

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

Financial Statements for the
Year Ended December 31, 2015 (with Comparative
Totals for the Year Ended December 31, 2014)
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, 2015, 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.

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 December 31, 2015, 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 the Little Kids Rock, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Callari Canino LLC

Fairfield, New Jersey
April 30, 2016

LITTLE KIDS ROCK, INC.

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2014)

		Temporarily	Total	
	Unrestricted	Restricted	2015	2014
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,098,276	\$ 861,530	\$ 1,959,806	\$ 2,167,182
Accounts receivable	290	-	290	20
Inventory	-	71,295	71,295	64,207
Unconditional promises to give, net	58,647	808,634	867,281	370,789
Prepaid expenses	38,319	-	38,319	11,030
Total current assets	<u>1,195,532</u>	<u>1,741,459</u>	<u>2,936,991</u>	<u>2,613,228</u>
SECURITY DEPOSITS	12,486	-	12,486	12,486
LONG-TERM UNCONDITIONAL PROMISES TO GIVE, NET				
	<u>-</u>	<u>161,290</u>	<u>161,290</u>	<u>136,564</u>
TOTAL	<u>\$ 1,208,018</u>	<u>\$ 1,902,749</u>	<u>\$ 3,110,767</u>	<u>\$ 2,762,278</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 176,297	\$ -	\$ 176,297	\$ 390,360
Accrued expenses	83,233	-	83,233	24,471
Deferred revenue	660	-	660	-
Compensated absences payable	108,424	-	108,424	96,066
Total liabilities	<u>368,614</u>	<u>-</u>	<u>368,614</u>	<u>510,897</u>
NET ASSETS:				
Unrestricted net assets	839,404	-	839,404	834,927
Temporarily restricted net assets	<u>-</u>	<u>1,902,749</u>	<u>1,902,749</u>	<u>1,416,454</u>
Total net assets	<u>839,404</u>	<u>1,902,749</u>	<u>2,742,153</u>	<u>2,251,381</u>
TOTAL	<u>\$ 1,208,018</u>	<u>\$ 1,902,749</u>	<u>\$ 3,110,767</u>	<u>\$ 2,762,278</u>

LITTLE KIDS ROCK, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2014)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total	
			2015	2014
PUBLIC SUPPORT AND REVENUES:				
Contributions	\$ 1,032,552	\$ 2,770,372	\$ 3,802,924	\$ 3,440,977
Related party reimbursements	-	1,009,761	1,009,761	537,852
Special events	617,268	162,629	779,897	1,276,824
Merchandise sales	40	-	40	1,585
Other income	2,102	-	2,102	1,477
Net assets released from restrictions				
Satisfaction of purpose restrictions	3,456,470	(3,456,470)	-	-
Total public support and revenues	5,108,432	486,292	5,594,724	5,258,715
EXPENSES:				
Program services:				
Music education	2,632,347	-	2,632,347	2,099,291
Musical instruments	1,059,771	-	1,059,771	926,523
Total program services	3,692,118	-	3,692,118	3,025,814
Supporting services:				
Management and general	126,279	-	126,279	116,632
Cost of direct benefit to donors	470,896	-	470,896	633,707
Fundraising	814,659	-	814,659	671,923
Total supporting services	1,411,834	-	1,411,834	1,422,262
Total expenses	5,103,952	-	5,103,952	4,448,076
CHANGE IN NET ASSETS	4,480	486,292	490,772	810,639
NET ASSETS, BEGINNING OF YEAR	834,924	1,416,457	2,251,381	1,440,742
NET ASSETS, END OF YEAR	\$ 839,404	\$ 1,902,749	\$ 2,742,153	\$ 2,251,381

LITTLE KIDS ROCK, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 490,772	\$ 810,639
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Allowance for unconditional promises to give	19,300	41,600
Discount on long-term unconditional promises to give	13,710	18,436
(Increase) decrease in operating assets		
Accounts receivable	(270)	4,646
Inventory	(7,088)	(42,296)
Unconditional promises to give	(554,228)	111,363
Prepaid expenses	(27,289)	17,220
Security deposits	-	-
Increase (decrease) in operating liabilities		
Accounts payable	(214,063)	318,419
Accrued expenses	58,762	6,471
Deferred revenue	660	-
Compensated absences payable	12,358	28,015
Net cash (used in) provided by operating activities	<u>(207,376)</u>	<u>1,314,513</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(207,376)	1,314,513
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,167,182</u>	<u>852,669</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,959,806</u></u>	<u><u>\$ 2,167,182</u></u>

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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 YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

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 \$1,902,749 and \$1,416,457 of temporarily restricted net assets for the years ending December 31, 2015 and 2014 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 2015 or 2014.

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 believe all outstanding accounts receivable at December 31, 2015 and 2014 will be collected.

Inventory — Inventory consists of musical instruments purchased and donated to the Organization 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, 2015 and 2014, inventories consisted of \$71,295 and \$64,207 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 YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

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 December 31, 2015 and 2014, the Organization accrued \$108,424 and \$96,066 of expenses related to unused paid time off.

Donated goods — Non-cash donations, recorded in contributions were fair valued at \$97,954 and \$213,200 for the year ended December 31, 2015 and 2014. 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 year ended December 31, 2015 and 2014, 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 YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

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 April 30, 2016, 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.

