

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

Independent Auditors' Report and
Financial Statements for the
Year Ended June 30, 2020
(With Comparative Totals for the
Year Ended June 30, 2019)

LITTLE KIDS ROCK, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Little Kids Rock, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Kids Rock, Inc. as of June 30, 2020 and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Little Kids Rock, Inc.'s 2019 financial statements, and our report dated January 17, 2020, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Cullari Canino LLC

Fairfield, New Jersey
January 15, 2021

LITTLE KIDS ROCK, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|-------------------------|-------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,414,600 | \$ 2,288,982 |
| Accounts receivable | 4,525 | - |
| Unconditional promises to give | 1,397,386 | 2,517,436 |
| Inventory | 272,025 | 171,447 |
| Prepaid expenses | 140,540 | 225,858 |
| Total current assets | <u>5,229,076</u> | <u>5,203,723</u> |
| SECURITY DEPOSITS | 13,751 | 13,751 |
| LONG-TERM UNCONDITIONAL PROMISES TO GIVE, NET | <u>251,907</u> | <u>433,641</u> |
| TOTAL ASSETS | <u>\$ 5,494,734</u> | <u>\$ 5,651,115</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 33,659 | \$ 86,419 |
| Accrued expenses | 35,121 | 41,797 |
| Deferred revenue | 453,304 | 249,474 |
| Total current liabilities | <u>522,084</u> | <u>377,690</u> |
| PAYCHECK PROTECTION PROGRAM LOAN | <u>579,707</u> | <u>-</u> |
| TOTAL LIABILITIES | <u>1,101,791</u> | <u>377,690</u> |
| NET ASSETS: | | |
| Without donor restrictions | 2,406,787 | 1,637,460 |
| With donor restrictions | 1,986,156 | 3,635,965 |
| Total net assets | <u>4,392,943</u> | <u>5,273,425</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 5,494,734</u> | <u>\$ 5,651,115</u> |

LITTLE KIDS ROCK, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

| | Without Donor Restrictions | With Donor Restrictions | Total | |
|---|-------------------------------|----------------------------|---------------------|---------------------|
| | | | 2020 | 2019 |
| PUBLIC SUPPORT AND REVENUES: | | | | |
| Contributions | \$ 882,394 | \$ 2,918,702 | \$ 3,801,096 | \$ 4,749,220 |
| Special events | 938,554 | - | 938,554 | 1,406,359 |
| Program service revenue | 312,923 | - | 312,923 | 318,391 |
| Non-cash contributions | 3,417,502 | - | 3,417,502 | 76,194 |
| Other income | 2,966 | - | 2,966 | 8,415 |
| Net assets released from restrictions: | | | | |
| Satisfaction of purpose restrictions | 4,568,511 | (4,568,511) | - | - |
| Total public support and revenues | 10,122,850 | (1,649,809) | 8,473,041 | 6,558,579 |
| EXPENSES: | | | | |
| Program services: | | | | |
| Music education | 4,021,587 | - | 4,021,587 | 4,100,956 |
| Musical instruments and curriculum resources | 3,788,710 | - | 3,788,710 | 812,255 |
| Total program services | 7,810,297 | - | 7,810,297 | 4,913,211 |
| Supporting services: | | | | |
| Management and general | 607,081 | - | 607,081 | 595,736 |
| Fundraising | 469,075 | - | 469,075 | 383,195 |
| Cost of direct benefit to donors | 452,071 | - | 452,071 | 513,293 |
| Total supporting services | 1,528,227 | - | 1,528,227 | 1,492,224 |
| Total expenses | 9,338,524 | - | 9,338,524 | 6,405,435 |
| Changes in net assets before non-operating activities | 784,326 | (1,649,809) | (865,483) | 153,144 |
| NON-OPERATING ACTIVITIES: | | | | |
| Interest income | 21,076 | - | 21,076 | 661 |
| Bad debt expense | (36,075) | - | (36,075) | (179,721) |
| Total non-operating activities | (14,999) | - | (14,999) | (179,060) |
| CHANGE IN NET ASSETS | 769,327 | (1,649,809) | (880,482) | (25,916) |
| NET ASSETS, BEGINNING OF YEAR | 1,637,460 | 3,635,965 | 5,273,425 | 5,299,341 |
| NET ASSETS, END OF YEAR | \$ 2,406,787 | \$ 1,986,156 | \$ 4,392,943 | \$ 5,273,425 |

