

Musicians On Call Inc.

Financial Statements
For the Years Ended December 31, 2022 and 2021

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For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Musicians On Call Inc.

Opinion

We have audited the financial statements of Musicians On Call Inc. (the Organization), which comprise the statements of financial position as of December 31, 2022, and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022, and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
September 8, 2023

Musicians On Call Inc.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash	\$ 623,950	\$ 1,310,414
Investments	490,261	509,120
Pledges receivable, current portion	667,489	750,376
Other receivables	284,040	247,144
Inventory	145,576	223,437
Prepaid expenses and other assets	43,507	38,535
Total current assets	<u>2,254,823</u>	<u>3,079,026</u>
Investments	127,364	122,460
Operating lease right-of-use assets	380,161	-
Pledges receivable, net of current portion	391,856	214,392
Property and equipment, net	27,376	5,569
Intangibles, net	573,473	212,487
Total assets	\$ 3,755,053	\$ 3,633,934
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 169,237	\$ 308,131
Deferred revenue	173,311	-
Refundable advance, Paycheck Protection Program	-	276,710
Operating lease liabilities, current portion	89,771	-
Total current liabilities	<u>432,319</u>	<u>584,841</u>
Long-term liabilities		
Operating lease liabilities, net of current portion	293,332	-
Total liabilities	<u>725,651</u>	<u>584,841</u>
Net assets		
Without donor restrictions	1,777,054	2,017,612
With donor restrictions	1,252,348	1,031,481
Total net assets	<u>3,029,402</u>	<u>3,049,093</u>
Total liabilities and net assets	\$ 3,755,053	\$ 3,633,934

Musicians On Call Inc.
Statement of Activities
For the Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets	\$ 764,609	\$ 1,457,258	\$ 2,221,867
Contributions of nonfinancial assets	416,171	-	416,171
Foundation and corporate grants	118,500	99,600	218,100
Government grants	276,710	-	276,710
Special events	107,652	-	107,652
Investment income (loss)	(18,587)	4,892	(13,695)
Other revenue	24,713	-	24,713
Net assets released from restrictions	1,340,883	(1,340,883)	-
Total support and revenues	<u>3,030,651</u>	<u>220,867</u>	<u>3,251,518</u>
Expenses			
Program services	2,089,960	-	2,089,960
Management and general	699,146	-	699,146
Fundraising	482,103	-	482,103
Total expenses	<u>3,271,209</u>	<u>-</u>	<u>3,271,209</u>
Change in net assets	(240,558)	220,867	(19,691)
Net assets, beginning of year	<u>2,017,612</u>	<u>1,031,481</u>	<u>3,049,093</u>
Net assets, end of year	\$ 1,777,054	\$ 1,252,348	\$ 3,029,402

Musicians On Call Inc.
Statement of Activities
For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets	796,591	\$ 1,806,228	\$ 2,602,819
Contributions of nonfinancial assets	284,025	-	284,025
Foundation and corporate grants	50,499	89,400	139,899
Government grants	241,089	-	241,089
Special events, net of direct benefit to donors	49,134	-	49,134
Investment income	28,219	4,704	32,923
Other revenue	378,983	-	378,983
Net assets released from restrictions	1,542,224	(1,542,224)	-
Total support and revenues	<u>3,370,764</u>	<u>358,108</u>	<u>3,728,872</u>
Expenses			
Program services	1,859,314	-	1,859,314
Management and general	286,905	-	286,905
Fundraising	561,731	-	561,731
Total expenses	<u>2,707,950</u>	<u>-</u>	<u>2,707,950</u>
Change in net assets	662,814	358,108	1,020,922
Net assets, beginning of year	<u>1,354,798</u>	<u>673,373</u>	<u>2,028,171</u>
Net assets, end of year	\$ 2,017,612	\$ 1,031,481	\$ 3,049,093