Funding dependence --- For the years ended December 31, 2015 and 2014 no donor accounted for more than 10% of the Organization's total revenues.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

4. PROMISES TO GIVE

Total unconditional promises to give consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted promises	\$ 58,647	\$ 334,289
Temporarily restricted promises:		
Program expansion:		
Chicago	35,000	-
Los Angeles	-	10,000
Miami	75,500	150,000
Nashville	-	20,000
New York	7,000	2,500
Pasadena	200,000	-
Paterson	-	2,500
Philadelphia	20,000	-
San Francisco	141,800	28,100
Amp Up NYC	306,134	-
Technology Curriculum Sponsorship	217,500	-
Joe Robinson Projects	-	20,000
Gross unconditional promises to give	<u>1,061,581</u>	<u>567,389</u>
Less: Discount on long-term pledges	(13,710)	(18,436)
Allowance on uncollectible pledges	<u>(19,300)</u>	<u>(41,600)</u>
Net unconditional promises to give	<u>\$ 1,028,571</u>	<u>\$ 507,353</u>
	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 886,581	\$ 412,389
One to five years	<u>175,000</u>	<u>155,000</u>
Total	<u>\$ 1,061,581</u>	<u>\$ 567,389</u>

5. COMMITMENTS

The Organization leases office space in Northern New Jersey for program operations and administration. Rent expense relating to office space amounted to \$81,772 and \$76,750 for the years ended December 31, 2015 and 2014, respectively.

The new lease expires August 31, 2016 with the option of renewal. A security deposit of \$12,486 was paid at the commencement of the lease in 2013 and is included in the Statement of Financial Position.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

5. COMMITMENTS (CONT.)

Future payments due under all operating leases in effect at December 31, 2015 are as follows:

December 31, 2016	\$ 56,600
Total	\$ 56,600

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2015 and 2014:

	2015	2014
Program expansion:		
Bridgeport	\$ 10,164	\$ 97,380
Brighton-Kohl	62,029	-
Chicago	295,406	77,121
Hartford	-	20,937
Los Angeles	16,733	13,454
Nashville	-	20,000
New Haven	70,000	-
San Francisco Bay Area	49,867	61,353
General operations		
Colorado	-	55,501
Dallas	9,035	148,902
Jersey City	-	44,834
Los Angeles	278,781	114,186
Miami	52,486	191,722
Pasadena	209,038	-
Paterson	-	21,579
San Francisco Bay Area	238,560	188,979
Savannah	-	48,069
Instruments		
Drum kits	5,000	-
Los Angeles	-	2,745
Amp Up NYC, LLC	237,000	31,300
Classroom request	50,000	50,000
Harman- technology curriculum sponsorship	282,580	-
Joe Robinson projects	17,800	20,000
Les Paul songwriting expo	10,000	-
Program expansion	4,070	194,070
Marketing consultant	-	10,000
Music videos	-	4,325
Office equipment	4,200	-
Total temporarily restricted net assets	\$ 1,902,749	\$ 1,416,457

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

6. TEMPORARILY RESTRICTED NET ASSETS (CONT.)

Net assets were released from donor restrictions by incurring expenses satisfying purpose restrictions specified by donors during the years ended December 31, 2015 and 2014 as follows:

	2015	2014
Program expansion:		
Los Angeles	\$ 1,721	\$ 8,617
New York	5,000	1,373
San Diego	-	103
San Francisco Bay Area	21,486	20,032
Tampa	80,074	71,391
General operations:		
Atlanta	-	5,500
Bridgeport	187,216	2,620
Brighton-Kohl	62,971	-
Chicago	225,525	120,217
Colorado	55,700	79,646
Dallas	158,148	216,201
Detroit	-	45
Hartford	39,775	79,063
Houston	-	109
Jersey City	68,834	36,166
Los Angeles	269,463	-
Miami	142,237	64,784
Minneapolis	2,224	2,000
Nashville	54,060	46,163
Newark	58,000	15,500
New York	74,862	112,332
Pasadena	90,962	58,344
Paterson	69,580	920
Philadelphia	98,397	11,695
San Francisco Bay Area	256,065	328,658
Savannah	48,069	1,931
Washington D.C.	-	6,506
Instruments:		
Los Angeles	9,045	237,870
New York	4,500	-
Tampa	-	25,200
Amp Up NYC, LLC	1,066,361	814,555
Harman- technology curriculum sponsorship	2,420	-
JCP projects	166,750	-
Joe Robinson projects	2,200	-
Marketing consultant	10,000	20,000
Music videos	4,325	-
Rockfest	120,500	110,923
Grand total restrictions released	\$ 3,456,470	\$ 2,498,464

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (CONTINUED)

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, 2015 and 2014, the Organization incurred expenses related to these benefits of \$93,994 and \$74,321, respectively.

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 \$38,007 and \$33,274 for its share of contributions into the plan for the years ended December 31, 2015 and 2014.

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 \$468,000 and \$308,003 in temporarily restricted contributions during the years ended December 31, 2015 and 2014, respectively. Amounts of \$262,300 and \$276,703 were released and distributed to Amp Up NYC, LLC during the years ended December 31, 2015 and 2014, respectively. Amp Up NYC, LLC reimbursed the Organization for program and administration expenses in the amount of \$804,061 and \$537,852 during the years ended December 31, 2015 and 2014, respectively. Additionally, the Organization receives contributions for the benefit of Amp Up NYC, LLC.

Conditional promises to give — On November 13, 2013, Bohemian Foundation made a conditional promise to give Little Kids Rock, Inc. \$412,000 for the benefit of Amp Up NYC, LLC. By December 31, 2015, \$275,000 was received and distributed to Amp Up NYC, LLC. At December 31, 2015, in accordance with its contract, the Organization was due \$137,000.