

MUSICIANS ON CALL, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

MUSICIANS ON CALL, INC.

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Musicians on Call, Inc. which comprise the balance sheet as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Musicians on Call, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Musicians on Call, Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

August 30, 2018

MUSICIANS ON CALL, INC.

BALANCE SHEET

DECEMBER 31, 2017

(With Summarized Financial Information for December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 389,582	\$ 265,290
Investments (Note 3)	441,323	413,707
Contributions receivable (Note 4)	360,274	233,528
Security deposits	17,074	18,074
Prepaid expenses and other receivables	23,122	18,814
Inventory	80,016	14,514
Fixed assets - net (Note 5)	<u>12,030</u>	<u>12,259</u>
Total assets	<u>\$ 1,323,421</u>	<u>\$ 976,186</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 63,850	\$ 70,620
Deferred revenue (Note 11)	<u>35,000</u>	<u> </u>
Total liabilities	<u>98,850</u>	<u>70,620</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	938,275	735,751
Board designated	<u>67,298</u>	<u>67,247</u>
Total unrestricted net assets	1,005,573	802,998
Temporarily restricted (Note 6)	118,998	2,568
Permanently restricted (Note 6)	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>1,224,571</u>	<u>905,566</u>
Total liabilities and net assets	<u>\$ 1,323,421</u>	<u>\$ 976,186</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2017</u>	<u>2016</u>
Revenues and other support					
Contributions	\$ 720,438	\$ 114,314		\$ 834,752	\$ 716,371
In-kind contributions (Notes 2 and 9)	574,867			574,867	598,868
Foundation and corporate grants	119,905			119,905	134,775
Sponsorship contract (includes in-kind income of \$10,000) (Notes 2, 9 and 11)	75,000			75,000	
Special events	\$ 928,245				
Less direct cost of special events (Exhibit C)	<u>(228,074)</u>	700,171		700,171	761,484
Investment income (Note 3)	23,463	4,153		27,616	13,391
Miscellaneous	7,856			7,856	9,944
Net assets released from restrictions (Note 6)	<u>2,037</u>	<u>(2,037)</u>			
Total revenues and other support	<u>2,223,737</u>	<u>116,430</u>		<u>2,340,167</u>	<u>2,234,833</u>
Expenses (Exhibit C)					
Program service - Facility Bedside Performances	1,461,221			1,461,221	1,451,746
Supporting services					
Management and general	207,319			207,319	172,233
Fund raising	<u>352,622</u>			<u>352,622</u>	<u>370,490</u>
Total expenses	<u>2,021,162</u>			<u>2,021,162</u>	<u>1,994,469</u>
Change in net assets (Exhibit D)	202,575	116,430		319,005	240,364
Net assets - beginning of year	<u>802,998</u>	<u>2,568</u>	\$ 100,000	<u>905,566</u>	<u>665,202</u>
Net assets - end of year (Exhibit A) (Note 6)	<u>\$ 1,005,573</u>	<u>\$ 118,998</u>	<u>\$ 100,000</u>	<u>\$ 1,224,571</u>	<u>\$ 905,566</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	Program Service	Supporting Services			Direct Cost of Special Events	Total	
	Facility Bedside Performances	Management and General	Fund Raising	Total		2017	2016
Salaries	\$ 620,648	\$ 68,016	\$ 161,539	\$ 229,555	\$ 850,203	\$ 698,054	
Payroll taxes	51,141	5,604	13,311	18,915	70,056	60,208	
Employee benefits	65,615	7,191	17,078	24,269	89,884	69,273	
Music Pharmacy	9,043				9,043	21,485	
Donated professional services (Notes 2 and 9)	459,292	47,881	7,500	55,381	514,673	570,200	
Professional fees (Note 10)	35,054	40,536	35,000	75,536	110,590	266,233	
Marketing	37,579	4,981	15,785	20,766	58,345	54,818	
Occupancy (Note 7)	58,685	6,431	15,274	21,705	80,390	79,154	
Office supplies	1,558	4,373	389	4,762	6,320	6,680	
Postage and delivery	932	1,081	12,848	13,929	14,861	5,113	
Insurance	1,947	5,987	507	6,494	8,441	8,633	
Telephone	10,343	1,134	2,692	3,826	14,169	14,743	
Depreciation and amortization	3,232	354	841	1,195	4,427	15,093	
Space rental, catering, and set-up					\$ 228,074	696,032	
Travel and entertainment	60,040		5,863	5,863	65,903	63,043	
Tickets and processing fees	18,384	12,054	59,966	72,020	90,404	47,812	
Volunteer expenses	9,470				9,470	1,997	
Miscellaneous	18,258	1,696	4,029	5,725	23,983	11,930	
Total expenses	1,461,221	207,319	352,622	559,941	228,074	2,249,236	
Less expenses deducted directly from revenues on the statement of activities							
Direct cost of special events					(228,074)	(696,032)	
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,461,221	\$ 207,319	\$ 352,622	\$ 559,941	\$ -	\$ 1,994,469	

