2013 and 2012 as follows:

	2013	2012
Purpose restriction by geographic location, released:		
Atlanta:		
General operations	$ -	$ 40,000
Atlanta and Nashville:		
General operations	12,000	-
Chicago:		
General operations	146,982	25,500
Colorado:		
General operations	89,469	150,410
Los Angeles:		
General operations	212,496	25,000
Instruments	-	6,596
Program expansion	2,929	50,000
Memphis:		
General operations	-	4,004
Minneapolis:		
General operations	10,035	-
Nashville:		
General operations	-	6,300
Newark/ Jersey City:		
General operations	50,000	50,000
New York:		
General operations	108,931	175,500
Program expansion		2,500
Pasadena:		
General operations	1,539	5,332
Philadelphia:		
General operations	4,500	-
San Diego:		
Program expansion	25,000	-
San Francisco Bay Area:		
General operations	140,841	42,100
Program expansion	32,504	37,611
Shreveport:		
General operations	62	7,729
Tampa:		
General operations	40,000	132,709
Washington D.C.:		
General operations	34,215	-
Total purpose restriction by geographic location, released	$ 911,503	$ 761,291

5. TEMPORARILY RESTRICTED NET ASSETS (CONT.)

Table continued from previous page:

	2013	2012
Purpose, restriction released:		
Content Development	$ -	$ 20,000
Keyboards and Amps	-	725
Music Videos	5,675	2,275
Time Restricted, Right to Rock	100,000	-
Time Restricted, General	108,599	
Rockfest	100,000	-
Total purpose restriction, released	$ 314,274	$ 23,000
Grand total restrictions released	$ 1,225,777	$ 784,291

6. COMMITMENTS

The Organization leases office space in Northern New Jersey for program operations and administration. During the year, the Organization moved its facility to a new location, which provided additional spacing. Rent expense relating to office space amounted to $45,078 and $28,836 for the years ended December 31, 2013 and 2012, respectively.

The new lease expires August 31, 2016 with the option of renewal. A security deposit of $12,486 was due and paid at the commencement of the lease and is included in the Statement of Financial Position.

Future payments due under all operating leases in effect at December 31, 2013 are as follows:

December 31, 2014	$ 76,580
December 31, 2015	81,572
December 31, 2016	28,300
Total	$ 186,452

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 80% of monthly premiums for an employee's coverage and 20% of monthly premiums for an employee's dependent's coverage. For the years ended December 31, 2013 and 2012, the Organization incurred expenses related to these benefits of $79,288 and $47,112, respectively.

8. 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 $27,229 and $12,498 for its share of contributions into the plan for the years ended December 31, 2013 and 2012.

9. PRIOR PERIOD ADJUSTMENTS (FOR THE YEAR ENDED DECEMBER 31, 2012)

Unconditional promises to give --- During the year ended December 31, 2012, the Organization adopted ASC 958-310-30 *Initial measurement of unconditional promises to give*. As a result, in 2012 the Organization identified, captured and amended amounts for 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 captured and amended during 2012 at December 31, 2011 was $436,110. As of December 31, 2012, management determined that no allowance would be booked for pledge amounts applied to 2011 as unconditional promises were received.

Security deposit --- Consistent with ASC 958-210-45 *Other presentation matters,* the Organization recognized the security deposit of $4,666 for the year ended December 31, 2012 consistent with its building lease agreement.

10. 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) to benefit elementary, middle and high school students of New York City (the "City), by introducing "Modern Band" music curriculum to the City's elementary schools in cooperation with the New York City Department of Education.

11. AGENCY TRANSACTIONS

Conditional promises to give --- On November 13, 2013, Bohemia Foundation made a conditional promise to give Little Kids Rock, Inc. $412,000 for the benefit of AMP UP NYC. At December 31, 2013, no amounts have been received by Little Kids Rock and therefore, no corresponding liability to AMP UP NYC has been booked. Conditions and payment terms are specified as follows:

Date	Condition	Amount
N/A	Upon receipt of signed grant agreement.	$20,000
January 1, 2014	Upon receipt of AMP UP NYC budget from inception through December 31, 2014, management committee ratification and approval of the execution, delivery and performance of the grant agreement.	$119,000
January 1, 2015	December 31, 2014 budget to actual. AMP UP NYC budget and work plan for the year ending December 31, 2015.	$136,000
January 1, 2016	December 31, 2015 budget to actual. AMP UP NYC budget and work plan for the year ending December 31, 2016.	$137,000