Musicians On Call Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 1,139,482	\$ 337,468	\$ 150,184	\$ 1,627,134
Payroll taxes	88,434	26,190	11,656	126,280
Employee benefits	<u>154,115</u>	<u>45,643</u>	<u>20,312</u>	<u>220,070</u>
Total personnel costs	1,382,031	409,301	182,152	1,973,484
Technology	207,937	2,993	46,490	257,420
Donated professional services	110,520	161,680	-	272,200
Donated goods	-	3,480	15,896	19,376
Professional fees	34,375	36,674	103,125	174,174
Marketing	35,407	14,978	10,186	60,571
Occupancy	45,943	13,606	6,055	65,604
Office supplies and miscellaneous	100,053	24,153	25,220	149,426
Insurance	-	4,760	-	4,760
Special events	-	-	50,908	50,908
Telephone	11,073	3,279	1,459	15,811
Travel and entertainment	52,617	6,801	17,843	77,261
Operational and processing fees	33,221	17,025	21,835	72,081
Depreciation and amortization	<u>76,783</u>	<u>416</u>	<u>934</u>	<u>78,133</u>
	\$ 2,089,960	\$ 699,146	\$ 482,103	\$ 3,271,209

Musicians On Call Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program services	Management and general	Fundraising	Total
Salaries and benefits	\$ 1,046,866	\$ 113,945	\$ 263,496	\$ 1,424,307
Payroll taxes	87,636	9,539	22,058	119,233
Employee benefits	<u>133,336</u>	<u>14,207</u>	<u>32,854</u>	<u>180,397</u>
Total personnel costs	1,267,838	137,691	318,408	1,723,937
Technology	97,944	1,209	21,765	120,918
Donated professional services	133,225	60,541	-	193,766
Donated goods	11,980	-	-	11,980
Professional fees	41,288	44,221	124,071	209,580
Marketing	38,764	4,246	7,938	50,948
Occupancy	58,971	6,418	14,843	80,232
Office supplies and miscellaneous	25,611	6,116	6,498	38,225
Insurance	7,015	6,990	1,766	15,771
Special events	-	-	34,209	34,209
Telephone	11,175	1,216	2,813	15,204
Travel and entertainment	41,214	3,867	7,653	52,734
Operational and processing fees	27,120	14,027	20,928	62,075
Volunteer expenses	4,838	-	-	4,838
Bad debt	60,000	-	-	60,000
Depreciation and amortization	<u>32,331</u>	<u>363</u>	<u>839</u>	<u>33,533</u>
	\$ 1,859,314	\$ 286,905	\$ 561,731	\$ 2,707,950

Musicians On Call Inc.
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash, beginning of year	\$ 1,310,414	\$ 797,916
Cash flows from operating activities		
Change in net assets	(19,691)	1,020,922
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	78,133	33,533
Unrealized (gain) loss on investments	34,382	(13,893)
Contributed stock	(36,245)	(269,857)
Contributed property and equipment	(6,750)	-
Loss on disposal of property and equipment	(239)	-
Noncash lease expense	2,942	-
Discount on pledges receivable	26,286	5,214
Forgiveness of Paycheck Protection Program	(276,710)	-
Change in:		
Pledges receivable	(120,863)	(178,462)
Other receivables	(36,896)	(210,339)
Inventory	77,861	(43,681)
Prepaid expenses and other assets	(4,972)	(8,831)
Accounts payable and accrued expenses	(138,894)	129,741
Deferred revenue	173,311	-
Refundable advance, Paycheck Protection Program	-	35,621
Net cash provided (used) by operating activities	(248,345)	499,968
Cash flows from investing activities		
Proceeds from sale of investments	36,245	273,496
Purchase of investments	(20,422)	(119,050)
Purchase of property and equipment	(19,326)	-
Purchase of software	(434,616)	(141,916)
Net cash provided (used) by investing activities	(438,119)	12,530
Net change in cash	(686,464)	512,498
Cash, end of year	\$ 623,950	\$ 1,310,414
Supplemental disclosures of cash flow information		
Disposal of fully depreciated assets	\$ 46,169	\$ -

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Nature of the Organization

Since 1999, Musicians On Call Inc. (the Organization) has delivered live and recorded music to patients, families, and caregivers in healthcare environments across the United States. During the Organization's MOC Bedside program (formerly the Bedside Performance Program), Volunteer Guides and Volunteer Musicians go room to room in hospitals to play live music at the bedsides of patients. The Organization's MOC Virtual program (formerly the Virtual Bedside Performance Program) utilizes video conferencing technology to bring Volunteer performances to those in need of remote, live music through one-on-one intimate performances and hospital-wide concerts. Because of this unique setup, volunteers and those dialing in can be located all over the country, and multiple hospitals can join, enabling the music to reach hundreds of patients at once. As the nation's leading provider of live music in hospitals, the Organization's bedside and virtual programs have reached more than one million individuals in healthcare facilities nationwide. The Organization also serves patients and caregivers through its MOC Streaming program (formerly Music Pharmacy), which provides healthcare facilities with tablets pre-programmed with streaming music service subscriptions, custom curated playlists, and top-of-the-line headphones for patient use. The Organization is supported primarily by contributions, grants, and special events.