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

MUSICIANS ON CALL, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 319,005
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	4,427
Unrealized gain on investments	(8,541)
Decrease (increase) in assets	
Contributions receivable	(126,746)
Security deposits	1,000
Prepaid expenses and other receivables	(4,308)
Inventory	(65,502)
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	(6,770)
Deferred revenue	35,000
	<hr/>
Net cash provided by operating activities	147,565
	<hr/>
Cash flows from investing activities	
Purchase of investments	(19,075)
Purchase of fixed assets	(4,198)
	<hr/>
Net cash used by investing activities	(23,273)
	<hr/>
Net change in cash	124,292
Cash - beginning of year	<hr/>
	265,290
Cash - end of year	<hr/> <hr/>
	\$ 389,582

See independent auditor's report.

The accompanying notes are an integral part of these statements.

MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - NATURE OF ENTITY

Musicians on Call, Inc. (the Organization) was founded in May 1999 with the mission of using music to promote and complement the healing process in health care facilities. The program activities consist of bedside performances by volunteer musicians and music libraries donated to facilities. The Organization is supported primarily by contributions and special events. The Organization currently conducts activities in New York, Tennessee, Pennsylvania, Florida, California, Maryland, Washington, D.C., Georgia, Colorado, Arizona, Delaware, Massachusetts, Texas, Illinois, Indiana, and Nevada.

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments are recorded at fair value. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the 5 year treasury securities interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Allowance for doubtful accounts - Receivables are charged to bad debt expense when they are determined to be uncollectible based on periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end, and other factors. Interest is not accrued or recorded on outstanding receivables. Management has determined that no allowance for uncollectible accounts for contributions receivable is necessary as of December 31, 2017.

Inventory - Inventory consists of contributed tablets, headphones, and Pandora streaming subscriptions. It is stated at fair value at the time of the donation, and is recorded on the first-in, first-out basis, and is adjusted to the lower of cost or market.

Fixed assets - Fixed asset purchases are recorded at cost. Items with a cost in excess of \$500 and an estimated useful life of greater than one year are capitalized. Fixed assets are depreciated on the straight-line method over their estimated useful lives of 5 to 15 years for furniture and equipment. Leasehold improvements are amortized on the straight-line method over the shorter of their estimated useful life or over the term of the lease.

Deferred revenue - Deferred revenue is recorded for funds received under a sponsorship contract during the current fiscal year which have not yet been earned.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by a donor. Board designated net assets represent unrestricted funds designated by Board action for future program growth and funding of deficits.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been restricted by donors to a specific time period or purpose.

Permanently restricted net assets - Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed professional services - Contributed professional services are recorded at the estimated fair value of services donated by musicians, guides, and other professionals.

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In-kind contributions - In-kind contributions are stated at fair value at the date of donation.

Sponsorship contract - Sponsorship contract revenue is recorded based on the provisions of the signed contract.

Special events - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying statement of activities.

Music Pharmacy - Music Pharmacy represents a package of tablets, headphones, and Pandora streaming subscriptions distributed to patients in health care facilities.

Functional expenses - The costs of providing the Organization's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating lease - Rent expense has been recorded on the straight-line basis over the life of the lease. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Summarized financial information for 2016 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived. In 2017, certain fixed assets in the amount of \$14,000, as reported in 2016, have been reclassified to inventory to correct the presentation.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs to the valuation methodology include:

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements (continued)***

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2017 as compared to that used at December 31, 2016 (see Note 3).

