

LEADERSHIP MUSIC

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LEADERSHIP MUSIC

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors of
Leadership Music:**

We have audited the accompanying financial statements of Leadership Music, which are comprised of the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Leadership Music as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of functional expenses on Pages 6 and 7 are presented for purposes of additional analysis and are 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.

LBMC, PC

Brentwood, Tennessee
November 1, 2018

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 577,756	\$ 589,008
Accounts receivable	79,050	57,475
Prepaid expenses	28	42
Furniture and equipment, net of accumulated depreciation of \$17,327 in 2017 and \$15,953 in 2016	<u>3,717</u>	<u>2,974</u>
	<u>\$ 660,551</u>	<u>\$ 649,499</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 1,648	\$ 1,143
Accrued compensation and benefits	5,005	5,353
Deferred revenue	<u>1,000</u>	<u>485</u>
Total liabilities	7,653	6,981
Unrestricted net assets	<u>652,898</u>	<u>642,518</u>
	<u>\$ 660,551</u>	<u>\$ 649,499</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues and other support:		
Special events	\$ 4,630	\$ 18,105
Contributions	292,147	305,560
Program tuition fees	48,500	44,000
Alumni dues	30,825	37,575
Interest income	408	327
Other miscellaneous contributions and income	<u>68,585</u>	<u>71,694</u>
Total revenues and other support	<u>445,095</u>	<u>477,261</u>
Expenses:		
Program	279,682	298,682
Management and general	96,994	90,123
Fundraising	<u>58,039</u>	<u>62,458</u>
Total expenses	<u>434,715</u>	<u>451,263</u>
Increase in unrestricted net assets	10,380	25,998
Unrestricted net assets at beginning of year	<u>642,518</u>	<u>616,520</u>
Unrestricted net assets at end of year	<u>\$ 652,898</u>	<u>\$ 642,518</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ <u>10,380</u>	\$ <u>25,998</u>
Adjustments to reconcile changes in unrestricted net assets to net cash provided (used) by operating activities:		
Depreciation	1,374	952
(Increase) decrease in operating assets:		
Accounts receivable	(21,575)	(21,475)
Prepaid expenses	14	14
Increase (decrease) in operating liabilities:		
Accounts payable	505	(2,319)
Accrued compensation and benefits	(348)	(518)
Deferred revenue	<u>515</u>	<u>(515)</u>
Total adjustments	<u>(19,515)</u>	<u>(23,861)</u>
Net cash provided (used) by operating activities	(9,135)	2,137
Cash flows used by investing activities -		
Purchases of furniture and equipment	<u>(2,117)</u>	<u>(603)</u>
Increase (decrease) in cash and cash equivalents	(11,252)	1,534
Cash and cash equivalents at beginning of year	<u>589,008</u>	<u>587,474</u>
Cash and cash equivalents at end of year	\$ <u>577,756</u>	\$ <u>589,008</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2018

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events - Alumni Engagement Events	\$ <u>5,230</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,230</u>
Employee compensation:				
Salaries and wages	113,387	37,796	37,796	188,979
Employee benefits	15,866	5,289	5,289	26,444
Payroll taxes	<u>9,107</u>	<u>3,036</u>	<u>3,036</u>	<u>15,179</u>
Total compensation expenses	138,360	46,121	46,121	230,602
Program costs	104,983	-	-	104,983
Development/stewardship	-	-	3,160	3,160
Office supplies	743	2,230	-	2,973
Website	1,231	3,693	1,231	6,155
Telephone	854	3,983	854	5,691
Postage	394	-	394	788
Bank charges	34	102	34	170
Taxes, licenses and fees	-	3,488	-	3,488
Legal and professional	-	14,045	-	14,045
Rent	10,663	14,337	-	25,000
Insurance - general	3,859	1,287	1,287	6,433
Dues and subscriptions	141	564	-	705
Meals and entertainment	-	-	3,120	3,120
Transportation	13,190	-	-	13,190
Depreciation	-	1,374	-	1,374
Miscellaneous	-	5,432	-	5,432
Travel	-	338	338	676
LM Scholarship - Tuition Waived	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>1,500</u>
Total	\$ <u>279,682</u>	\$ <u>96,994</u>	\$ <u>58,039</u>	\$ <u>434,715</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2017

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events - Alumni Engagement Events	\$ <u>7,614</u>	\$ <u>-</u>	\$ <u>525</u>	\$ <u>8,139</u>
Employee compensation:				
Salaries and wages	120,517	40,173	40,173	200,863
Employee benefits	16,403	5,469	5,469	27,341
Payroll taxes	<u>9,898</u>	<u>3,300</u>	<u>3,300</u>	<u>16,498</u>
Total compensation expenses	146,818	48,942	48,942	244,702
Program costs	114,022	-	-	114,022
Development/stewardship	-	-	4,704	4,704
Office supplies	245	730	-	975
Website	1,336	4,008	1,336	6,680
Telephone	734	3,427	734	4,895
Postage	418	-	418	836
Bank charges	85	255	85	425
Taxes, licenses and fees	-	2,916	-	2,916
Legal and professional	-	11,634	-	11,634
Rent	10,663	14,337	-	25,000
Insurance - general	3,872	1,291	1,291	6,454
Dues and subscriptions	250	999	-	1,249
Meals and entertainment	-	-	3,790	3,790
Transportation	12,625	-	-	12,625
Depreciation	-	952	-	952
Miscellaneous	-	13	14	27
Travel	<u>-</u>	<u>619</u>	<u>619</u>	<u>1,238</u>
Total	\$ <u>298,682</u>	\$ <u>90,123</u>	\$ <u>62,458</u>	\$ <u>451,263</u>

See accompanying notes to the financial statements.