LITTLE KIDS ROCK, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

| | Program Services | | | Supporting Services | | | Total | |
|--|------------------|---|---------------------------|---------------------------|-------------|-------------------------------------|--------------|--------------|
| | Music Education | Musical Instruments and Curriculum Resources | Total Program Services | Management and General | Fundraising | Cost of Direct Benefit to Donors | 2020 | 2019 |
| | | | | | | | | |
| Personnel costs: | | | | | | | | |
| Salaries and wages | \$ 2,323,675 | \$ - | \$ 2,323,675 | \$ 387,673 | \$ 338,637 | \$ - | \$ 3,049,985 | \$ 3,001,833 |
| Fringe benefits | 216,850 | - | 216,850 | 34,893 | 28,442 | - | 280,185 | 305,753 |
| Payroll taxes | 188,513 | - | 188,513 | 30,333 | 24,726 | - | 243,572 | 239,133 |
| Total personnel costs | 2,729,038 | - | 2,729,038 | 452,899 | 391,805 | - | 3,573,742 | 3,546,719 |
| Musical instruments and curriculum resources | - | 3,788,710 | 3,788,710 | - | - | - | 3,788,710 | 812,255 |
| Program workshops and events | 445,105 | - | 445,105 | - | - | - | 445,105 | 477,082 |
| Travel, meals and entertainment | 282,860 | - | 282,860 | 4,427 | 6,270 | - | 293,557 | 406,364 |
| Occupancy | 154,230 | - | 154,230 | 21,459 | 16,241 | - | 191,930 | 196,811 |
| Information technology and communications | 124,764 | - | 124,764 | 18,157 | 14,641 | - | 157,562 | 109,336 |
| Professional fees | 112,419 | - | 112,419 | 43,251 | 9,395 | - | 165,065 | 72,038 |
| Training and Conferences | 61,005 | - | 61,005 | 6,814 | 5,166 | - | 72,985 | 88,084 |
| Advertising and promotion | 28,500 | - | 28,500 | 7,125 | - | - | 35,625 | 21,562 |
| Company events and meetings | 19,460 | - | 19,460 | 2,703 | 2,048 | - | 24,211 | 31,084 |
| Insurance | 17,532 | - | 17,532 | 2,435 | 1,845 | - | 21,812 | 17,314 |
| Office supplies and expenses | 17,332 | - | 17,332 | 2,440 | 1,800 | - | 21,572 | 25,865 |
| Video and photography | 13,566 | - | 13,566 | 3,570 | 8 | - | 17,144 | 7,559 |
| Licenses, dues, and fees | 4,606 | - | 4,606 | 39,227 | 319 | - | 44,152 | 47,436 |
| Donor cultivation events | - | - | - | - | 18,859 | - | 18,859 | 12,623 |
| Cost of direct benefit to donors | - | - | - | - | - | 452,071 | 452,071 | 513,293 |
| Other expenses | 11,170 | - | 11,170 | 2,574 | 678 | - | 14,422 | 20,010 |
| Total expenses | \$ 4,021,587 | \$ 3,788,710 | \$ 7,810,297 | \$ 607,081 | \$ 469,075 | \$ 452,071 | \$ 9,338,524 | \$ 6,405,435 |

LITTLE KIDS ROCK, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (880,482) | \$ (25,916) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Discount for unconditional promises to give | 13,093 | 41,359 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | (4,525) | - |
| Unconditional promises to give, net | 1,288,691 | 1,459,054 |
| Inventory | (100,578) | (59,656) |
| Prepaid expenses | 85,318 | (25,085) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (52,760) | (16,393) |
| Accrued expenses | (6,676) | (17,263) |
| Deferred revenue | 203,830 | (205,478) |
| Net cash provided by operating activities | <u>545,911</u> | <u>1,150,622</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Paycheck Protection Program Loan | <u>579,707</u> | <u>-</u> |
| Net cash provided by financing activities | <u>579,707</u> | <u>-</u> |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 1,125,618 | 1,150,622 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF YEAR | <u>2,288,982</u> | <u>1,138,360</u> |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF YEAR | <u>\$ 3,414,600</u> | <u>\$ 2,288,982</u> |

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

1. NATURE OF ACTIVITIES

Little Kids Rock, Inc. (the "Organization") was incorporated in the State of California in 2001. The Organization is operated exclusively for charitable and educational purposes, with a particular focus on music education in elementary and secondary schools in the United States. Business and administrative functions of the Organization are located in the State of New Jersey. The following descriptions provide more detail regarding specific programs run by the Organization:

Mentorship: The Organization provides training and support for teachers and other types of mentors enrolled in the music education program in order to help facilitate and establish a safe, nurturing, supportive and fun environment for students.

