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**1. PURPOSE OF CORPORATION**

Music for Life Institute (USA) is a non-profit corporation registered under the Articles of Incorporation of the State of Delaware, is registered in the State of Washington, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is authorized to issue donation receipts for income tax purposes.

The Corporation's objectives include:

- (a) developing, funding, administering, facilitating, promoting, operating and carrying on activities, programs and facilities which will provide compassionate humanitarian and spiritual assistance, education and training to needy persons;
- (b) equipping, training, and funding students and other persons to develop, compose and perform music as an expression of life, culture and spirituality; and
- (c) assisting needy and disadvantaged people, especially children, by increasing awareness of their plight and securing funds for direct aid.

The Corporation's primary programs are the operation of touring children's choirs and the provision of food, shelter and education for children living in West, East and South Africa.

**2. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Accounting**

The Corporation prepares its financial statements on the accrual basis of accounting. In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No.116, Accounting for Contributions Received and Contributions Made, the Corporation recognizes contributions as revenue in the period pledged and recognizes expenses for goods and services as incurred.

**(b) Fund Accounting**

The Corporation maintains its accounts in accordance with the principles and practices of fund accounting, whereby resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors. The financial statements have been segregated into funds whose purposes are as follows:

Unrestricted funds -

- (i) The General Fund reports on administration activities including management and finance.
- (ii) The Choir Fund reports on the assets held, funds received from and expenses related to choirs' performances, including training, education and care of the children, touring expenses, the Friends of the Choir program and the management thereof.

**MUSIC FOR LIFE INSTITUTE (USA)****NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)****(Expressed in U.S. Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(b) Fund Accounting (Continued)**

Temporarily restricted funds -

- (iii) The Sponsorship Fund reports on funds received and expenses related to child sponsorship programs operated in West and East Africa and the management thereof.
- (iv) The Partners Fund reports on funds received and expenses related to the Corporation's MFL Teams activities and Building Personal Support activities (Note 6).

**(c) Basis of Presentation**

The Corporation follows the provisions of SFAS No.117, Financial Statements of Not-for-Profit Organizations. Accordingly, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions, using three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

**(d) Equipment**

Computer, office and multi-media equipment is stated at cost less accumulated depreciation, calculated on a declining balance basis at an annual rate of 30%. In the year of acquisition, this rate is reduced by one-half.

**(e) Donated Equipment, Materials and Services**

Donated equipment and materials are recorded as support at their estimated fair value at the date of donation, and are reported as unrestricted support unless the donor restricts the donated asset to a specific purpose.

The Corporation recognizes donated services that create or enhance non-financial assets or that require specialized skills, provided by individuals possessing those skills, which would typically need to be purchased if not provided by donation.

**(f) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

**MUSIC FOR LIFE INSTITUTE (USA)****NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)****(Expressed in U.S. Dollars)**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized in the statement of functional expenses. Expenses are charged to each program based on direct expenditures incurred or, where expenditures are not directly chargeable, are allocated based on units of service or allocable space occupancy.

**(h) Foreign Currency Translation**

Assets bought and sold during the year and transactions relating to net income in foreign currencies are translated into U.S. dollars at the rate prevailing at the transaction dates. Monetary assets and liabilities in foreign currencies at the close of the year are translated into U.S. dollars at the rate prevailing at the year-end.

Foreign exchange gains or losses arise from recording the difference between foreign currency balances translated at rates prevailing at year-end and balances translated at rates prevailing on transaction dates.

**(i) Comparative Financial Information**

The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to be in accordance with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the financial statements for the fiscal year ended March 31, 2011, from which the summarized information was derived.

**3. RELATED PARTY TRANSACTIONS**

Certain of the directors of the Corporation also serve as members of the boards of directors of the following parties, which are related by virtue of common control:

**Friends in the West (Canada) -**

Friends in the West (Canada) is a non-profit organization incorporated under the Canada Corporations Act and is registered as an extra-provincial society under the Society Act of British Columbia. The society is a non-profit charitable organization registered under the Income Tax Act of Canada and as such is exempt from income taxes and is authorized to issue donation receipts for income tax purposes. The society's primary purpose is to support the activities of its related parties with respect to the provision of food, shelter and education for children living in West, East and South Africa.

## MUSIC FOR LIFE INSTITUTE (USA)

### NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)

(Expressed in U.S. Dollars)

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#### 3. RELATED PARTY TRANSACTIONS (Continued)

##### Friends in the West (USA) -

Friends in the West (USA) is a non-profit corporation registered under the Articles of Incorporation of the State of Washington, is exempt from federal and state income taxes and is authorized to issue donation receipts for income tax purposes. The corporation's primary purpose is assisting individuals who are deprived of their human rights by increasing awareness of their plight and seeking practical solutions.

##### Friends in the West International (UK) -

Friends in the West International (UK) was formed as a company limited by guarantee in the United Kingdom on December 7, 1987 and has no share capital. The organization's primary purpose is the provision of food, shelter and education for children living in West, East and South Africa.

