# MUSIC FOR ALL, INC.
# AND AFFILIATE

COMBINED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

FEBRUARY 28, 2013

GREENWALT CPAs

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# INDEPENDENT AUDITORS' REPORT

To the Boards of Directors of
Music for All, Inc. and Affiliate:

We have audited the accompanying combined financial statements of Music for All, Inc. and Affiliate, which comprise the combined statement of financial position as of February 28, 2013 and the related combined 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 combined 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 error or fraud.

## Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 estimates made by management, as well as evaluating the overall presentation of the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Music for All, Inc. and Affiliate as of February 28, 2013, and the changes in their net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited Music for All, Inc. and Affiliate's 2012 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended February 29, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

June 19, 2013

Greenwalt CPAs, Inc.

MUSIC FOR ALL, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28, 2013 AND FEBUARY 29, 2012

| ASSETS | 2013 | 2012 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 1,429,522 | $ 684,311 |
| Accounts receivable, net of allowance for doubtful accounts of $53,100 and $52,400 in 2013 and 2012, respectively | 455,209 | 788,919 |
| Inventory | 13,384 | 9,653 |
| Prepaid expenses | 210,004 | 149,665 |
| *Total current assets* | 2,108,119 | 1,632,548 |
| **INVESTMENTS** | | |
| Marketable securities | 148,465 | 139,213 |
| **PROPERTY AND EQUIPMENT** | | |
| Property and equipment | 1,424,644 | 1,415,882 |
| Accumulated depreciation | (1,373,714) | (1,281,900) |
| *Net property and equipment* | 50,930 | 133,982 |
| **OTHER ASSETS** | | |
| Trademark | 20,000 | 20,000 |
| | $ 2,327,514 | $ 1,925,743 |

| LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT) | 2013 | 2012 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 52,838 | $ 23,643 |
| Accrued expenses | 157,192 | 78,364 |
| Prepaid event income | 1,903,071 | 1,848,332 |
| *Total current liabilities* | 2,113,101 | 1,950,339 |
| **LONG-TERM LIABILITIES** | | |
| Deferred trust liability | 39,509 | 40,610 |
| Reserve for license fees | 34,669 | 39,165 |
| *Total long-term liabilities* | 74,178 | 79,775 |
| *Total liabilities* | 2,187,279 | 2,030,114 |
| **COMMITMENTS (Notes 10 and 11)** | | |
| **NET ASSETS (ACCUMULATED DEFICIT)** | | |
| Unrestricted | (79,815) | (315,010) |
| Temporarily restricted | 76,951 | 68,851 |
| Permanently restricted | 143,099 | 141,788 |
| *Total net assets (accumulated deficit)* | 140,235 | (104,371) |
| | $ 2,327,514 | $ 1,925,743 |

See accompanying notes to financial statements.

## MUSIC FOR ALL, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2013

WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED FEBRUARY 29, 2012

| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | 2013 TOTAL | 2012 TOTAL |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Program fees | $ 1,511,420 | $ - | $ - | $ 1,511,420 | $ 600,172 |
| Housing and meal fees | 878,111 | - | - | 878,111 | 932,296 |
| Ticket fees | 1,905,752 | - | | 1,905,752 | 1,856,068 |
| Band fees | 428,575 | - | - | 428,575 | 408,450 |
| Merchandise sales | 90,020 | - | - | 90,020 | 41,495 |
| Program book sales | 116,451 | - | - | 116,451 | 121,525 |
| Photography commissions | 60,301 | - | - | 60,301 | 46,321 |
| Video commissions and fees | 169,892 | - | - | 169,892 | 189,442 |
| Merchandise commissions | 268,957 | - | - | 268,957 | 221,760 |
| Sponsorships | 802,195 | - | - | 802,195 | 731,652 |
| Contributions | 121,740 | 100 | 1,311 | 123,151 | 108,782 |
| In-kind contributions | 255,088 | - | - | 255,088 | 247,395 |
| Grants | 61,100 | 20,000 | - | 81,100 | 105,837 |
| Interest | 140 | - | - | 140 | 388 |
| Loss on disposal of assets | - | - | - | - | (602) |
| Realized and unrealized gain on investments | 11,310 | - | - | 11,310 | 3,498 |
| Miscellaneous | 33,785 | - | - | 33,785 | 31,924 |
| Net assets released from restrictions | 12,000 | (12,000) | - | - | - |
| *Total revenue* | 6,726,837 | 8,100 | 1,311 | 6,736,248 | 5,646,403 |
| **EXPENSES** | | | | | |
| Program | 5,930,265 | - | - | 5,930,265 | 4,903,440 |
| Fundraising | 201,673 | - | - | 201,673 | 171,735 |
| General and administrative | 359,704 | - | - | 359,704 | 392,609 |
| *Total expenses* | 6,491,642 | - | - | 6,491,642 | 5,467,784 |
| **CHANGE IN NET ASSETS** | 235,195 | 8,100 | 1,311 | 244,606 | 178,619 |
| **NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR** | (315,010) | 68,851 | 141,788 | (104,371) | (282,990) |
| **NET ASSETS (ACCUMULATED DEFICIT), END OF YEAR** | $ (79,815) | $ 76,951 | $ 143,099 | $ 140,235 | $ (104,371) |

See accompanying notes to financial statements.

## MUSIC FOR ALL, INC. AND AFFILIATE

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED FEBRUARY 28, 2013
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED FEBRUARY 29, 2012