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Notes to the Financial Statements

June 30, 2018 and 2017

(1) Nature of operations

Leadership Music (the "Organization") is a nonprofit corporation, organized in the State of Tennessee in 1989. Its mission is to cultivate a forward-thinking community of leaders who impact the creative industry. The Organization operates from facilities located in Nashville, Tennessee and attracts its support primarily from the Middle Tennessee area. The Organization is supported primarily by contributions from the general public, alumni and by fundraising events.

(2) Summary of significant accounting policies

The financial statements of the Organization are presented on the accrual basis of accounting under which revenue is recognized when earned and expenses when incurred. The significant accounting policies followed are described below.

(a) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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 donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

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 and any related investments for general purposes.

The Organization had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017.

(b) Program activities

The defining elements of the Organization's program have been to: 1) explore and analyze how various parts of the music industry operate; 2) provide increased familiarity and dialogue with music industry leaders; and 3) expose and educate class participants to varying points of view and philosophies.

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Notes to the Financial Statements

June 30, 2018 and 2017

The Organization helps to expand the knowledge base of each participant, expand the talent pool of leadership within the music community, and promote teamwork and camaraderie in an otherwise competitive business. Each person selected to participate in Leadership Music makes an extensive time commitment. Attendance is mandatory for the eight-month program, which begins in the fall. The first and last meetings are weekend retreats. Between these retreats are six monthly meetings, which average twelve hours each. The participants make on-site visits around the community, focusing on such subjects as songwriting/publishing, media, artist, production, record company, and live music. They also hear from numerous speakers and participate in hands-on exercises.

(c) Cash equivalents

The Organization considers all cash and related short-term investments with original maturities of three months or less when purchased to be cash equivalents.

(d) Accounts receivable

Accounts receivable arise primarily from sponsorships of events or donations. The carrying amount of accounts receivable is reduced by a valuation allowance, if necessary, which reflects management's best estimate of the amounts that will not be collected. The allowance is estimated based on historical loss experience and existing economic conditions. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Management believes the accounts receivable are fully collectible. Accordingly, no allowance for doubtful accounts has been provided as of June 30, 2018 and 2017.

(e) Furniture and equipment

Furniture and equipment are stated at cost, or if donated, at the estimated fair market value as of the date of donation. Depreciation is provided over the assets' estimated useful lives, generally five years, using the straight-line method. Expenditures for maintenance and repairs are expensed when incurred. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(f) Deferred revenue

Contributions related to events to be held in future years are shown as deferred revenue until the event has occurred. The costs related to these specific events are not expensed until the event occurs.

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Notes to the Financial Statements

June 30, 2018 and 2017

(g) Income taxes

The Organization is a not-for-profit corporation as described in section 501(c)(3) of the Internal Revenue Code and, as such, is exempt from federal income taxes pursuant to code section 501(a). An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of June 30, 2018 and 2017, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Organization files U.S. Federal information tax returns.

(h) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Promises to give are recognized when the donor makes an unconditional promise to give to the Organization.

(i) Donated goods and services

Donated goods and services are recognized at the fair value of items received at the time of donation. Volunteer time is recognized to the extent such time is provided by individuals with special training and which would normally need to be purchased. The Organization also receives volunteer services from a number of individuals in carrying out its programs whose service does not meet the criteria for recognition in the financial statements.

(j) Use of estimates

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

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Notes to the Financial Statements

June 30, 2018 and 2017

(k) Functional allocation of expenses

The costs of providing program and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate.

(l) Recently issued accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-04, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (donor restricted and non-donor restricted), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard is effective for fiscal years beginning after December 15, 2017 and will be adopted by the Organization for fiscal year 2019. The Organization expects the impact of adoption to be in the form of additional disclosures.

(m) Events occurring after reporting date

Management of the Organization has evaluated events and transactions that occurred between June 30, 2018 and November 1, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Organization generally maintains cash and cash equivalents on deposit at banks in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

(4) Special events

A number of Alumni Engagement Events were held during fiscal years 2018 and 2017 with the intention of engaging interest of the Organization's alumni. Revenue was generated by ticket sales and from food sponsors.

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Notes to the Financial Statements

June 30, 2018 and 2017

Revenue and expense from these events are summarized below:

	<u>2018</u>		
	Alumni Engagement Events		
Revenue		\$	4,630
Expense			<u>5,230</u>
Net		\$	<u>(600)</u>
	<u>2017</u>		
	Auction Event	Alumni Engagement Events	Total
Revenue	\$ 5,972	\$ 12,133	\$ 18,105
Expense	<u>525</u>	<u>8,139</u>	<u>8,664</u>
Net	<u>\$ 5,447</u>	<u>\$ 3,994</u>	<u>\$ 9,441</u>

(5) In-kind contributions

The Organization received in-kind contributed goods and services during fiscal years 2018 and 2017 meeting the requirements for recognition consisting of the following:

	<u>2018</u>	<u>2017</u>
Program contributions	\$ 36,670	\$ 34,550
Rent	25,000	25,000
Legal and professional	7,200	4,200
Other - party and events	<u>2,000</u>	<u>500</u>
	<u>\$ 70,870</u>	<u>\$ 64,250</u>

(6) Benefit plan

The Organization maintains a defined contribution 403(b) plan (the "Plan") which covers employees who have completed 90 days of service and attained the age of 21. The Plan provides for the Organization to match up to 50% of employee contributions up to \$6,000. The Organization made annual contributions of \$3,252 and \$3,216 during 2017 and 2016, respectively.