

FROM THE TOP, INC.

INDEPENDENT AUDITOR'S REPORT ON AUDIT OF
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2012



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
From the Top, Inc.
Boston, Massachusetts

We have audited the accompanying statement of financial position of From the Top, Inc. as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2011 financial statements and, in our report dated November 29, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of From the Top, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses - program services on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ercolini & Company LLP

Boston, Massachusetts
November 28, 2012

FROM THE TOP, INC.
STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2012
 (with comparative totals for 2011)

ASSETS

	2012			2011
	Unrestricted	Restricted Temporarily	Total	
Current assets:				
Cash (Note 2)	\$ 394,002	601,832	\$ 995,834	\$ 911,561
Accounts receivable, net (Notes 1, 3)	95,965	118,444	214,409	643,532
Investments (Notes 1, 13)	17,330	-	17,330	17,536
Prepaid expenses	36,498	-	36,498	42,994
Total current assets	<u>543,795</u>	<u>720,276</u>	<u>1,264,071</u>	<u>1,615,623</u>
Property and equipment:				
Property and equipment, net (Note 4)	<u>61,973</u>	<u>-</u>	<u>61,973</u>	<u>90,360</u>
Other assets:				
Accounts receivable, net (Notes 1, 3)	-	104,555	104,555	162,376
Investments (Notes 1, 13)	<u>505,263</u>	<u>-</u>	<u>505,263</u>	<u>504,923</u>
	<u>505,263</u>	<u>104,555</u>	<u>609,818</u>	<u>667,299</u>
Total assets	<u>\$ 1,111,031</u>	<u>\$ 824,831</u>	<u>\$ 1,935,862</u>	<u>\$ 2,373,282</u>

LIABILITIES

Current liabilities:				
Accounts payable	\$ 16,470	\$ -	\$ 16,470	\$ 42,292
Accrued wages payable	22,366	-	22,366	24,974
Accrued expenses	80,552	-	80,552	38,243
Advances payable (Note 5)	-	-	-	21,450
Deferred revenue (Note 10)	<u>256,000</u>	<u>-</u>	<u>256,000</u>	<u>219,000</u>
Total current liabilities	<u>375,388</u>	<u>-</u>	<u>375,388</u>	<u>345,959</u>
Total liabilities	<u>375,388</u>	<u>-</u>	<u>375,388</u>	<u>345,959</u>

NET ASSETS

Unrestricted net assets (Note 16)	735,643	-	735,643	821,754
Temporarily restricted net assets (Note 6)	<u>-</u>	<u>824,831</u>	<u>824,831</u>	<u>1,205,569</u>
Total net assets	<u>735,643</u>	<u>824,831</u>	<u>1,560,474</u>	<u>2,027,323</u>
Total liabilities and net assets	<u>\$ 1,111,031</u>	<u>\$ 824,831</u>	<u>\$ 1,935,862</u>	<u>\$ 2,373,282</u>

FROM THE TOP, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(with comparative totals for 2011)

	2012			2011
	Unrestricted	Restricted Temporarily	Total	
Public Support:				
Contributions (Notes 1, 9)	\$ 905,844	\$ 609,623	\$ 1,515,467	\$ 1,727,695
Government support (Notes 1, 8)	36,249	115,000	151,249	412,198
Event revenue	304,525	32,350	336,875	488,055
In-kind contributions (Notes 1, 7)	190,100	-	190,100	506,195
Total public support	1,436,718	756,973	2,193,691	3,134,143
Program Services Fees:				
Carriage fees (Note 10)	379,872	-	379,872	362,788
Road show fees	419,093	-	419,093	348,491
Educational fees (Note 10)	5,884	-	5,884	16,949
Total program service fees	804,849	-	804,849	728,228
Other Revenue:				
Merchandise sales	9,695	-	9,695	5,993
Other income	8,541	-	8,541	11,912
Total other revenue	18,236	-	18,236	17,905
Net Assets Released from Restrictions (Notes 1, 6):				
Expiration of time restrictions	64,610	(64,610)	-	-
Satisfaction of program restrictions	1,073,101	(1,073,101)	-	-
Total support and revenue	3,397,514	(380,738)	3,016,776	3,880,276
Expenses:				
Program services	2,490,203	-	2,490,203	2,570,439
General and administrative	426,499	-	426,499	455,075
Fundraising	566,923	-	566,923	671,780
Total expenses	3,483,625	-	3,483,625	3,697,294
Change in net assets	(86,111)	(380,738)	(466,849)	182,982
Net Assets, Beginning	821,754	1,205,569	2,027,323	1,844,341
Net Assets, Ending	\$ 735,643	\$ 824,831	\$ 1,560,474	\$ 2,027,323