| | PROGRAM EXPENSES | FUNDRAISING EXPENSES | GENERAL AND ADMINISTRATIVE EXPENSES | 2013 TOTAL | 2012 TOTAL |
|---|---|---|---|---|---|
| **PROGRAMS** | | | | | |
| Awards and trophies | $ 83,838 | $ - | $ - | $ 83,838 | $ 71,197 |
| Scholarships and grants | 8,600 | - | - | 8,600 | 7,837 |
| Clinicians' and judges' fees | 640,461 | - | - | 640,461 | 584,243 |
| Copyright fees | 95,564 | - | - | 95,564 | 102,408 |
| Cost of merchandise sold | 203,954 | - | - | 203,954 | 177,176 |
| Equipment rental | 95,973 | - | - | 95,973 | 79,608 |
| Program promotion | 86,003 | 16,447 | 10,779 | 113,229 | 107,356 |
| Facility rental | 660,045 | - | - | 660,045 | 616,744 |
| Participants' housing and meals | 856,318 | - | - | 856,318 | 883,694 |
| Outside services | 1,490,137 | 3,370 | 8,594 | 1,502,101 | 717,328 |
| Other program expenses | 294,472 | - | 5,382 | 299,854 | 184,285 |
| *Total programs and activities* | 4,515,365 | 19,817 | 24,755 | 4,559,937 | 3,531,876 |
| **PERSONNEL RELATED** | | | | | |
| Salaries and contract employees | 739,767 | 132,193 | 182,031 | 1,053,991 | 1,080,227 |
| Salaries - payroll taxes | 49,095 | 10,112 | 12,274 | 71,481 | 73,442 |
| 403(b) contribution | 14,732 | 704 | 3,683 | 19,119 | 11,291 |
| Staff travel, housing and meals | 3,862 | - | - | 3,862 | 6,760 |
| Group insurance | 64,859 | 2,345 | 16,215 | 83,419 | 76,025 |
| Other personnel related expenses | 5,341 | 1,176 | 1,335 | 7,852 | 5,400 |
| *Total personnel related* | 877,656 | 146,530 | 215,538 | 1,239,724 | 1,253,145 |
| **BUILDING AND FACILITY** | | | | | |
| Depreciation and amortization | 83,566 | 1,237 | 7,011 | 91,814 | 105,406 |
| Rental - office building | 193,301 | 7,158 | 40,561 | 241,020 | 241,020 |
| Repairs and maintenance | 14,425 | 506 | 2,866 | 17,797 | 18,821 |
| Telephone and utilities | 30,232 | 1,098 | 6,223 | 37,553 | 31,638 |
| *Total building and facility* | 321,524 | 9,999 | 56,661 | 388,184 | 396,885 |
| **OFFICE AND ADMINISTRATIVE** | | | | | |
| Board of director's expense | 7,114 | - | 1,779 | 8,893 | 8,081 |
| Computer services and supplies | 42,448 | 4,260 | 18,749 | 65,457 | 56,747 |
| Business insurance | 53,927 | - | 13,482 | 67,409 | 73,960 |
| Interest | 2,710 | - | 678 | 3,388 | 12,759 |
| Franchise, sales, and income taxes | 10,936 | - | - | 10,936 | 9,949 |
| Other office and administrative | 98,585 | 21,067 | 28,062 | 147,714 | 124,382 |
| *Total office and administrative* | 215,720 | 25,327 | 62,750 | 303,797 | 285,878 |
| | $ 5,930,265 | $ 201,673 | $ 359,704 | $ 6,491,642 | $ 5,467,784 |

See accompanying notes to financial statements.

## INCREASE IN CASH

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from program activities and contributors | $ 6,799,849 | $ 5,311,610 |
| Cash paid to suppliers and employees | (6,044,686) | (5,160,289) |
| Interest expense | (3,388) | (12,759) |
| Interest income | 140 | 388 |
| *Net cash provided by operating activities* | 751,915 | 138,950 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Capital expenditures | (8,762) | (16,009) |
| Proceeds from sale of investments | 2,058 | 12,474 |
| Purchases of investments | - | (11,310) |
| *Net cash used in investing activities* | (6,704) | (14,845) |
| **INCREASE IN CASH** | 745,211 | 124,105 |
| **CASH, BEGINNING OF YEAR** | 684,311 | 560,206 |
| **CASH, END OF YEAR** | $ 1,429,522 | $ 684,311 |

## RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

| | 2013 | 2012 |
|---|---|---|
| **CHANGE IN NET ASSETS** | $ 244,606 | $ 178,619 |
| **ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Depreciation and amortization | 91,814 | 105,406 |
| Loss on disposal of fixed assets | - | 602 |
| Realized and unrealized gain on investments | (11,310) | (3,498) |
| *(Increase) decrease in operating assets:* | | |
| Accounts receivable | 333,710 | 107,951 |
| Inventory | (3,731) | (682) |
| Prepaid expenses | (60,339) | (31,535) |
| *Increase (decrease) in operating liabilities:* | | |
| Accounts payable | 29,195 | 3,677 |
| Accrued expenses | 78,828 | (79,921) |
| Prepaid event income | 54,739 | (142,733) |
| Deferred trust liability | (1,101) | (1,082) |
| Reserve for license fees | (4,496) | 2,146 |
| *Total adjustments* | 507,309 | (39,669) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 751,915 | $ 138,950 |

## 1. Nature of Activities and Summary of Significant Accounting Policies

### General

Music for All, Inc. (Music for All) is an Illinois not-for-profit corporation whose mission is to create, provide and expand positively life-changing experiences through music for all. Music for All is one of the largest and most influential national music education organizations in support of active music-making, combining programming at a national level with active and ongoing advocacy for the music education and the arts. The majority of its revenues come from program registrations and sponsorships.

The combined financial statements include the activities of Music for All Foundation (Foundation), an organization affiliated through common control, which awards grants and scholarships to further music education.

### Principles of Combination

The accompanying financial statements include the accounts of Music for All and the Foundation (the Organizations). All significant transactions and balances between the Organizations have been eliminated.

### Basic Accounting Policy

The accompanying financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class and functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organizations' financial statements for the year ended February 29, 2012, from which the summarized information was derived.

### Cash

For purposes of the statement of cash flows, the Organizations consider all highly liquid temporary cash investments purchased with a maturity of three months or less to be cash equivalents. The Organizations had no cash equivalents at February 28, 2013 and February 29, 2012. The Organizations maintain cash balances at commercial banks and have maintained cash balances in excess of Federal Deposit Insurance Corporation (FDIC) limits at February 28, 2013, and from time to time during the year.

### Receivables and Credit Policies

Accounts receivable are stated at the amount billed. Account balances with invoices over 90 days past the due date are considered delinquent. In addition to management attempting collection on all accounts over 90 days, those accounts are placed on hold status until payment arrangements are made.

## 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

Payments of accounts receivable are allocated to the specific invoices identified on the remittance advice or, if unspecified, the participant is contacted to determine to which outstanding invoices to apply payment.

Management individually reviews all accounts receivable balances that exceed 90 days past due. Accounts are called on to notify past due amounts and establish payment plans. Receivable balances are not written off as bad debts until approved by the Board of Directors.