Music Education: In accordance with its mission, the Organization provides music education to students, primarily from low income backgrounds, in order to foster musicianship, to develop confidence, responsibility, discipline and other lifelong values.

Musical Instruments and Curriculum Resources: The Organization obtains and provides musical instruments and other curriculum resources to students to use in their participation in music production, recording and performances.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting --- The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation --- The Organization presents its financial statements in accordance with guidance issued by the American Institute of Certified Public Accountants' Audit & Accounting Guide for *Not-for-Profit Entities* and the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

ASC paragraphs 958-205-45-2(a) through (d) establish standards for external financial reporting by not-for-profit organizations and require that resources be classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions: net assets with donor restrictions and net assets without donor restrictions.

ASC paragraphs 958-605-45-3 through 7, *Contributions Received*, require that unconditional promises to give be recorded as receivables and revenue and require the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions.

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation (cont.) ---

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and cash equivalents --- The Organization considers all cash without donor imposed restrictions, short-term securities and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Restricted cash --- Restricted cash is the portion of cash that will be used to cover expenditures that have been restricted by the donor.

Accounts receivable --- Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to the allowance for doubtful accounts based on their assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

Inventory --- Musical instruments and other curriculum resources are recorded as program service expenses when they are distributed to schools and other music education programs.

Instruments that are purchased by the Organization for distribution are recorded at the cost of such purchases. Such instruments are shipped directly to the schools when the order is fulfilled and, therefore, are not a component of inventory.

Instruments or other tangible items that are contributed to the Organization are valued at the market value of such in-kind donations when received, and are included in Inventory to the extent they have not yet been distributed. Curriculum resources, such as access to online lessons and streamed media, that are contributed to the Organization are perceived not to have any value to the Organization or donor until they are activated upon distribution and used for program services. Once activated, these items are recognized at market value.

Musical instruments purchased for ongoing use by the Organization in conducting teacher workshops or otherwise carrying out programmatic activities are recorded as inventory, and are stated at the lower of cost or net realizable value.

Inventory also includes costs associated with the development of a specialized percussion instrument for future distribution to schools and other music education programs.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Revenue and support recognition --- Contributions, including unconditional promises to give, are recorded as received. All contributions are available for use without restrictions unless specifically restricted by the donor. Conditional promises to give are reported when the conditions on which they depend are met by the Organization. Unconditional promises to give due in the next year are recorded at their net realizable value. Management assesses the time value of money based on material pledges to the Organization and the length of time to be received. Material unconditional promises to give due in subsequent years are reported on the Statement of Financial Position at the present value of their net realizable value, using interest rates consistent with investment rates applicable to the years in which the promises are to be received.

The Organization accounts for revenues from special events as an exchange transaction as each party to the transaction receives and sacrifices commensurate value.

The Organization accounts for program service arrangements as exchange transactions and recognizes revenues after the Organization has performed the services agreed with the other party.

Funds received in advance of their proper usage are accounted for as deferred revenue in the statement of financial position, so as to match revenues with expenses.

Fixed assets --- Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, generally 2-5 years. Depreciation is provided based upon the actual number of months in use during the year the costs are capitalized. The Organization's policy is to capitalize fixed assets with a purchase price of \$5,000 or more and a useful life of one year or more. Expenditures for maintenance, repairs and renewals of minor items are charged to earnings as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the statement of activities. Major renewal and improvements are capitalized.

Non-cash contributions --- The Organization receives a variety of donated goods used in both program and fundraising events.

Individuals volunteer their time and perform a variety of tasks that assist the Organization, but the majority of these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Income taxes --- The Organization is a not-for-profit organization described under Section 501(c)(3) of the Internal Revenue Code ("I.R.C.") and is therefore exempt from federal income taxes under Section 501(a) of the I.R.C. The Organization is also exempt under corresponding state statutes in all 50 states. Accordingly, no provision for Federal or State income taxes has been presented in the accompanying financial statements.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Income taxes (cont.) --- The Organization adheres to FASB ASC Topic 740, *Income Taxes*, which provides guidance and clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. For the year ended June 30, 2020, the Organization has no material uncertain tax positions to be accounted for in the financial statements.