FROM THE TOP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(with comparative totals for 2011)

	2012				2011
	Program Services	Supporting Services		Total	
		General and Administrative	Fundraising		
Production costs	\$ 385,924	\$ -	\$ -	\$ 385,924	\$ 380,092
Event expenses	9,300	-	74,263	83,563	97,842
Payroll and payroll taxes	1,060,507	274,788	243,043	1,578,338	1,725,429
Fringe benefits	100,409	23,598	29,644	153,651	152,826
Advertising	16,446	-	-	16,446	22,777
Scholarships	193,969	-	-	193,969	215,893
Insurance	8,908	4,310	913	14,131	15,635
Maintenance and repair	4,876	1,134	1,594	7,604	7,854
Marketing	47,680	8,107	13,930	69,717	77,929
Office expenses	68,416	14,355	51,419	134,190	156,323
Professional fees	218,884	73,091	92,347	384,322	403,000
Rent (Note 11)	59,354	13,807	19,398	92,559	97,643
Telephone / internet	11,561	2,262	3,034	16,857	18,868
Travel, lodging and meals	267,961	6,069	30,347	304,377	284,239
Depreciation	36,008	4,978	6,991	47,977	40,944
Total expenses	\$ 2,490,203	\$ 426,499	\$ 566,923	\$ 3,483,625	\$ 3,697,294

FROM THE TOP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (466,849)	\$ 182,982
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	47,977	40,944
Investment income reinvested	(192)	(973)
Donated property and equipment	-	(10,540)
Amortization of discounts	5,623	-
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	481,321	(278,183)
Prepaid expenses	6,496	(25,958)
Increase (decrease) in liabilities:		
Accounts payable	(25,822)	31,171
Accrued expenses	39,701	(23,038)
Deferred revenue	37,000	27,500
	<u>125,255</u>	<u>(56,095)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(19,590)	(51,373)
Withdrawals from investments	-	149
Proceeds from sale of investments	42,998	-
Purchases of investments	(42,940)	-
	<u>(19,532)</u>	<u>(51,224)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Repayment of advances payable	(21,450)	-
	<u>(21,450)</u>	<u>-</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash	84,273	(107,319)
Cash, beginning of year	<u>911,561</u>	<u>1,018,880</u>
Cash, end of year	<u>\$ 995,834</u>	<u>\$ 911,561</u>
Schedule of noncash investing and financing activities:		
Costs incurred for purchase of fixed assets during the year	\$ (19,590)	\$ (61,913)
In-kind donations of property and equipment	<u>-</u>	<u>10,540</u>
Payments for fixed assets	<u>\$ (19,590)</u>	<u>\$ (51,373)</u>

FROM THE TOP, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies

Organization and nature of operations

Based in Boston, From the Top, Inc. (the Organization or FTT) is an independent non-profit organization that celebrates the power of music in the hands of extraordinary young people, reaching more than one million people each year. The Organization was organized under Massachusetts General Law Chapter 180 in November 2001. The Organization is exempt from taxes pursuant to Section 501(c)(3) of the Internal Revenue Code.