### Inventory

Inventory, consisting of audio and video recordings, has been valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

### Property and Equipment

Property and equipment are recorded at cost and depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets (5-10 years for furniture and equipment). Leasehold improvements are amortized over the term of the lease.

### Other Assets

A trademark was acquired during the 2007 merger and was recorded at the previous entity's cost. The trademark is reviewed for impairment on an annual basis.

### Revenue Recognition

Event fees and related revenue are recognized in the period in which the event occurs. Amounts collected in advance are recorded as prepaid event income. Sales and commissions are recognized when earned.

Donors' unconditional promises to give cash and other assets are required to be recognized as contribution revenue in the period the promises are made. Promises which are conditional or which are not supported by appropriate documentation are not recognized as contribution revenue until conditions have been satisfied or amounts have been received. Donations of material and supplies, including the use of a facility, are recorded as revenue (in-kind contributions) and applicable expense at their estimated fair value at the date of the donation.

### Reserve for License Fees

The financial statements include a reserve liability for management's estimate of royalties and license fees due (or potentially due) on sales for the past three years on video tapes of special events sold to the general public, but not for tapes sold prior to the three year period. Provisions to the reserve are based on total audio/video sales during the year.

## 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### NET ASSET CLASSIFICATIONS

As required by Accounting Standards for the Presentation of Financial Statements of Not-For-Profit Organizations, the Organizations are required to report information regarding the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted and permanently restricted.

The following classes of net assets are maintained:

#### UNRESTRICTED NET ASSETS

The unrestricted net asset class includes general and board designated assets and liabilities of the Organizations. The unrestricted net assets of the Organizations may be used at the discretion of management to support the Organizations' purposes and operations. The Board of Directors has designated a portion of the unrestricted assets to be used in the event of an emergency in the amount of $94,199 at February 28, 2013.

#### TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net asset class includes assets of the Foundation related to gifts with explicit donor-imposed restrictions that have not been met as to a specified purpose or to later periods of time or after specified dates. Donor restricted promises to give that are due in future periods and are not permanently restricted are classified as temporarily restricted net assets. Temporarily restricted net assets are comprised of the following at February 28, 2013 and February 28, 2012:

| | 2013 | 2012 |
|---|---|---|
| National Association of Uniform Manufacturers and Distributors | $ 1,000 | $ 1,000 |
| Mark Jolesch Scholarship | 373 | 1,373 |
| McLeroy Scholarship Fund | 1,082 | 982 |
| Camp Scholarship Fund | - | 1,000 |
| The Paynter Project | 2,908 | 2,908 |
| Mark Williams Fund | 1,588 | 1,588 |
| Guitar Center, Inc. – teacher education fund | 50,000 | 50,000 |
| National Endowment for the Arts – summer symposium | 20,000 | - |
| Lacy Foundation – drum circles | - | 10,000 |
| | $ 76,951 | $ 68,851 |

## 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

### Permanently Restricted Net Assets

The permanently restricted net asset class includes assets of the Foundation for which the donor has stipulated that the contribution be maintained in perpetuity. Donor imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. Permanently restricted net assets are comprised of the following at February 28, 2013 and February 29, 2012:

| | 2013 | 2012 |
|---|---|---|
| Honor Band Chair Endowment | $ 50,750 | $ 50,750 |
| L.J. Hancock Memorial Endowment | 33,914 | 33,423 |
| Sandy Feldstein Legacy Fund | 35,932 | 35,532 |
| Fred J Miller Scholarship Fund | 21,000 | 21,000 |
| Foundation Endowment | 1,503 | 1,083 |
| | $ 143,099 | $ 141,788 |

### Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Organizations and are recorded at their fair values as revenues and assets in the year a contributions acknowledgement is received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

### In-Kind Contributions

During the years ended February 28, 2013 and February 29, 2012, contributed services, goods, and use of facilities were received by the Organizations. The fair market value of these services, goods and facilities of $255,088 and $247,395 (of which $241,020 is rent for each year) for the years ended February 28, 2013 and February 29, 2012, has been reflected in the accompanying financial statements. Accordingly, these transactions have been treated as non-cash transactions and are properly excluded from the statement of cash flows.

### Expense Allocation

Expenses have been classified as event expenses (program services), fundraising, and general and administrative expenses based on the actual direct expenditures and cost allocation based on estimates of time and usage by the Organizations' personnel and programs.

### Advertising Costs

The Organizations incurred $30,113 and $27,226 in advertising expense for the years ended February 28, 2013 and February 29, 2012, respectively. These costs were expensed as incurred.

## 1. Nature of Activities and Summary of Significant Accounting Policies, Continued

### Fair Value Measurements

Accounting Standards for Fair Value Measurement define fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Those standards also establish a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, giving highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to unobservable inputs (level 3 measurements).

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Assets measured on a recurring basis at February 28, 2013 and February 29, 2012 are as follows:

| 2013 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Mutual funds | | | | |
| Growth | $ 47,068 | $ 47,068 | $ - | $ - |
| Value | 32,176 | 32,176 | - | - |
| Blended | 18,754 | 18,754 | - | - |
| Diversified emerging markets | 3,150 | 3,150 | - | - |
| Fixed income | | | | |
| Bond | 40,053 | 40,053 | - | - |
| Bank loan | 7,264 | 7,264 | - | - |
| | $ 148,465 | $ 148,465 | $ - | $ - |

## 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

| 2012 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Mutual funds | | | | |
| Growth | $ 35,774 | $ 35,774 | $ - | $ - |
| Value | 30,821 | 30,821 | - | - |
| Blended | 26,218 | 26,218 | - | - |
| Diversified emerging markets | 2,948 | 2,948 | - | - |
| Fixed income | | | | |
| Bond | 38,226 | 38,226 | - | - |
| Bank loan | 5,226 | 5,226 | - | - |
| | $ 139,213 | $ 139,213 | $ - | $ - |

Following is a description of the valuation methodologies used for assets measured at fair market value:

- Mutual funds and fixed income - Valued at the net asset value of shares held by the Organizations at year-end as quoted in the active market.

The valuation methodologies have not changed at February 28, 2013 or February 29, 2012.

### SUBSEQUENT EVENTS

Subsequent events have been evaluated by Management through June 19, 2013, which is the date the financial statements were available to be issued.