The Organization files income tax returns with the Internal Revenue Service and all 50 U.S. State jurisdictions. The Organization's Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the IRS, generally for three years after they were filed. Each state has its own statutes governing the examination period. The Organization hires a third party to file registrations in all 50 states and as such, the third party maintains the compliance for these state filings.

Use of estimates --- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses --- Expenses are charged to each program based on direct expenditures incurred. Any program or supporting service expenditure not directly chargeable is allocated based on an indirect cost pool that is reasonable and consistently applied. Program expenses are those related to music education and musical instruments. Management and general relate to administrative expenses related to those programs. Fundraising includes direct and indirect costs of special events.

Allocated indirect expenditures include salaries and related payroll expenses, which are allocated on the basis of estimates of time and effort. The indirect labor hours cost pool serves as the basis for allocating supplies and other general office expenses. Rent, utilities and other facility and overhead costs are allocated based upon the number of employees directly allocated to each function.

Allocation of joint costs --- Costs incurred in connection with joint activities that include both fundraising and program components are assessed and attributed specifically to these components. As part of its mission, the Organization provides opportunities for students to participate in music performance and, as such, costs directly related to such performances at joint activities are considered program related expenses.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

3. CONCENTRATIONS OF CREDIT RISK

Arising from cash deposits in excess of insured limits --- The Organization maintains its cash accounts in three financial institutions. During the year, cash balances may exceed federally insured limits of \$250,000. Management believes that the Organization has no significant risk of loss on these amounts due to the failure of the institutions.

4. PROMISES TO GIVE

Total unconditional promises to give consist of the following at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|---------------------|---------------------|
| Promises without donor restriction | \$ 981,740 | \$ 1,038,686 |
| Promises with donor restriction: | | |
| Program expansion: | | |
| General | 8,542 | 755,000 |
| Central California | 60,000 | - |
| Chicago | 235,000 | 313,500 |
| Connecticut | - | 50,000 |
| Denver | - | 164,000 |
| Other Florida | 350,883 | 300,000 |
| Maine | - | 27,500 |
| New Jersey | 50,000 | 50,000 |
| New York | - | 10,000 |
| Other West | 9,950 | - |
| Other Purpose/ Restriction | 16,180 | - |
| Teacher Training | - | 25,000 |
| Modern Band Summit | 15,000 | 158,750 |
| Website and Marketing | - | 125,000 |
| Gross unconditional promises to give | <u>1,727,295</u> | <u>3,017,436</u> |
| Less: Discount for long-term pledges | 13,093 | 41,359 |
| Allowance for uncollectible pledges | <u>64,909</u> | <u>25,000</u> |
| Net unconditional promises to give | <u>\$ 1,649,293</u> | <u>\$ 2,951,077</u> |
| Amounts Due in: | | |
| Less than one year | \$ 1,397,386 | \$ 2,517,436 |
| One to five years | <u>251,907</u> | <u>433,641</u> |
| Total | <u>\$ 1,649,293</u> | <u>\$ 2,951,077</u> |

The pledges receivable have been recorded at their net present value using a discount rate of 3.5% and 5% for the years ended June 30, 2020 and 2019, respectively.

The Organization has received contributions from a donor that were restricted to program expansion in Miami but also contingent, in part, on the Organization receiving qualifying matching contributions from other donors. As of June 30, 2020 there were \$425,432 of such contributions, which amounts will be recognized in the future when matching contributions are received.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

5. INVENTORY

Inventory consisted of the following at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|------------------------|-------------------|-------------------|
| Musical instruments | \$ 174,396 | \$ 102,044 |
| Instrument development | 97,629 | 69,403 |
| Total | <u>\$ 272,025</u> | <u>\$ 171,447</u> |

6. DEFERRED REVENUE

Deferred revenue consisted of the following at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Sponsorships for future special events | \$ 383,493 | \$ 100,000 |
| Contributed technology licenses for future periods | 58,320 | 77,760 |
| Fees for future Modern Band Summits | 11,491 | 71,714 |
| Total | <u>\$ 453,304</u> | <u>\$ 249,474</u> |

7. COMMITMENTS

The Organization leases office space in Northern New Jersey for program operations and administration. The lease was renewed on July 17, 2018 and extended through August 31, 2020, at which time the lease was amended to continue on a month to month basis. As further detailed in Note 15, the lease was terminated in December of 2020. Rent expense relating to this office space amounted to \$140,070 and \$136,980 for the years ended June 30, 2020 and 2019, respectively.