As the preeminent showcase for young musicians, From the Top shines a light on diverse young people ages 8 to 18 by sharing their stories and performances, providing scholarships, and engaging them as leaders in national broadcasts and live concerts and outreach events across the country. These musicians are inspirational role models for all ages, proving the value of hard work in the pursuit of excellence. With From the Top's support, they are inspiring and building audiences with a new appreciation for classical music.

National tour, broadcasts, and digital media

In thirteen years, From the Top has recorded more than **280 radio and television broadcasts** before **live audiences in 35 states and two international cities**, featuring more than **2,500 young artists**. From the Top's **radio show** is distributed by **National Public Radio (NPR)** to nearly **250** stations coast-to-coast and is the most popular weekly classical music program on public radio. From the Top's **PBS television series *From the Top at Carnegie Hall*** received two **Emmy Awards** and aired for two seasons. From the Top's website includes a full archive of radio and television episodes, in addition to exclusive video, backstage blog, and links to From the Top's social media platforms, YouTube channel, podcast, and mobile application.

Education programs

From the Top's Center for the Development of Arts Leaders (CDAL) prepares and mentors young musicians across the country to be instruments of change in their communities. CDAL programs range from a half-day arts leadership orientation workshop for all From the Top performers, to community outreach events in schools across the country. In Boston, From the Top works with community partners on a year-long Arts Leadership Program (Boston pilot program) for high school musicians, improving the lives of hundreds of local residents through music.

Each year, thousands of students experience the power of From the Top role models in **classroom visits and community programs across the country**. Millions of second through twelfth graders learn about From the Top performers in **music textbooks** and online lesson plans in partnership with **Macmillan/McGraw Hill Publishers**.

Scholarship program

Since 2005, **From the Top and the Jack Kent Cooke Foundation** have awarded more than **\$1.6 million in scholarships to 160 exceptional young musicians with financial need**. In addition to providing these young artists with an opportunity to perform on From the Top's national broadcasts, recipients are awarded scholarships of up to \$10,000 to continue their musical studies.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Financial statement presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted assets, in accordance with guidance issued by the Financial Accounting Standards Board (FASB). Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions;

Temporarily restricted net assets - Net assets subject to explicit or implicit donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time; and

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

There were no permanently restricted net assets at June 30, 2012.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America.

Use of estimates

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

Accounts receivable

Accounts receivable are stated at the amount Organization's management expects to collect from outstanding balances. The Organization's management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on historical collection experience and its assessment of current economic conditions. Balances that are still outstanding after the Organization's management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivable are deemed to be fully collectible by the Organization's management at June 30, 2012.

Property and equipment

All acquisitions of furniture, equipment, computer software and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. The Organization capitalizes these costs if the amounts incurred exceed a range of \$1,000 to \$3,000 based on the nature of the expenditure. Furniture, equipment and computer software are carried at cost or, if donated, at the

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Property and equipment - continued

approximate fair value at the date of donation. These assets are depreciated on a straight-line basis over their estimated useful lives which range from three to five years. The cost of leasehold improvements is amortized on a straight-line basis over the lesser of the length of the related leases or the estimated useful lives of the assets.

Investments

The Organization's investments consist of money market funds which are carried at their fair values. Investment income is recognized when earned. Investment income restricted by a donor is reported as an increase in temporarily restricted net assets. When the restriction expires (either a stipulated time period ends or a purpose restriction is accomplished), the net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Revenue recognition

All revenue from program services, educational fees, royalties, event revenue and sales are recognized when the programs and events have taken place or the services are performed. Payments received in advance of programs and events taking place and services performed are deferred until earned.

Contributions and donor restrictions

Contributions, including grants, are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires, the net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Unconditional promises to give are reported at net realizable value if at the time the promise is made collection is expected to be received in one year or less. Unconditional promises to give that are expected to be collected in more than one year are reported at fair value using present value techniques and a discount rate determined by management of the Organization. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions in the form of property and equipment and other assets are recorded at fair value on the date the donation is received. Contributed services that require specialized skills are recognized as revenue at estimated fair value when the service is received. In addition, individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising and marketing

Advertising and marketing costs are expensed when incurred. Amounts incurred for the year ended June 30, 2012 totaled \$86,163.