## 2. ENDOWMENT FUNDS

The Organizations' endowment consists of donor permanently restricted contributions that were made to provide a source of income for scholarships. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## 2. Endowment Funds, Continued

### Interpretation of Relevant Law

The Board of Directors of the Organizations have interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the purchasing power 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 of this interpretation, the Organizations classify as permanently restricted net assets the original value of gifts donated to the permanent endowment. In accordance with SPMIFA, the Organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Organizations and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organizations
(7) The investment policies of the Organizations

Changes in Endowment Net Assets for the year ended February 28, 2013 and February 29, 2012:

| | 2013 | 2012 |
|---|---|---|
| Endowment net assets, beginning of year | $ 141,788 | $ 140,718 |
| Donations | 1,311 | 1,070 |
| Endowment net assets, end of year | $ 143,099 | $ 141,788 |

### Return Objectives and Risk Parameters

The Organizations have adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organizations must hold in perpetuity.

### Strategies Employed for Achieving Objectives

To satisfy long-term rate-of-return objectives, the Organizations rely on a total return strategy administered by PNC Investments in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). PNC Investments targets a diversified asset allocation that places a greater emphasis on long-term growth and a reasonable return.

## 2. Endowment Funds, Continued

### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organizations have a policy whereby disbursements can be made up to 5% of the endowment's previous year fund balance for the Organizations' scholarships. This is consistent with the Organizations' objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

## 3. Investments

Consistent with Accounting Standards for Investments Held by Not-for-Profits, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains and losses are based on the differences between cost and fair value of each classification of security and are reported in the statement of activities. Fair market value is determined by quoted prices in the active market.

Cost and fair value of investments at February 28, 2013 and February 29, 2012 are as follows:

| | 2013 Fair Value | 2013 Cost | 2012 Fair Value | 2012 Cost |
|---|---|---|---|---|
| Marketable Securities | $ 148,465 | $ 129,022 | $ 139,213 | $ 125,539 |

## 4. Property and Equipment

Property and equipment at February 28, 2013 and February 29, 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Leasehold improvements | $ 763,638 | $ 763,638 |
| Capitalized software | 12,000 | 12,000 |
| Furniture and equipment | 649,006 | 640,244 |
| | 1,424,644 | 1,415,882 |
| Accumulated depreciation | (1,373,714) | (1,281,900) |
| | $ 50,930 | $ 133,982 |

## 5. Prepaid Event Income

The Organizations record prepaid event income when funds are collected in advance for events. Once the event takes place, the funds are recognized as income. The prepaid account also includes sponsorship income that is contractually obligated to the Organizations. Income is recognized as the Organizations fulfill the contract requirements. Prepaid event income as of February 28, 2013 and February 29, 2012 was $1,903,071 and $1,848,332, respectively.

## 6. Bank Line of Credit

Music for All maintained a $620,000 line of credit with a bank that expired in April 2013. The line of credit bore interest at the LIBOR rate plus 4.0% with a 5.0% minimum (5.0% at February 28, 2013). Music for All had no outstanding balance on the line of credit at February 28, 2013 and February 29, 2012, respectively. The line of credit was secured by Music for All's assets.

In May 2013, Music for All extended its line of credit agreement through August 2013 under the same terms mentioned above.

## 7. Deferred Trust Liability

Music for All received a charitable gift annuity trust of $75,000 during the year ended February 29, 2008. Under this trust agreement, Music for All is required to pay the donor $4,125 annually, in quarterly installments. Music for All has recorded a deferred trust liability for the estimated value of these payments. The deferred trust liability was $39,509 and $40,610 at February 28, 2013 and February 29, 2012, respectively.

## 8. Tax Status

Music for All and the Foundation are not-for-profit organizations, exempt from income taxes under Section 501(c)(3) of the U. S. Internal Revenue Code and have been classified as organizations that are not private foundations under Section 509(a) of the Internal Revenue Code.

Accounting Standards for Income Taxes provide detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an enterprise's financial statements. The Organizations individually evaluate their activities to determine that they are in compliance with their tax-exempt purposes. For those activities that the Organizations determine to be unrelated business income, the Organizations record the resulting unrelated business income tax liability, if any. All tax periods prior to 2009 are no longer subject to examination.

## 9. Employee Benefit Plan

Music for All maintains a Section 403(b) salary reduction retirement plan. The plan covers essentially all salaried employees who have completed one year of service. The plan agreement provides for discretionary employer matching contributions. The discretionary match is at an amount not to exceed 3% of the employee's annual salary. The matching contributions are subject to a six-year graded vesting schedule that provides 20% vesting after two years of service and 20% per year thereafter (100% vested after six years of service). Music for All's contributions for the years ended February 28, 2013 and February 29, 2012 totaled $19,119 and $11,291, respectively.

## 10. Leases

Music for All has a lease for office space. Under the current lease which expires June 2013, the lessor has certain rights to terminate the lease if it receives a certain offer by another tenant. Music for All may elect to match the offer and remain in the space or vacate the space and receive $40,000 for each year remaining on the lease. The estimated fair market value of this lease is approximately $20,000 per month. Accordingly, the annual fair market value of the lease is $241,020, as noted in Note 1, which is recorded as an in-kind contribution for the leased office space.

## 10. Leases, Continued

The original lease has been extended from July 2013 through June 2023. Rent during the extension term varies. The lease extension reduces the demised premises from 20,085 square feet to 18,085 square feet. The straight-line rent payments will be $5,139 per month beginning in July 2013.

Music for All also leases office equipment under various operating leases expiring March 2017. Equipment rental expense for the years ended February 28, 2013 and February 29, 2012 for these leases amounted to $18,358 and $15,538, respectively. Music for All rents other equipment on a temporary basis for camps and other activities.

Future minimum lease payments required under these leases are as follows for the years ending February 28:

| | |
|---|---|
| 2014 | $ 18,528 |
| 2015 | 30,585 |
| 2016 | 39,893 |
| 2017 | 35,196 |
| 2018 | 48,397 |
| Thereafter | 560,635 |
| | $ 733,234 |

## 11. Commitments

Music for All has contracted to hold a portion of its programming activities at two venues through February 2016 and June 2023, respectively. Minimum annual amounts due under these contracts are $395,000.