Note 2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements of the Organization have been prepared in accordance with accounting principles accepted in the United States of America (US GAAP), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and granters. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Cash

Cash consists of demand deposit accounts. Money market funds, held as a portion of the Organization's investment portfolio, are classified as investments and are not considered to be cash equivalents for purposes of the statement of cash flows.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Investments

Investments are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the balance sheet. The Organization invests in various types of investments securities. 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 market's fluctuations, and that such changes could materially affect the amounts reported in the Organization's financial statements. Unrealized gains and losses are included in the changes in net assets without donor restrictions for the gains and losses that are unrestricted, and in the changes in with donor restricted net assets for the gains and losses that are restricted for the support of certain Organization programs. Investment fees are netted against the investment return.

Fair Value Measurement

US GAAP establishes 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 and liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date;

Level 2 – Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly, including inputs that are not considered to be active;

Level 3 – Inputs that are unobservable.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad criteria data, liquidity statistics, and other factors. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Organization's perceived risk of that investment.

Pledges Receivable

Pledges receivable 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 risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Other Receivables

Other receivables consist primarily of amounts not yet received from the employee retention credit. All other receivables are expected to be collected within one year.

Allowance for Doubtful Accounts

The Organization uses the allowance method to account for uncollectible accounts and pledges receivable. The allowance is based on prior years' experience and management's analysis of possible bad debts. As of December 31, 2022 and 2021, the Organization determined that an allowance was not necessary.

Inventory

Inventory consists of contributed tablets, headphones, streaming subscriptions, and merchandise. Contributed items are stated at fair value at the time of the donation. Merchandise that is purchased is recorded at the lower of cost on a first-in, first-out basis or net realizable value.

Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value at the date of the gift, if donated, less accumulated depreciation. The cost of property and equipment purchased in excess of \$2,500 is capitalized. Depreciation is provided in amounts sufficient to amortize the cost of the property and equipment over the estimated useful lives on a straight-line basis, which is approximately 5 – 7 years for furniture and equipment.

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income except for assets traded where no cash is received. Expenditures for maintenance and repairs are charged to expenses as incurred; replacements and betterments that extend the useful lives are capitalized.

Intangible Assets

Software development costs are amortized over its estimated useful life of five years. Amortization is computed using the straight-line method. The software was placed in service in November 2020. For 2022 and 2021, amortization expense was \$73,630 and \$28,996, respectively.

Revenue and Revenue Recognition

The Organization recognizes contributions and foundations and corporate grants when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as increases to net assets without donor restrictions. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Revenue and Revenue Recognition

Sponsorship contract revenue is recorded based on the provisions of the signed contract and during the year in which the related services are provided. The performance obligation or delivering services is simultaneously received and consumed by the sponsor. Therefore, revenue is recognized when the terms of the sponsorship agreement are satisfied.

The Organization recognizes revenue from special events when the events take place. Amounts received prior to the commencement of the event, including deposits, are deferred to the applicable period.

Contributions of Nonfinancial Assets (New Accounting Standard Adopted in 2022)

In-kind contributions are reflected as contributions at their fair value at date of donation and are reported as support without donor restrictions unless explicit donor stipulations specify how donated assets must be used. Donated specialized services have been recognized on the accompanying financial statements. These donated services require professional skills, and would typically be purchased if not provided by donation.

Many volunteers have made significant contributions of their time in furtherance of the Organization's mission. These services were not reflected in the accompanying statement of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. A portion of general and administrative costs that benefit multiple functional areas have been allocated among the programs and supporting services as follows:

	Method of allocation
Personnel costs	Time and effort
Occupancy	Time and effort
Office supplies and miscellaneous	Time and effort
Insurance	Time and effort
Telephone	Time and effort
Travel and entertainment	Time and effort
Operational and processing fees	Time and effort
Depreciation	Time and effort

MOC Streaming Program

MOC Streaming Program represents a package of tablets, headphones, and streaming subscriptions distributed to patients in healthcare facilities.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Income Taxes

The Organization is a tax-exempt organization as defined by Section 501 (c)(3) of the Internal Revenue Code (IRC), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by IRC. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. The Organization is subject to federal and state tax audits for periods since 2019.