Income taxes

The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business income for the year ended June 30, 2012. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Management has evaluated significant tax positions against the criteria established by professional standards and believes there are no such tax positions requiring accounting recognition in the financial statements. Management does not believe its evaluation of tax positions will significantly change within twelve months of June 30, 2012. Any changes in tax positions will be recorded when the ultimate outcome becomes known. The Organization's income tax returns are subject to examination by taxing authorities generally for the years ended June 30, 2009, 2010 and 2011.

Prior year summarized information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

Recent accounting pronouncements

In May, 2011, the FASB issued guidance which amends the measurement and disclosure requirements related to recurring and nonrecurring fair value measurements. The standard clarifies the fair value measurement guidance applicable to highest-and-best-use and valuation premise, measuring fair value of an instrument classified in equity and financial instruments managed within a portfolio, and the application of premiums and discounts in a fair value measurement. Additionally, the guidance requires expanded disclosure of fair value measurements categorized in Level 3, use of an asset in a way that differs from the asset's highest-and-best-use, and items not measured at fair value but for which fair value is required to be disclosed. These disclosures are effective for fiscal years and interim periods beginning after December 15, 2011. The Organization does not believe that its adoption of the guidance in 2013 will have a material impact on the Organization's 2013 financial statements.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

1. Organization and summary of significant accounting policies - continued

Recent accounting pronouncements - continued

In October 2012, the FASB issued Accounting Standards Update (ASU) No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. The amendments in this ASU require a not-for-profit entity (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources for long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The guidance is effective for fiscal years and interim periods beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption is permitted only if an NFP's financial statements for those fiscal years and interim periods within those years have not yet been made available for issuance. The Organization is currently assessing the impact that its adoption of the guidance in fiscal year 2014 will have on the Organization's 2014 financial statements.

Subsequent events

The Organization has evaluated subsequent events through November 28, 2012, which is the date these financial statements were available to be issued.

2. Concentration of credit risk

The Organization maintains its cash accounts with a financial institution insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, effective December 31, 2010, all funds in a non-interest bearing account are insured in full by the FDIC through December 31, 2012. This temporary unlimited coverage is in addition to and separate from the \$250,000 coverage available to depositors under the FDIC's general deposit insurance rules. As of June 30, 2012, the Organization's cash balances were fully insured by the FDIC.

At June 30, 2012, the Organization held investments (see Note 13) of \$522,593 in money market funds which were not insured and are subject to credit risk.

Account balances fluctuate throughout the Organization's monthly business cycle, which may result in the balances exceeding insured limits from time to time. The Organization has not experienced any losses on its accounts, and monitors the credit-worthiness of the financial institutions with which it conducts business.

Management believes that the Organization is not exposed to any significant credit risk with respect to its cash balances.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

3. Accounts receivable and significant customers

Accounts receivable at June 30, 2012 consists of the following:

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
Pledges			
Contributions	\$ 63,098	\$ -	\$ 63,098
Government support	55,000	-	55,000
Event revenue	4,182	-	4,182
In-kind contributions	<u>63,444</u>	<u>122,923</u>	<u>186,367</u>
	185,724	122,923	308,647
Discount on pledges	<u>-</u>	<u>(18,368)</u>	<u>(18,368)</u>
Subtotal	<u>185,724</u>	<u>104,555</u>	<u>290,279</u>
Merchandise	1,975	-	1,975
Road show fees	11,000	-	11,000
Royalties	2,860	-	2,860
Other	<u>12,850</u>	<u>-</u>	<u>12,850</u>
Subtotal	<u>28,685</u>	<u>-</u>	<u>28,685</u>
 Total	 <u>\$ 214,409</u>	 <u>\$ 104,555</u>	 <u>\$ 318,964</u>