Music for All has also contracted with a music licensing company through September 2013 to assist and obtain rights to use various copyrighted music for sponsored competitions, DVDs, audio downloads, and CDs. The amount due under this contract is $40,425 for the year ending February 28, 2014.

## 12. Reclassifications

Certain items in the 2012 financial statements have been retroactively reclassified to conform to the 2013 presentation. These reclassifications had no impact on total net assets at February 29, 2012.

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GREENWALT CPAs

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# Independent Auditors' Report On Supplementary Information

To the Boards of Directors of
Music for All, Inc. and Affiliate:

We have audited the combined financial statements of Music for All, Inc. and Affiliate as of and for the year ended February 28, 2013, and our report thereon dated June 19, 2013, which expressed an unmodified opinion on those combined financial statements, appears on page one. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The information in Exhibits I through VI, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Greenwalt CPAs, Inc.

June 19, 2013

| | MUSIC FOR ALL | MUSIC FOR ALL FOUNDATION | ELIMINATIONS | 2013 TOTAL | 2012 TOTAL |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash | $ 1,425,678 | $ 3,844 | $ - | $ 1,429,522 | $ 684,311 |
| Accounts receivable, net of allowance for doubtful accounts of $53,100 and $52,400 in 2013 and 2012, respectively | 454,140 | 1,069 | - | 455,209 | 788,919 |
| Accounts receivable - related party | 5,141 | 270 | (5,411) | - | - |
| Inventory | 13,384 | - | - | 13,384 | 9,653 |
| Prepaid expenses | 210,004 | - | - | 210,004 | 149,665 |
| *Total current assets* | 2,108,347 | 5,183 | (5,411) | 2,108,119 | 1,632,548 |
| **INVESTMENTS** | | | | | |
| Marketable securities | - | 148,465 | - | 148,465 | 139,213 |
| **PROPERTY AND EQUIPMENT** | | | | | |
| Property and equipment | 1,416,795 | 7,849 | - | 1,424,644 | 1,415,882 |
| Accumulated depreciation and amortization | (1,365,865) | (7,849) | - | (1,373,714) | (1,281,900) |
| *Net property and equipment* | 50,930 | - | - | 50,930 | 133,982 |
| **OTHER ASSETS** | | | | | |
| Trademark | 20,000 | - | - | 20,000 | 20,000 |
| | $ 2,179,277 | $ 153,648 | $ (5,411) | $ 2,327,514 | $ 1,925,743 |
| **LIABILITIES AND NET ASSETS** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Accounts payable | $ 52,838 | $ - | $ - | $ 52,838 | $ 23,643 |
| Accounts payable - related party | 270 | 5,141 | (5,411) | - | - |
| Accrued expenses | 154,192 | 3,000 | - | 157,192 | 78,364 |
| Prepaid event income | 1,903,071 | - | - | 1,903,071 | 1,848,332 |
| *Total current liabilities* | 2,110,371 | 8,141 | (5,411) | 2,113,101 | 1,950,339 |
| **LONG-TERM LIABILITIES** | | | | | |
| Deferred trust liability | 39,509 | - | - | 39,509 | 40,610 |
| Reserve for license fees | 34,669 | - | - | 34,669 | 39,165 |
| *Total long-term liabilities* | 74,178 | - | - | 74,178 | 79,775 |
| *Total liabilities* | 2,184,549 | 8,141 | (5,411) | 2,187,279 | 2,030,114 |
| **NET ASSETS (ACCUMULATED DEFICIT)** | | | | | |
| Unrestricted | (75,272) | (4,543) | - | (79,815) | (315,010) |
| Temporarily restricted | 70,000 | 6,951 | - | 76,951 | 68,851 |
| Permanently restricted | - | 143,099 | - | 143,099 | 141,788 |
| | (5,272) | 145,507 | - | 140,235 | (104,371) |
| | $ 2,179,277 | $ 153,648 | $ (5,411) | $ 2,327,514 | $ 1,925,743 |

## MUSIC FOR ALL, INC. AND AFFILIATE
COMBINING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2013
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED FEBRUARY 29, 2012

Exhibit II

| | UNRESTRICTED | | | TEMPORARILY RESTRICTED | | PERMANENTLY RESTRICTED | | |
|---|---|---|---|---|---|---|---|---|
| | MUSIC FOR ALL | MUSIC FOR ALL FOUNDATION | TOTAL | MUSIC FOR ALL | MUSIC FOR ALL FOUNDATION | MUSIC FOR ALL FOUNDATION | 2013 TOTAL | 2012 TOTAL |
| **REVENUE** | | | | | | | | |
| Program fees | $ 1,511,420 | $ - | $ 1,511,420 | $ - | $ - | $ - | $ 1,511,420 | $ 600,172 |
| Housing and meal fees | 878,111 | - | 878,111 | - | - | - | 878,111 | 932,296 |
| Ticket fees | 1,905,752 | - | 1,905,752 | - | - | - | 1,905,752 | 1,856,068 |
| Band fees | 428,575 | - | 428,575 | - | - | - | 428,575 | 408,450 |
| Merchandise sales | 90,020 | - | 90,020 | - | - | - | 90,020 | 41,495 |
| Program book sales | 116,451 | - | 116,451 | - | - | - | 116,451 | 121,525 |
| Photography commissions | 60,301 | - | 60,301 | - | - | - | 60,301 | 46,321 |
| Video commissions and fees | 169,892 | - | 169,892 | - | - | - | 169,892 | 189,442 |
| Merchandise commissions | 268,957 | - | 268,957 | - | - | - | 268,957 | 221,760 |
| Sponsorships | 802,195 | - | 802,195 | - | - | - | 802,195 | 731,652 |
| Contributions | 120,740 | 1,000 | 121,740 | - | 100 | 1,311 | 123,151 | 108,782 |
| In-kind contributions | 255,088 | - | 255,088 | - | - | - | 255,088 | 247,395 |
| Grants | 61,100 | - | 61,100 | 20,000 | - | - | 81,100 | 105,837 |
| Interest | 140 | - | 140 | - | - | - | 140 | 388 |
| Loss on disposal of assets | - | - | - | - | - | - | - | (602) |
| Realized and unrealized gain on investments | - | 11,310 | 11,310 | - | - | - | 11,310 | 3,498 |
| Miscellaneous | 33,785 | - | 33,785 | - | - | - | 33,785 | 31,924 |
| Net assets released from restrictions | 10,000 | 2,000 | 12,000 | (10,000) | (2,000) | - | - | - |
| *Total revenue* | 6,712,527 | 14,310 | 6,726,837 | 10,000 | (1,900) | 1,311 | 6,736,248 | 5,646,403 |
| **EXPENSES** | | | | | | | | |
| Program | 5,923,665 | 6,600 | 5,930,265 | - | - | - | 5,930,265 | 4,903,440 |
| Fundraising | 201,673 | - | 201,673 | - | - | - | 201,673 | 171,735 |
| General and administrative | 357,518 | 2,186 | 359,704 | - | - | - | 359,704 | 392,609 |
| *Total expenses* | 6,482,856 | 8,786 | 6,491,642 | - | - | - | 6,491,642 | 5,467,784 |
| **CHANGE IN NET ASSETS** | 229,671 | 5,524 | 235,195 | 10,000 | (1,900) | 1,311 | 244,606 | 178,619 |
| **NET ASSETS (DEFICIT), BEGINNING OF YEAR** | (304,943) | (10,067) | (315,010) | 60,000 | 8,851 | 141,788 | (104,371) | (282,990) |
| **NET ASSETS (DEFICIT), END OF YEAR** | $ (75,272) | $ (4,543) | $ (79,815) | $ 70,000 | $ 6,951 | $ 143,099 | $ 140,235 | $ (104,371) |