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset, representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classifications, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient and, therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract, and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Leases (New Accounting Standard Adopted in 2022)

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate asset class. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

The Organization has made an accounting policy election to use the risk-free rate as the discount rate if the rate implicit in the lease is not readily determinable for machinery and equipment. The risk-free rate is the rate of a zero coupon US Treasury instrument for the same period of time as the lease term.

The adoption of the new lease standard did not materially impact net earnings or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

Note 3. Risks and Uncertainties

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, investments, accounts receivable, and pledges and grants receivable. The Organization maintains its cash in bank deposit accounts, the balance, of which, at times, may exceed federally insured limits. As of December 31, 2022, the Organization held a balance with a financial institution that exceeds the federally insured limit by \$414,000. As of December 31, 2021, the Organization held a balance with a financial institution that exceeds the federally insured limit by \$1,042,000.

Investment securities are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amount reported on the financial statements.

Musicians On Call Inc.
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 3. Risks and Uncertainties

Concentrations of credit risk with respect to the pledges receivable is limited due to the short payments terms the Organization has with its creditors. Concentrations of credit risk with respect to the contributions and grants receivable are limited due to the fact they are from various contributors, private foundations, and a government agency. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts. As of December 31, 2021, one donor represented 21% of pledges receivable. As of December 31, 2022, one donor represented 31% of pledges receivable.

Note 4. Liquidity and Availability

The following represents the Organization's financial assets:

	2022	2021
Financial assets		
Cash	\$ 623,950	\$ 1,310,414
Investments	617,625	631,580
Pledges receivable	1,059,345	964,768
Other receivables	<u>284,040</u>	<u>247,144</u>
Total financial assets at year-end	2,584,960	3,153,906
Less amounts not available to be used within one year		
Net assets with donor restrictions	(1,252,348)	(1,031,483)
Board designated net assets	<u>(171,112)</u>	<u>(169,275)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,161,500	\$ 2,291,698

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (net of in-kind). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts. In addition to these available financial assets, a significant portion of the Organization's annual expenditures will be funded by current year operating revenues including contributions and foundation and corporate grants.

There is also a fund functioning as an endowment established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

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Note 5. Investments

Investment securities are stated at fair value and summarized as follows at December 31, 2022:

	Cost	Fair Value
Cash and money market	\$ 321,163	\$ 321,163
Loan fund	100,000	127,364
Mutual funds	<u>167,849</u>	<u>169,098</u>
Total investments	\$ 589,012	\$ 617,625

Investment securities are stated at fair value and summarized as follows at December 31, 2021:

	Cost	Fair Value
Cash and money market	\$ 305,340	\$ 305,340
Loan fund	100,000	122,460
Mutual funds	<u>189,888</u>	<u>203,780</u>
Total investments	\$ 595,228	\$ 631,580

Note 6. Fair Value Measurement

The classification of the Organization's investment securities at fair value are as follows at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 321,163	\$ -	\$ -	\$ 321,163
Loan fund	-	127,634	-	127,364
Mutual funds	<u>169,098</u>	<u>-</u>	<u>-</u>	<u>169,098</u>
	\$ 490,261	\$ 127,634	\$ -	\$ 617,625

The classification of the Organization's investment securities at fair value are as follows at December 31, 2021:

	Level 1	Level 2	Level 3	Total
Cash and money market	\$ 305,340	\$ -	\$ -	\$ 305,340
Loan fund	-	122,460	-	122,460
Mutual funds	<u>203,780</u>	<u>-</u>	<u>-</u>	<u>203,780</u>
	\$ 509,120	\$ 122,460	\$ -	\$ 631,580

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Note 7. Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Pledges receivable 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 risk-free interest rates of 3.99% in 2022 and 1.27% in 2021.