The Organization had pledges receivable representing the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Contributions	\$ 63,098	\$ -	\$ 63,098
Government support	-	55,000	55,000
Event revenue	4,182	-	4,182
In-kind contributions	<u>-</u>	<u>186,367</u>	<u>186,367</u>
	67,280	241,367	308,647
Discount on pledges	<u>-</u>	<u>(18,368)</u>	<u>(18,368)</u>
Total	<u>\$ 67,280</u>	<u>\$ 222,999</u>	<u>\$ 290,279</u>
Receivables due in less than one year	67,280	118,444	185,724
Receivables due in one to five years	-	122,923	122,923
Receivables due in more than five years	<u>-</u>	<u>-</u>	<u>-</u>
	67,280	241,367	308,647
Discount on pledges	<u>-</u>	<u>(18,368)</u>	<u>(18,368)</u>
Total	<u>\$ 67,280</u>	<u>\$ 222,999</u>	<u>\$ 290,279</u>

Pledges receivable measured at fair value and net realizable value consist of the following at June 30, 2012:

Measured at fair value	\$ 167,999
Measured at net realizable value	<u>122,280</u>
	<u>\$ 290,279</u>

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

3. Accounts receivable and significant customers - continued

The Organization receives grants and contributions from various government sources, private foundations and individuals. For the year ended June 30, 2012, approximately 17% of the Organization's contributions were received from one donor. At June 30, 2012, no amounts were receivable from this donor.

4. Property and equipment

Property and equipment at June 30, 2012 consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Leasehold improvements	\$ 34,532	(\$ 21,279)	\$ 13,253
Computer software	40,330	(40,330)	-
Production equipment	104,638	(94,907)	9,731
Office and computer equipment	<u>206,288</u>	<u>(167,299)</u>	<u>38,989</u>
	<u>\$ 385,788</u>	<u>(\$ 323,815)</u>	<u>\$ 61,973</u>

At June 30, 2012, property and equipment with an original cost of \$235,071 was fully depreciated and still in service.

5. Related party transactions

The Organization owed Concert Productions, Inc. \$21,450 at June 30, 2011 for advances made by CPI to the Organization in prior years. During the year ended June 30, 2012, FTT repaid this obligation in full. Additionally, no advances were received from CPI during this period.

6. Restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2012:

Scholarship	\$ 538,132
Office Rent	167,999
Radio	62,000
Education	<u>56,700</u>
	<u>\$ 824,831</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, time or by the occurrence of other events specified by the donor during the year ended June 30, 2012 as follows:

Scholarship	\$ 524,419
Radio	198,939
Education	147,393
Event	132,350
Television	70,000
Office Rent	<u>64,610</u>
	<u>\$ 1,137,711</u>

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

7. In-kind donations

The value of donated goods and services included as contributions in the financial statements and the corresponding program expenses for the year ended June 30, 2012 are as follows:

	Expenses			
	Program Services	General and Administrative	Fundraising	Total
Professional fees	\$ 110,192	\$ 48,097	\$ 12,500	\$ 170,789
Event expenses	8,400	-	2,000	10,400
Marketing	-	-	3,288	3,288
Rent	41,432	9,637	13,541	64,610
Total	\$ 160,024	\$ 57,734	\$ 31,329	\$ 249,087

	Revenue	
	Contributions	Total
Professional fees	\$ 170,789	\$ 170,789
Event expenses	10,400	10,400
Marketing	3,288	3,288
Rent	5,623	5,623
Total	\$ 190,100	\$ 190,100

8. Contingencies

The Organization receives federal financial assistance in the form of grants from the National Endowment for the Arts (NEA), the U.S. Department of Education (DOE), and other agencies. This assistance must be used for the programs specified under the grant documents and is subject to federal regulatory provisions under OMB Circular A-133. Federal grants totaling \$129,149 have been recognized as income during the year ended June 30, 2012. Accounts receivable include \$55,000 due from NEA at June 30, 2012.