Mutual funds - Valued at the net asset value (NAV) of shares held at year end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Uncertainty in income taxes - The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through August 30, 2018, which is the date the financial statements were available to be issued.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the assets at fair value at December 31, 2017:

	<u>Level 1</u>
Mutual funds	
Fixed income	\$ 70,586
Equity	<u>112,985</u>
Total investments reported on the fair value hierarchy	183,571
Cash equivalents	<u>257,752</u>
	<u>\$ 441,323</u>

Net investment gain is as follows:

Interest and dividends	\$ 19,075
Unrealized gain	<u>8,541</u>
	<u>\$ 27,616</u>

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable have been discounted over the payment period using a 1.89% discount rate at the time of the contribution. The Organization received promises to give which are due as follows:

2018	\$ 292,210
2019	35,000
2020	<u>35,000</u>
	362,210
Less discount to present value	<u>(1,936)</u>
	<u>\$ 360,274</u>

Six pledges totaling \$275,000 represent a significant portion of the total contributions receivable balance as of December 31, 2017.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 5 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Website	\$ 77,062	5 years
Furniture and equipment	64,248	5-15 years
Leasehold improvements	<u>10,901</u>	2 years
	152,211	
Accumulated depreciation and amortization	<u>(140,181)</u>	
	<u>\$ 12,030</u>	

NOTE 6 - NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Unappropriated endowment earnings	\$ 4,684
Periods after December 31, 2017	<u>114,314</u>
	<u>\$ 118,998</u>

During 2017, net assets were released from restrictions as follows:

Online fundraising tools	\$ <u>2,037</u>
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Permanently Restricted Net Assets

The Organization's permanently restricted net assets consist of one endowment fund, permanently restricted by the donor, established to support activities of the Organization.

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MUSICIANS ON CALL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 6 - NET ASSETS (continued)**Interpretation of Relevant Law**

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

Return Objectives, Strategies Employed and Spending Policy

The objective of the Organization is to protect the principal endowment funds at the original amount designated by the donor while generating income for the activities of the Organization. The investment policy to achieve this objective is to invest in money market mutual fund. Investment income in relation to the endowment funds is recorded as temporarily restricted until it is appropriated.

Funds with Deficiencies

The Organization does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

As of December 31, 2017, the endowment net asset composition consists of permanently donor-restricted funds of \$100,000 and \$4,684 of unappropriated earnings thereon totaling \$104,684.

Changes in Endowment Net Assets for the Year Ended December 31, 2017

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 531	\$ 100,000	\$ 100,531
Interest and dividends	<u>4,153</u>	<u> </u>	<u>4,153</u>
Endowment net assets, end of year	<u>\$ 4,684</u>	<u>\$ 100,000</u>	<u>\$ 104,684</u>

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 7 - LEASED SPACE**

The Organization leases space for the New York and Nashville offices. The New York lease is valid through December 31, 2021. The Nashville lease is valid through July 31, 2019. The rent expense for the year was \$80,390 (including electricity and taxes).

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

2018	\$	72,876
2019		68,274
2020		60,950
2021		<u>62,778</u>
	\$	<u>264,878</u>

NOTE 8 - CONCENTRATIONS

From time to time, financial instruments which potentially subject the Organization to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

NOTE 9 - IN-KIND CONTRIBUTIONS

In-kind contributions during 2017 consist of the following:

Professional services	\$	504,673
Headphones		62,000
Airfare		10,000
Other items		<u>8,194</u>
	\$	<u>584,867</u>

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

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MUSICIANS ON CALL, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 10 - COMMITMENT**

In May 2016, the Organization entered into a subscription agreement with an unrelated company. The agreement expires in May 2019. The expense for the year was \$19,200.

The Organization's future payments are as follows:

2018	\$ 19,200
2019	<u>6,400</u>
	<u>\$ 25,600</u>

NOTE 11 - SPONSORSHIP CONTRACT

The Organization entered into a contract with an unrelated entity whereby the Organization receives funds and other items in return for designating the entity as its official sponsor as well as granting the entity exclusive sponsorship rights within the entity's industry. In 2017, the Organization received \$65,000 as well as \$10,000 worth of airfare, as part of the contract which ended December 31, 2017. This contract was renewed for 2018 and \$35,000 from the renewed contract was received and deferred in 2017.