## MUSIC FOR ALL, INC. AND AFFILIATE
COMBINING SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED FEBRUARY 28, 2013
WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED FEBRUARY 29, 2012

Exhibit III

| | MUSIC FOR ALL | | | | MUSIC FOR ALL FOUNDATION | | |
|---|---|---|---|---|---|---|---|
| | PROGRAM | FUNDRAISING | GENERAL & ADMINISTRATIVE EXPENSES | TOTAL | FDN EXPENSES | 2013 TOTAL | 2012 TOTAL |
| **PROGRAMS** | | | | | | | |
| Awards and trophies | $ 83,838 | $ - | $ - | $ 83,838 | $ - | $ 83,838 | $ 71,197 |
| Scholarships and grants | 2,000 | - | - | 2,000 | 6,600 | 8,600 | 7,837 |
| Clinicians' and judges' fees | 640,461 | - | - | 640,461 | - | 640,461 | 584,243 |
| Copyright fees | 95,564 | - | - | 95,564 | - | 95,564 | 102,408 |
| Cost of merchandise sold | 203,954 | - | - | 203,954 | - | 203,954 | 177,176 |
| Equipment rental | 95,973 | - | - | 95,973 | - | 95,973 | 79,608 |
| Program promotion | 86,003 | 16,447 | 10,779 | 113,229 | - | 113,229 | 107,356 |
| Facility rental | 660,045 | - | - | 660,045 | - | 660,045 | 616,744 |
| Participants' housing and meals | 856,318 | - | - | 856,318 | - | 856,318 | 883,694 |
| Outside services | 1,490,137 | 3,370 | 6,421 | 1,499,928 | 2,173 | 1,502,101 | 717,328 |
| Other program expenses | 294,472 | - | 5,382 | 299,854 | - | 299,854 | 184,285 |
| *Total programs and activities* | 4,508,765 | 19,817 | 22,582 | 4,551,164 | 8,773 | 4,559,937 | 3,531,876 |
| **PERSONNEL RELATED** | | | | | | | |
| Salaries and contract employees | 739,767 | 132,193 | 182,031 | 1,053,991 | - | 1,053,991 | 1,080,227 |
| Salaries - payroll taxes | 49,095 | 10,112 | 12,274 | 71,481 | - | 71,481 | 73,442 |
| 403(b) contribution | 14,732 | 704 | 3,683 | 19,119 | - | 19,119 | 11,291 |
| Staff travel, housing and meals | 3,862 | - | - | 3,862 | - | 3,862 | 6,760 |
| Group insurance | 64,859 | 2,345 | 16,215 | 83,419 | - | 83,419 | 76,025 |
| Other personnel related expenses | 5,341 | 1,176 | 1,335 | 7,852 | - | 7,852 | 5,400 |
| *Total personnel related* | 877,656 | 146,530 | 215,538 | 1,239,724 | - | 1,239,724 | 1,253,145 |
| **BUILDING AND FACILITY** | | | | | | | |
| Depreciation and amortization | 83,566 | 1,237 | 7,011 | 91,814 | - | 91,814 | 105,406 |
| Rental - office building | 193,301 | 7,158 | 40,561 | 241,020 | - | 241,020 | 241,020 |
| Repairs and maintenance | 14,425 | 506 | 2,866 | 17,797 | - | 17,797 | 18,821 |
| Telephone and utilities | 30,232 | 1,098 | 6,223 | 37,553 | - | 37,553 | 31,638 |
| *Total building and facility* | 321,524 | 9,999 | 56,661 | 388,184 | - | 388,184 | 396,885 |
| **OFFICE AND ADMINISTRATIVE** | | | | | | | |
| Board of director's expense | 7,114 | - | 1,779 | 8,893 | - | 8,893 | 8,081 |
| Computer services and supplies | 42,448 | 4,260 | 18,749 | 65,457 | - | 65,457 | 56,747 |
| Business insurance | 53,927 | - | 13,482 | 67,409 | - | 67,409 | 73,960 |
| Interest | 2,710 | - | 678 | 3,388 | - | 3,388 | 12,759 |
| Franchise, sales, and income taxes | 10,936 | - | - | 10,936 | - | 10,936 | 9,949 |
| Other office and administrative | 98,585 | 21,067 | 28,049 | 147,701 | 13 | 147,714 | 124,382 |
| *Total office and administrative* | 215,720 | 25,327 | 62,737 | 303,784 | 13 | 303,797 | 285,878 |
| | $ 5,923,665 | $ 201,673 | $ 357,518 | $ 6,482,856 | $ 8,786 | $ 6,491,642 | $ 5,467,784 |