The Organization receives funding from various state agencies and private foundations. Expenditures of funds from the federal and state agencies and certain private foundations require compliance with the grant agreements and are subject to audit by the grantor. Any disallowed expenditures resulting from such audits become a liability of the Organization. In the opinion of the Organization's management, disallowed expenditures, if any, will not have a material effect on the financial position of the Organization.

9. Grant agreements

Scholarship program

The Organization has entered into agreements with the Jack Kent Cooke Foundation to support outreach to identify applicants for the Organization's scholarship program. The original grant was awarded in March 2005 for the period June 1, 2005 through May 31, 2006 and provided for two one-year renewal periods. Since the grant renewals, the Organization has entered into five additional agreements, with the latest grant awarded in May 2012, totaling \$500,000, for the period June 1, 2012 through May 31, 2013. In addition, the Organization received approval to transfer \$21,889 of the 2011 / 2012 award to the 2012 / 2013 award. Grants awarded have ranged in value from \$500,000 to \$585,000.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

9. Grant agreements - continued

Scholarship program - continued

Each agreement contains provisions that grant funds will be expended in accordance with the grant proposal as itemized in the proposed project budget. Any line item that exceeds more than 10 percent of the proposed budget must be agreed to in writing from the grantor. In addition, funds remaining at the completion of the grant period must be returned to the grantor unless the grantor agrees otherwise in writing.

A summary of cumulative activity through June 30, 2012 is as follows:

Grant amounts	\$ 4,201,755
Cumulative expenditures incurred	
Scholarships	(1,563,230)
Program and administrative costs	(<u>2,100,393</u>)
Grant funds remaining	<u>\$ 538,132</u>

Grant funds held by award year as of June 30, 2012 is as follows:

Grant period ending:	
May 31, 2013	\$ 496,369
May 31, 2012	38,407
Prior	<u>3,356</u>
Grant funds remaining	<u>\$ 538,132</u>

Education programs

Boston pilot program

The Organization entered into an agreement with the Jack Kent Cooke Foundation in September 2010 to support the Organization's new initiative, the Center for the Development of Arts Leaders (CDAL) Boston pilot program. The pilot program connects local youth with opportunities to use music to contribute back to the community and includes a combination of retreats, applied service projects and mentoring. Collaborating in teams, the aspiring arts leaders are matched with community partners to design and implement a project, using their talent and passion to make a difference for the people they are serving. The grant was for a period of eighteen (18) months, commencing on July 1, 2010, in the amount of \$255,000. In addition to the funds awarded by the Jack Kent Cooke Foundation, the Organization was awarded additional grants from other grantors totaling \$60,000 in support of this program through June 30, 2011.

In February 2011 the Organization received approval from the Wallace Foundation to use remaining grant funds from the Organization's peer-to-peer education program for use in the Center for the Development of Arts Leaders Boston pilot program. Funds approved for this use totaled \$32,492.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

9. Grant agreements - continued

Education programs - continued

Boston pilot program - continued

A summary of cumulative activity through June 30, 2012 is as follows:

Jack Kent Cooke Foundation	\$ 255,000
Wallace Foundation	32,492
Other	<u>60,000</u>
Total awards	347,492
Cumulative program expenditures incurred	(<u>345,792</u>)
Total funds remaining	<u>\$ 1,700</u>

Arts leadership program

The Organization conducts school and community performances and presentations in up to 20 communities across the country, leveraging the power of young performers ages eight to eighteen as role models for approximately 3,500 students each year. These range from one-day events, to extended partnerships and residencies. In addition, all From the Top performers participate in arts leadership workshops, which allow them to explore the power of music to inspire and create change and to help them develop their own interests and leadership projects once they return home. During the year ended June 30, 2012, the Organization was awarded \$55,000 in support of this program from two grantors. No funds had been expended as of year-end.