The Organization leases music practice and office space in Chicago for program operations and administration. The lease was renewed on April 1, 2019 and extends through March 31, 2022. The payment schedule and cancellation terms were amended on July 30, 2020. Rent expense relating to the space amounted to \$15,675 and \$15,313 for the years ended June 30, 2020 and 2019, respectively. As further detailed in Note 15, the lease was cancelled and formally terminated on January 31, 2021, subject to certain fees.

There are no future long term commitments under the operating leases that were in effect at June 30, 2020.

8. LINE OF CREDIT

The Organization established a \$1,250,000 line of credit with JPMorgan Chase Bank on March 23, 2018. The line of credit was renewed on June 10, 2020 and expires on June 10, 2021. Interest on the unpaid principal balance is computed on the basis of actual days elapsed in a 360 day year at the "Adjusted LIBOR Rate" (5.474% plus the LIBOR rate). The line was taken for working capital purposes and is secured by all assets of the Organization. During the years ended June 30, 2020 and 2019, the line was not utilized and, therefore, no amounts were outstanding at year-end.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

9. PAYCHECK PROTECTION PROGRAM LOAN

On April 6, 2020 the Organization obtained a Paycheck Protection Program loan in the amount of \$579,707, pursuant to the terms of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) enacted March 27, 2020. So long as the Organization incurs certain qualifying expenses, they may apply for the loan to be forgiven by the Small Business Administration (“SBA”). Any loan balance remaining following forgiveness by the SBA will be fully amortized over the remaining term of the loan. Unless otherwise forgiven, the loan is due April 6, 2022. Interest is specified at a rate of .98%. The funding is uncollateralized. As of June 30, 2020, the Organization has included in long term liabilities \$579,707, the total amount of the loan. Management expects the entire amount will be forgiven and has elected to recognize the forgiveness of the loan as revenue at such time the loan is legally forgiven.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Location (general program operations): | | |
| Central California | \$ 13,537 | \$ - |
| Chicago | - | 516,940 |
| Colorado | 132,976 | 213,314 |
| Connecticut | 116,796 | 225,000 |
| Maine | - | 44,275 |
| Miami | 528,083 | 559,176 |
| Milwaukee | - | 25,077 |
| Other Florida | 76,805 | - |
| Los Angeles County | - | 30,978 |
| San Francisco Bay Area | 109,714 | 200,856 |
| Other West | - | 16,855 |
| Unaffiliated | - | 115,036 |
| Capital Grant – Office Equipment | 17,189 | 12,710 |
| Colorado expansion | | 669,914 |
| Higher education | - | 12,652 |
| Program expansion | 991,056 | 993,182 |
| | <u>991,056</u> | <u>993,182</u> |
| Total net assets with donor restrictions | <u>\$ 1,986,156</u> | <u>\$ 3,635,965</u> |

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

10. NET ASSETS WITH DONOR RESTRICTIONS (CONT.)

Net assets were released from donor restrictions by incurring expenses satisfying purpose restrictions specified by donors during the years ended June 30, 2020 and 2019 as follows:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Location (general program operations): | | |
| Allentown | \$ - | \$ 700 |
| Atlanta | - | 20,000 |
| Aurora | - | 62,977 |
| Central California | 66,463 | 51,587 |
| Chicago | 857,500 | 64,177 |
| Colorado | 606,015 | 445,103 |
| Connecticut | 318,513 | - |
| Dallas | 125,000 | 97,077 |
| Houston | - | 3,264 |
| Los Angeles County | 132,378 | 133,772 |
| Maine | 69,275 | 93,225 |
| Miami | 260,867 | 46,054 |
| Milwaukee | 25,077 | 46,001 |
| Nashville | - | 21,285 |
| New Jersey | 54,000 | 65,500 |
| New York | 40,918 | 152,100 |
| Orange County | 27,459 | 100,100 |
| Other Florida | 246,910 | - |
| Other Midwest | - | 25,000 |
| Other Northeast | 21,899 | 30,000 |
| Other South | 43,668 | 171,466 |
| Other West | 16,855 | 88,895 |
| Pennsylvania | 1,500 | - |
| Philadelphia | - | 9,000 |
| San Francisco Bay | 98,642 | 65,002 |
| Savannah | 65,000 | - |
| Unaffiliated | 115,036 | 17,099 |
| Capital Grant – Office Equipment | 19,020 | 8,606 |
| Colorado Expansion | 211,237 | - |
| Higher education | 12,652 | 73,348 |
| Program expansion | 1,132,627 | 3,211,991 |
| | <u>1,132,627</u> | <u>3,211,991</u> |
| Total net assets released from restrictions | <u>\$ 4,568,511</u> | <u>\$ 5,103,329</u> |