The pledges receivable consists of the following:

	2022	2021
One year or less	\$ 667,489	\$ 750,376
Two to five years	<u>423,750</u>	<u>220,000</u>
	1,091,239	970,376
Less discount on pledges receivable	<u>(31,894)</u>	<u>(5,608)</u>
	\$ 1,059,345	\$ 964,768

Note 8. Property and Equipment

A summary of property and equipment is as follows:

	2022	2021
Furniture and equipment	\$ 52,518	\$ 72,611
Less: accumulated depreciation	<u>(25,142)</u>	<u>(67,042)</u>
Property and equipment, net	\$ 27,376	\$ 5,569

Depreciation expense for 2022 and 2021 was \$4,503 and \$4,536, respectively.

Note 9. Refundable Advance, Paycheck Protection Program

In April, 2020, the Organization was granted a loan in the amount of \$241,089 pursuant to the Paycheck Protection Program (PPP) and in February 2021, the Organization was granted a Second Draw PPP loan in the amount of \$276,710. The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and related interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels.

The Organization has determined the PPP to be a conditional contribution and as such, it has recorded the proceeds of the loan as a refundable advance and will recognize income when all conditions are met and the loan is fully forgiven by the Small Business Administration. The Organization received formal forgiveness of the first PPP loan in July 2021 and recorded it as income for 2021. It received formal forgiveness of the Second Draw PPP loan in January 2022.

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Note 10. Special Events

The Organization sponsored several events during 2022 to raise additional funds for its charitable activities. The events and the net income derived are as follows:

	Income	Expenses	Net
Special events	\$ 107,652	\$ 50,908	\$ 56,744

The Organization sponsored several events during 2021 to raise additional funds for its charitable activities. The events and the net income derived are as follows:

	Income	Expenses	Net
Special events	\$ 49,134	\$ 34,209	\$ 24,476

Note 11. Contributions of Nonfinancial Assets

The following represents contributed nonfinancial assets:

	2022	2021
Professional services	\$ 367,650	\$ 209,216
Donated furniture	6,750	-
Travel (airfare/hotel)	800	69,009
Merchandise	<u>40,971</u>	<u>5,800</u>
Total investments	\$ 416,171	\$ 284,025

Unless otherwise noted, the Organization did not recognize any contributions of nonfinancial assets with donor imposed restrictions.

It is the Organization's policy to sell all contributed merchandise and furniture immediately upon receipt at auction or for salvage unless the merchandise or furniture is restricted for use in a specific program by the donor. No merchandise or furniture received during the period was restricted for use. All merchandise and furniture were sold and valued according to the actual cash proceeds upon disposition.

Contributed services recognized comprise professional services from attorneys advising the Organization on various administrative legal matters. Contributed services are valued and are reported at their estimated fair value in the financial statement based on current rates for similar legal services.

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Note 12. **Net Assets**

Net assets were as follows as of December 31, 2022:

	Without donor restrictions	With donor restrictions	Total
Undesignated	\$ 1,605,942	\$ -	\$ 1,605,942
Board designated	171,112	-	171,112
Specific purpose			
Performances for specific facilities or locations	-	313,642	313,642
Unappropriated endowment earnings to support programs	-	27,352	27,352
MOC Streaming program	-	5,367	5,367
Programs for those living with dementia	-	60,000	60,000
To promote the growth and development of MOConnect	-	494,987	494,987
Passage of time			
For periods after December 31	-	251,000	251,000
Term endowment	-	<u>100,000</u>	<u>127,339</u>
Total net assets	\$ 1,777,054	\$ 1,252,348	\$ 3,029,402

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Note 12. Net Assets

Net assets were as follows as of December 31, 2021:

	Without donor restrictions	With donor restrictions	Total
Undesignated	\$ 1,848,337	\$ -	\$ 1,848,337
Board designated	169,275	-	169,275
Specific purpose			
Performances for specific facilities or locations	-	209,932	209,932
Retreat dinner	-	604	604
Unappropriated endowment earnings to support programs	-	22,460	22,460
MOC Streaming program	-	25,000	25,000
Programs for those living with dementia	-	55,000	55,000
Virtual programs	-	13,750	13,750
To promote the growth and development of MOConnect	-	218,735	218,735
Passage of time			
For periods after December 31	-	386,000	386,000
Term endowment	-	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>\$ 2,017,612</u>	<u>\$ 1,031,481</u>	<u>\$ 3,049,093</u>

Releases from net assets with donor restrictions are as follows:

	2022	2021
Satisfaction of purpose restrictions		
Performances for specific facilities or locations	\$ 246,300	\$ 198,632
MOC Streaming	19,633	25,000
To promote the growth and development of MOConnect	243,748	901,809
Virtual programs	13,750	16,250
Corporate conference	604	6,200
Programs for those living with dementia	25,000	10,000
Programs to benefit veterans	32,848	15,152
Passage of time	<u>759,000</u>	<u>369,181</u>
	<u>\$ 1,340,883</u>	<u>\$ 1,542,224</u>

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Note 13. Endowment Funds

Board Designated

As of December 31, 2022 and 2021, the Board of Directors has designated \$171,112 and \$169,275, respectively, of net assets without donor restrictions, as a general endowment fund to support operations. Since that amount resulted from an internal designation and is not donor restricted, it is classified as net assets without donor restriction.

Term Endowment

The term endowment consists of donor-restricted funds. Net assets associated with term endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The term endowment is set to expire on November 20, 2023.

The objective of the Organization is to protect the principal term endowment fund 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 a loan fund. Investment income in relation to the term endowment fund is to support the Organization's programs and is reported as part of net assets with donor restrictions for specific purpose.

The Organization interprets the UPMIFA of the State of New York as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the term endowment, (b) the original value of subsequent gifts to the term endowment, and (c) accumulations to the term endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Earnings attributed to the donor restricted term endowment funds are classified as net assets without donor restrictions or with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with donor stipulations and the standard of prudence prescribed by UPMIFA.

Changes in endowment net assets for 2022 are as follows:

	Without donor restrictions	With donor restrictions			
	Board designated	Appreciation	Term endowment		
			Historical gift value	Total	Total
Endowment net assets, beginning of year	\$ 169,275	\$ 22,460	\$ 100,000	\$ 122,460	\$ 291,735
New designated funds	-	-	-	-	-
Interest income	<u>1,837</u>	<u>4,892</u>	<u>-</u>	<u>4,892</u>	<u>6,729</u>
Endowment net assets, end of year	\$ 171,112	\$ 27,352	\$ 100,000	\$ 127,352	\$ 298,464

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Note 13. Endowment Funds

Changes in endowment net assets for 2021 are as follows:

	Without donor restrictions	With donor restrictions			
	Board designated	Appreciation	Term endowment Historical gift value	Total	
Endowment net assets, beginning of year	\$ 69,259	\$ 17,743	\$ 100,000	\$ 117,743	\$ 187,002
New designated funds	100,000	-	-	-	100,000
Interest income	<u>16</u>	<u>4,717</u>	<u>-</u>	<u>4,717</u>	<u>4,733</u>
Endowment net assets, end of year	\$ 169,275	\$ 22,460	\$ 100,000	\$ 122,460	\$ 291,735

Note 14. Leases

The Organization leases real estate under an operating lease agreement that has an initial term of 5 years with no optional renewal. The operating lease generally does not contain any material restrictive covenants or residual value guarantees. Operating lease cost is recognized on a straight-line basis over the lease term. Total operating lease cost for the year ended December 31, 2022 was \$59,288.

Supplemental balance sheet information related to leases is as follows as of December 31, 2022:

Operating lease		
Operating lease right-of-use assets	\$	380,161
Operating lease liabilities, current portion	\$	89,771
Operating lease liabilities, net of current portion		<u>293,332</u>
Total operating lease liabilities	\$	383,103
Weighted-average remaining lease term		
Operating lease		4.33 years
Weighted-average discount rate		
Operating lease		1.37%

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Note 14. **Leases**

Future undiscounted cash flows for the next five years and thereafter, and a reconciliation to the lease liabilities recognized on the statement of financial position are as follows as of December 31, 2022:

Years ending December 31,	Operating Leases
2023	\$ 87,496
2024	89,684
2025	91,932
2026	94,232
2027	<u>31,668</u>
Total lease payments	395,012
Less imputed interest	<u>(11,908)</u>
Total present value of lease liabilities	\$ 383,103

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of December 31, 2021:

Years ending December 31,	Operating Leases
2022	\$ 58,304
2023	87,317
2024	89,500
2025	91,736
2026	94,034
Thereafter	<u>39,585</u>
	\$ 460,476

Total rent expense for operating leases was \$80,231 for the year ended December 31, 2021.

Note 15. **Subsequent Events**

Management has evaluated subsequent events through September 8, 2023 the date on which the financial statements were available for issuance.