10. Contractual agreements

NPR Agreement

In May 2009, the Organization entered into a distribution agreement with National Public Radio (NPR) to become the distributor of the radio shows produced by FTT for a three year term commencing on January 1, 2009. The agreement also grants NPR with the right of first refusal to acquire broadcast rights for new programs for one additional consecutive three-year period, commencing on January 1, 2013.

Provisions of the agreement provide for NPR to pay a minimum of \$350,000 of station carriage fees each program year. Additional fees may be due to the Organization if actual carriage fees exceed the minimum amount in each program year. In addition, NPR will share a portion of sponsorship revenue received by NPR as follows; (i) 100% of the first \$375,000 received each program year and (ii) 50% of the amount over \$399,000 received in program year 2009 and 50% of the amount over \$379,500 received in program years 2010 and 2011.

Effective May 18, 2011, the Organization entered into an amended agreement with NPR extending the term of the distribution agreement for one additional program year (January 1, 2012 through December 31, 2012). The terms of the amended agreement provide for a guaranteed minimum of \$380,000 to be paid for program year 2012. In addition, if station carriage fees exceed the guaranteed minimum, all excess fees will be paid 100% to the Organization. All other provisions of the agreement were not substantially changed.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

10. Contractual agreements - continued

NPR Agreement - continued

Amounts totaling \$379,872 and \$190,000 have been recognized as income and deferred revenue, respectively, for the year ended June 30, 2012.

Other

The Organization entered into an agreement to provide certain educational related content to McGraw Hill. The agreement provided for revenues for the content and royalties from the continuing publication of the content in text books. During the year ended June 30, 2012, royalties of \$4,939 were earned and are included in educational fees in the statement of activities.

11. Leasing arrangements

Effective July 1, 2010, the Organization entered into a new lease agreement for its office space for a period of five years through June 30, 2015. Monthly payments commence at \$2,294 and escalate to \$2,721 over the term of the lease. Pursuant to the terms of the agreement, the Organization receives the use of the space at a cost below the fair market value, valued at \$292,763, net of a discount of \$23,991 over the term of the lease. This amount was recorded as an in-kind contribution during fiscal year 2011.

Under the provisions of the agreement, the Organization may also be responsible for the payment of operating costs or taxes, as defined in the agreement.

Rental expense for 2012 was \$92,559 including releases of temporarily restricted income of \$64,610.

Future scheduled minimum rental payments under the lease, at the reduced charge, are as follows:

Year ended	
June 30, 2013	29,856
June 30, 2014	31,022
June 30, 2015	<u>32,655</u>
	<u>\$ 93,533</u>

12. Employee benefit plan

The Organization sponsors an individual based tax sheltered retirement savings plan under Section 403(b) of the Internal Revenue Code. This plan enables any employee who is willing to contribute at least \$200 per year to the Plan to participate. The Plan provides for no sponsor matching or contribution.

13. Investments

As part of its cash management program, the Organization maintains an investment portfolio. Investments consist of money market funds and are valued at fair value which approximates cost at June 30, 2012.

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

13. Investments - continued

For the year ended June 30, 2012, investment activity for the portfolio of marketable investment securities was as follows:

Investments, beginning of year	\$	522,459
Purchase of investments		42,940
Sale of investments		(42,998)
Investment income		
Dividend and interest, net of fees of \$215		<u>192</u>
Investments, end of year	\$	<u><u>522,593</u></u>

14. Fair value measurements

Effective July 1, 2008, the Organization adopted FASB's guidance on fair value measurements. The guidance establishes a framework for measuring fair value and expands related disclosures. Broadly, the guidance framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants. The guidance establishes a three-level hierarchy based upon observable and non-observable inputs.

The fair value hierarchy under the guidance is as follows:

- Level 1* Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2* Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3* Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance requires the use of observable data if such data is available without undue cost and effort.