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

11. NON-CASH DONATIONS

Non-cash donations consisted of the following at June 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| Curriculum resources | \$ 2,707,260 | \$ - |
| Program instruments | 659,902 | 56,754 |
| Information technology and communications | 19,440 | 19,440 |
| Advertising and promotion | 15,000 | - |
| Professional fees | 5,600 | - |
| Other | 10,300 | - |
| | <u> </u> | <u> </u> |
| Total | <u>\$ 3,417,502</u> | <u>\$ 76,194</u> |

The Organization has received curriculum resources, such as access to online lessons and streamed media, that are valued when they are activated upon distribution to schools, teachers, and students. As of June 30, 2020, the potential future value of such curriculum resources received but not yet activated is \$723,960.

12. FRINGE BENEFITS

The Organization provides its employees with group health, dental, vision and life insurance. Insurance is effective 30 days from an employee's date of hire. Little Kids Rock assumes responsibility for 90% of monthly premiums for an employee's coverage and 50% of monthly premiums for an employee's dependent's coverage. Additionally, the Organization offers a flexible spending account and commuter plan benefits to its employees. For the years ended June 30, 2020 and 2019, the Organization incurred expenses related to these benefits of \$225,585 and \$248,444, respectively.

The Organization offers a 403(b) retirement plan which matches employee contributions up to a maximum of 3% of the employee's salary. The Organization incurred expenses of \$54,600 and \$57,309 for its share of contributions into the plan for the years ended June 30, 2020 and 2019.

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization's liquidity management plan is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Cash in excess of 90 days operating expenses is invested in short-term investments, including certificates of deposit and money market funds. Management anticipates meeting general expenditures within one year of the date of the statement of financial position with existing financial assets plus funding provided by anticipated contributions from the general public. Furthermore, as described in Note 8, the Organization has a \$1,250,000 line of credit available to meet cash flow needs.

LITTLE KIDS ROCK, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 (CONTINUED)

13. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONT.)

The following represents the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Financial assets at year-end | | |
| Cash and cash equivalents | \$ 3,414,600 | \$ 2,288,982 |
| Accounts receivable | 4,525 | - |
| Unconditional promises to give, expected to be received in less than one year | <u>1,397,386</u> | <u>2,517,436</u> |
| Total current financial assets at year-end | 4,816,511 | 4,806,418 |
| Less amounts not available for general expenditures within one year due to: | | |
| Donor-restricted funding | <u>1,986,156</u> | <u>3,635,965</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 2,830,355</u> | <u>\$ 1,170,453</u> |

14. RELATED PARTY TRANSACTIONS

On November 26, 2019, Amp Up NYC, LLC was dissolved and the Organization received a cash payment of \$22,018 upon the dissolution. Additionally, the Organization recognized accounts receivable of \$4,525. The final tax return was filed on December 13, 2019 for Amp Up NYC, LLC.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2021, the date on which the financial statements were available to be issued, and have determined that except as noted below there are no subsequent events that require disclosure.

Commitments --- All employees of the Organization have been working remotely since March 2020. Effective September 1, 2020, the Organization continued leasing their office space in Northern New Jersey on a month to month basis through December 31, 2020, at which time they vacated the space. Management expects to have a physical presence again at some point in the future, once the safety concerns related to COVID-19 have been mitigated.

As detailed in Note 7, the Organization had contracted to lease space in Chicago through March 31, 2022. In December of 2020, the Organization exercised their lease cancellation clause which triggered a one-time payment of two months' rent of \$2,940 and retention by the lessor of the \$1,250 security deposit. The lease formally terminates on January 31, 2021. There are no further commitments on this agreement.

COVID-19 --- The Organization is evaluating the impact of COVID-19 and its pervasive impact to the overall economy and has determined it cannot reasonably estimate the financial impact, if any, on its operations, assets and material accounting estimates at this time.