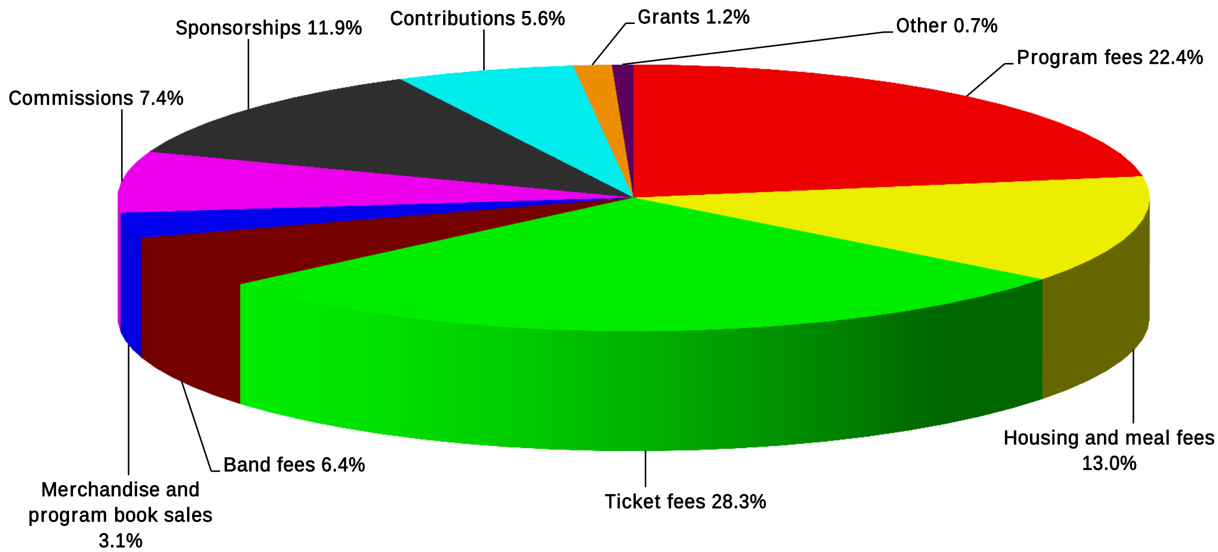
See accompanying independent auditors' report on supplementary information.

MUSIC FOR ALL, INC. AND AFFILIATE
COMBINING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012