The following table sets forth by level, within the fair value hierarchy, the Organization's fair value of assets measured on a recurring basis as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 522,593	\$ -	\$ -	\$ 522,593
Pledges receivable	<u>-</u>	<u>-</u>	<u>167,999</u>	<u>167,999</u>
Total assets at fair value	<u>\$ 522,593</u>	<u>\$ -</u>	<u>\$ 167,999</u>	<u>\$ 690,592</u>

FROM THE TOP, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

FOR THE YEAR ENDED JUNE 30, 2012

14. Fair value measurements - continued

The fair value of pledges receivable that are due in more than one year is estimated by discounting expected future cash flows using a rate of return determined by management of the Organization.

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

The changes in assets measured at fair value for which the Organization has used Level 3 inputs are as follows for the year ended June 30, 2012:

Balance, July 1, 2011	\$ 226,985
Unrealized gains (losses)	-
New promises received	-
Collections	(64,609)
Contributed revenue	<u>5,623</u>
Balance, June 30, 2012	<u>\$ 167,999</u>

15. Notes payable

Line of Credit

The Organization entered into a new revolving line of credit agreement with a financial institution dated November 18, 2010. The line of credit is subject to review by the financial institution annually and is currently due for review on January 31, 2013. The maximum amount available is \$150,000. Monthly payments of principal, as determined by the lender, and interest are due at the bank's prime rate for commercial loans plus 1.5%, on any outstanding balance. The line is secured by the general assets of the Organization, including funds held in accounts at the institution, and is subject to annual renewal. The agreement also contains certain covenants including a requirement that the line of credit have no outstanding balance for at least 60 days each year. There was no activity on the line of credit during the year ended June 30, 2012.

16. Board and CEO designated assets

During fiscal year 2007, the Board of Directors established a goal of reserving \$900,000 of the Organization's unrestricted net assets as a working capital reserve. As of June 30, 2012, the Board of Directors has designated a portion of the unrestricted net assets in the amount of \$505,263 for this purpose. The Organization has segregated these funds, which are included in the long-term investments, into a money market account.

During fiscal year 2010, the Organization established a CEO-designated fund to honor its founding CEOs and Board members. The Founders' Fund was established to provide working capital to enable the Organization to take advantage of new opportunities that advance the Organization's mission.

FROM THE TOP, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2012

16. Board and CEO designated assets - continued

A summary of the activity during fiscal year 2012 is as follows:

Balance, July 1, 2011	\$ 99,650
Deposits	-
Transfer to operations	<u>(40,000)</u>
Balance, June 30, 2012	<u>\$ 59,650</u>

The Organization has segregated these funds, which are included in unrestricted cash, into a checking account with the Organization's financial institution.

SUPPLEMENTAL INFORMATION

FROM THE TOP, INC.**SCHEDULE OF FUNCTIONAL EXPENSES - PROGRAM SERVICES**

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services				
	Marketing & Communications	Radio	Education	Scholarship	Total
Production costs	\$ -	\$ 385,924	\$ -	\$ -	\$ 385,924
Event expenses	-	8,400	900	-	9,300
Payroll and payroll taxes	228,426	422,055	320,099	89,927	1,060,507
Fringe benefits	16,581	56,001	27,398	429	100,409
Advertising	6,615	-	621	9,210	16,446
Scholarships	-	-	-	193,969	193,969
Insurance	746	7,029	852	281	8,908
Maintenance and repair	1,302	1,597	1,487	490	4,876
Marketing	23,332	7,377	9,205	7,766	47,680
Office expenses	21,055	21,907	20,015	5,439	68,416
Professional fees	67,385	51,994	98,908	597	218,884
Rent	15,853	19,432	18,102	5,967	59,354
Telephone / internet	2,432	4,969	3,266	894	11,561
Travel, lodging and meals	10,828	206,813	23,982	26,338	267,961
Depreciation and amortization	5,714	21,618	6,524	2,152	36,008
Total expenses	<u>\$ 400,269</u>	<u>\$ 1,215,116</u>	<u>\$ 531,359</u>	<u>\$ 343,459</u>	<u>\$ 2,490,203</u>