##### Music for Life Academy Limited (UK) -

Music for Life Academy Limited (UK) was established in 2001 for the primary purpose of conducting the fundraising activities of the Music for Life group in the United Kingdom.

##### Music for Life Records Limited (UK) -

Music for Life Records Limited (UK) is a general commercial company, established for the purpose of supporting fundraising activities of certain related charities, Friends in the West International (UK) and Music for Life Academy Limited (UK), through the sale of African Children's Choir merchandise, the profits of which are covenanted by Gift Aid by the directors of the company to Music for Life Academy Limited (UK).

##### Music for Life Trust (South Africa) -

Music for Life Trust (South Africa) is a non-profit organization registered in South Africa. The organization's primary purpose is the provision of music therapy programs, food, shelter and education for children living in South Africa.

##### Music for Life Institute (Canada) -

Music for Life Institute (Canada) is incorporated under the Canada Corporations Act and is registered as an extra-provincial society under the Society Act of British Columbia. The society is a non-profit charitable organization registered under the Income Tax Act of Canada and as such is exempt from income taxes and is authorized to issue donation receipts for income tax purposes. The society's primary purposes are the operation of touring children's choirs and the provision of food, shelter and education for children living in West, East and South Africa.

##### Music for Life Foundation (Canada) -

Music for Life Foundation (Canada) is a public foundation registered in Canada to hold and manage assets and property used by certain related parties.

**MUSIC FOR LIFE INSTITUTE (USA)****NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)**

(Expressed in U.S. Dollars)

**3. RELATED PARTY TRANSACTIONS (Continued)**

## African Children's Choir -

The African Children's choir is a non-profit organization incorporated under the Canada Corporations Act. The organization meets the criteria of a non-profit organization under the Income Tax Act of Canada and as such is exempt from income taxes. The organization's objectives include the training and education of students to develop, compose and perform music; development and promotion of humanitarian programs to needy persons; and the holding and management of funds and property for disbursement to other non-profit entities.

Programs operating in Africa are funded by the joint efforts of the related parties. Transactions among them are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year, the Corporation entered into the following transactions with related parties:

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
Contributions from related parties:				
Music for Life Institute (Canada)	\$ -	\$ -	\$ -	\$ 225,332
African Children's Choir	334,800	-	334,800	207,867
Friends in the West International (UK)	6,393	-	6,393	4,152
Friends in the West (USA)	-	-	-	2,276
	\$ 341,193	\$ NIL	\$ 341,193	\$ 439,627

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
Direct grants to related parties:				
Music for Life Institute (Canada)	\$ 289,606	\$ -	\$ 289,606	\$ 168,589
Friends in the West (USA)	40,161	-	40,161	-
Music for Life Trust (South Africa)	351	-	351	283
	\$ 330,118	\$ NIL	\$ 330,118	\$ 168,872

**MUSIC FOR LIFE INSTITUTE (USA)****NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)**

(Expressed in U.S. Dollars)

**4. EQUIPMENT**

The Corporation's equipment is analyzed as follows:

	Cost	Accumulated Depreciation	2012 Net Book Value	2011 Net Book Value
Computer and office equipment	\$ 40,554	\$ 35,448	\$ 5,106	\$ 7,295
Multi-media equipment	56,993	48,464	8,529	12,184
	\$ 97,547	\$ 83,912	\$ 13,635	\$ 19,479

**5. DIRECT GRANTS**

Direct grants were paid to charitable programs in the following countries:

	2012	2011
Ghana	\$ 2,148	\$ 7,178
Kenya	101,569	187,073
Nigeria	10,883	11,810
Rwanda	38,309	37,455
South Africa	7,269	52,513
Uganda	760,652	706,835
	920,830	1,002,864
Direct grants to related parties (Note 3)	330,118	168,872
	\$ 1,250,948	\$ 1,171,736

**MUSIC FOR LIFE INSTITUTE (USA)****NOTES TO FINANCIAL STATEMENTS - MARCH 31, 2012 (Continued)**

(Expressed in U.S. Dollars)

**6. BUILDING PERSONAL SUPPORT ("BPS") ACTIVITIES**

Certain of the personnel accompanying the Corporation's choirs are required to fundraise to cover many of the expenses associated with their activities. BPS fundraising revenues are recorded in the period in which they are received as restricted contribution revenues of the Partners program. The expenses incurred by BPS personnel, consisting primarily of salaries and benefits, are recorded as expenses of the Partners program. The fundraising revenues and expenses related to BPS personnel are analysed as follows:

	2012	2011
Fundraising revenues - BPS	\$ 85,531	\$ 106,936
Expenses - BPS	\$ 110,520	\$ 128,207

**7. FINANCIAL INSTRUMENTS**

Financial instruments are defined to include cash, amounts receivable or payable in cash arising from contractual agreements, and investments in the securities of other entities. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from the financial instruments disclosed on the statement of financial position. The carrying values of these financial instruments approximate their fair values.

The Corporation receives contributions, pays direct grants and loans funds to/from related parties in Canada, Africa and the United Kingdom, and accordingly is exposed to financial risk resulting from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Corporation does not use financial hedge instruments to mitigate this risk.