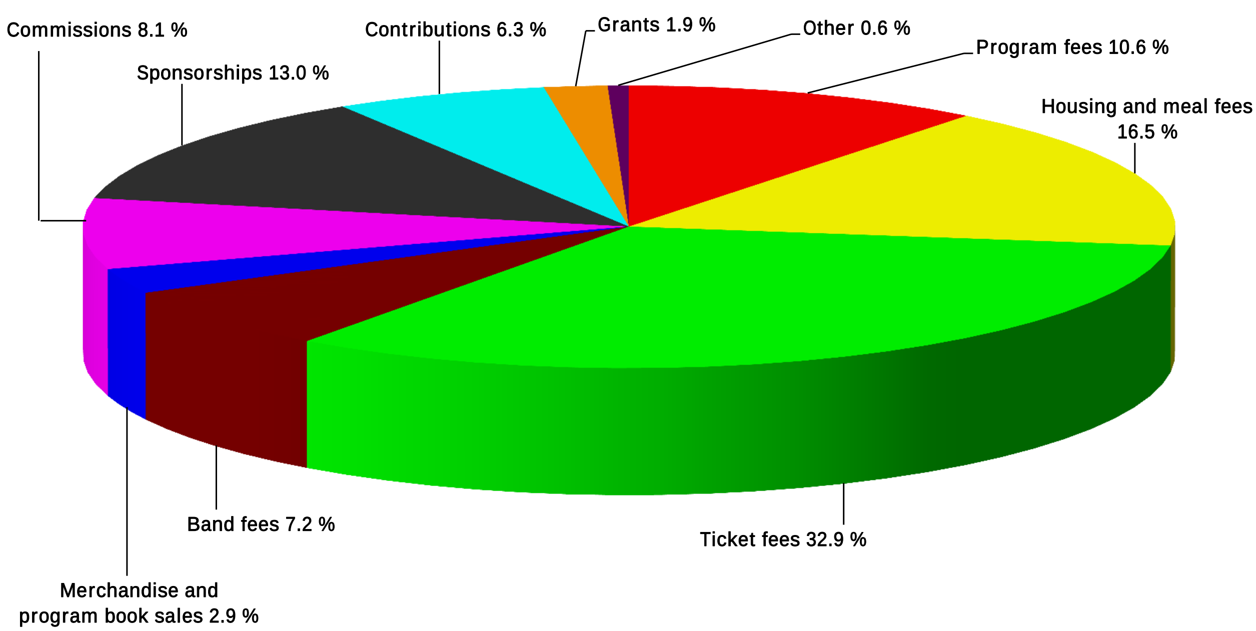
Exhibit IV

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | MUSIC FOR ALL | MUSIC FOR ALL FOUNDATION | ELIMINATIONS | TOTAL | MUSIC FOR ALL | MUSIC FOR ALL FOUNDATION | ELIMINATIONS | TOTAL |
| **REVENUE** | | | | | | | | |
| Program fees | $ 1,511,420 | $ - | $ - | $ 1,511,420 | $ 600,172 | $ - | $ - | $ 600,172 |
| Housing and meal fees | 878,111 | - | - | 878,111 | 932,296 | - | - | 932,296 |
| Ticket fees | 1,905,752 | - | - | 1,905,752 | 1,856,068 | - | - | 1,856,068 |
| Band fees | 428,575 | - | - | 428,575 | 408,450 | - | - | 408,450 |
| Merchandise sales | 90,020 | - | - | 90,020 | 41,495 | - | - | 41,495 |
| Program book sales | 116,451 | - | - | 116,451 | 121,525 | - | - | 121,525 |
| Photography commissions | 60,301 | - | - | 60,301 | 46,321 | - | - | 46,321 |
| Video commissions and fees | 169,892 | - | - | 169,892 | 189,442 | - | - | 189,442 |
| Merchandise commissions | 268,957 | - | - | 268,957 | 221,760 | - | - | 221,760 |
| Sponsorships | 802,195 | - | - | 802,195 | 731,652 | - | - | 731,652 |
| Contributions | 120,740 | 2,411 | - | 123,151 | 104,474 | 4,308 | - | 108,782 |
| In-kind contributions | 255,088 | - | - | 255,088 | 247,395 | - | - | 247,395 |
| Grants | 81,100 | - | - | 81,100 | 105,837 | - | - | 105,837 |
| Interest | 140 | - | - | 140 | 288 | 100 | - | 388 |
| Loss on sale of assets | - | - | - | - | (602) | - | - | (602) |
| Realized and unrealized gain on investments | - | 11,310 | - | 11,310 | - | 3,498 | - | 3,498 |
| Miscellaneous | 33,785 | - | - | 33,785 | 31,924 | - | - | 31,924 |
| *Total revenue* | 6,722,527 | 13,721 | - | 6,736,248 | 5,638,497 | 7,906 | - | 5,646,403 |
| **EXPENSES** | | | | | | | | |
| Program | 5,923,665 | 6,600 | - | 5,930,265 | 4,896,603 | 6,837 | - | 4,903,440 |
| Fundraising | 201,673 | - | - | 201,673 | 171,735 | - | - | 171,735 |
| General and administrative | 357,518 | 2,186 | - | 359,704 | 389,308 | 3,301 | - | 392,609 |
| *Total expenses* | 6,482,856 | 8,786 | - | 6,491,642 | 5,457,646 | 10,138 | - | 5,467,784 |
| CHANGE IN NET ASSETS | 239,671 | 4,935 | - | 244,606 | 180,851 | (2,232) | - | 178,619 |
| NET ASSETS (ACCUMULATED DEFICIT), BEGINNING OF YEAR | (244,943) | 140,572 | - | (104,371) | (425,794) | 142,804 | - | (282,990) |
| NET ASSETS (ACCUMULATED DEFICIT), END OF YEAR | $ (5,272) | $ 145,507 | $ - | $ 140,235 | $ (244,943) | $ 140,572 | $ - | $ (104,371) |

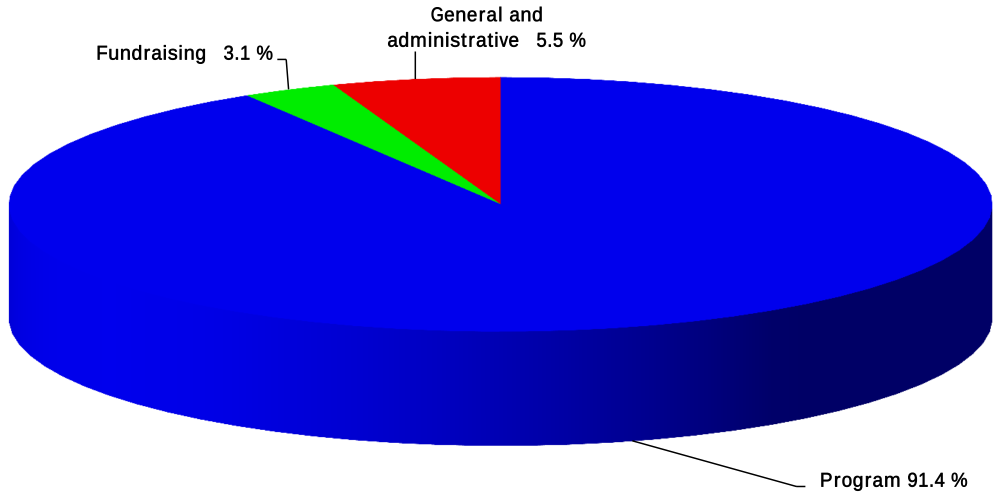
## 2013


Sponsorships 11.9%
Contributions 5.6%
Grants 1.2%
Other 0.7%
Program fees 22.4%
Commissions 7.4%
Housing and meal fees 13.0%
Band fees 6.4%
Merchandise and program book sales 3.1%
Ticket fees 28.3%

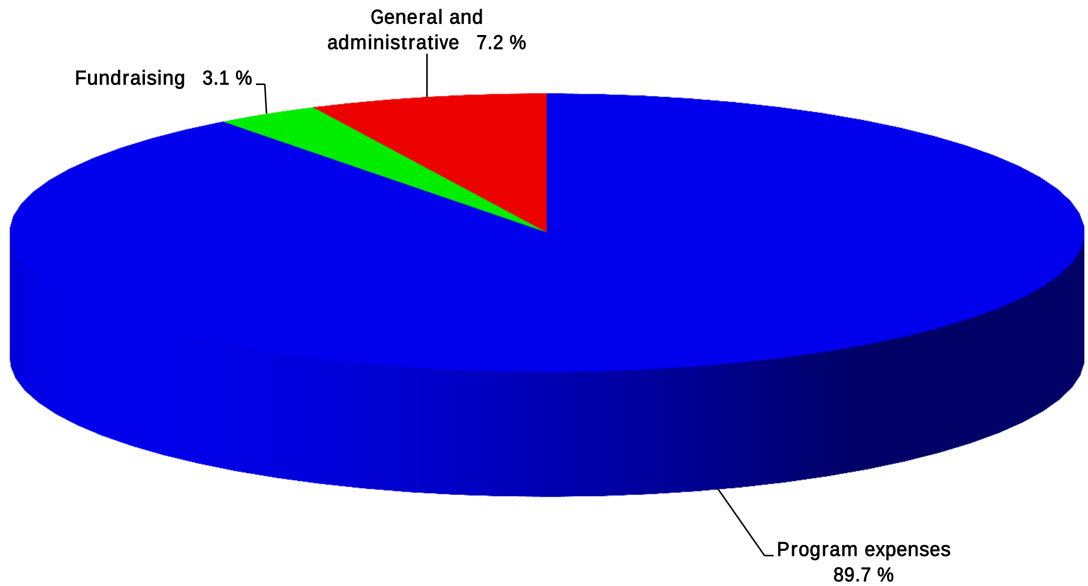
## 2012


Commissions 8.1 %
Contributions 6.3 %
Grants 1.9 %
Other 0.6 %
Program fees 10.6 %
Sponsorships 13.0 %
Housing and meal fees 16.5 %
Band fees 7.2 %
Ticket fees 32.9 %
Merchandise and program book sales 2.9 %

## 2013


General and administrative 5.5 %
Fundraising 3.1 %
Program 91.4 %

## 2012


General and administrative 7.2 %
Fundraising 3.1 %
Program expenses 89.7 %