

LEADERSHIP MUSIC

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

LEADERSHIP MUSIC

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statement of Functional Expenses for 2010	5
Statement of Functional Expenses for 2009	6
Notes to the Financial Statements	7 - 12



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Leadership Music (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities, cash flows, and functional expenses for the years 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Leadership Music as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
January 5, 2011

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2010 and 2009

<u>Assets</u>		
	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents	\$ 152,298	\$ 224,885
Certificates of deposit	188,751	206,535
Accounts receivable	43,500	48,932
Prepaid expenses	<u>-</u>	<u>1,147</u>
Total current assets	384,549	481,499
 Furniture and equipment, net of accumulated depreciation of \$8,275 in 2010 and \$7,173 in 2009	 <u>4,706</u>	 <u>5,808</u>
	<u>\$ 389,255</u>	<u>\$ 487,307</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 7,430	\$ 19,528
Accrued compensation and benefits	15,801	10,033
Deferred revenue	<u>-</u>	<u>200</u>
Total current liabilities	23,231	29,761
 Unrestricted net assets	 <u>366,024</u>	 <u>457,546</u>
	<u>\$ 389,255</u>	<u>\$ 487,307</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues and other support:		
Special events	\$ 267,482	\$ 294,978
Contributions	179,474	214,227
Program tuition fees	24,000	25,750
Alumni dues	8,100	14,625
Interest income	5,765	9,397
Other	<u>11,860</u>	<u>12,376</u>
Total revenues and other support	<u>496,681</u>	<u>571,353</u>
Expenses:		
Program	246,134	314,860
Management and general	71,338	81,290
Fundraising	<u>270,731</u>	<u>198,481</u>
Total expenses	<u>588,203</u>	<u>594,631</u>
Decrease in unrestricted net assets	(91,522)	(23,278)
Unrestricted net assets at beginning of year	<u>457,546</u>	<u>480,824</u>
Unrestricted net assets at end of year	<u>\$ 366,024</u>	<u>\$ 457,546</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	\$ <u>(91,522)</u>	\$ <u>(23,278)</u>
Adjustments to reconcile changes in unrestricted net assets to cash flows provided (used) by operating activities:		
Depreciation	1,102	1,113
Loss on disposal of equipment	-	95
Decrease in operating assets:		
Accounts receivable	5,432	16,088
Prepaid expenses	1,147	3,324
Increase (decrease) in operating liabilities:		
Accounts payable	(12,098)	(482)
Accrued compensation and benefits	5,768	10,033
Deferred revenue	<u>(200)</u>	<u>150</u>
Total adjustments	<u>1,151</u>	<u>30,321</u>
Net cash provided (used) by operating activities	<u>(90,371)</u>	<u>7,043</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	-	(1,723)
Proceeds from certificates of deposit, net	<u>17,784</u>	<u>13,890</u>
Net cash provided by investing activities	<u>17,784</u>	<u>12,167</u>
Increase (decrease) in cash and cash equivalents	(72,587)	19,210
Cash and cash equivalents at beginning of year	<u>224,885</u>	<u>205,675</u>
Cash and cash equivalents at end of year	\$ <u>152,298</u>	\$ <u>224,885</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2010

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events:				
Dale Franklin Leadership Dinner	\$ -	\$ -	\$ 179,284	\$ 179,284
Digital Summit	2,540	-	282	2,822
20th Anniversary	-	-	31,112	31,112
Nashville Music Awards	-	-	1,094	1,094
Total special events expenses	2,540	-	211,772	214,312
Employee compensation:				
Salaries and wages	108,114	36,038	36,038	180,190
Employee benefits	12,504	4,168	4,168	20,840
Payroll taxes	8,127	2,709	2,709	13,545
Total compensation expenses	128,745	42,915	42,915	214,575
Program costs	90,191	-	-	90,191
Development/stewardship	-	-	3,996	3,996
Office supplies	862	2,587	-	3,449
Printing and publications	2,625	-	875	3,500
Website	1,688	-	6,750	8,438
Telephone	796	3,714	796	5,306
Postage	344	-	344	688
Bank charges	306	917	306	1,529
Taxes, licenses and fees	-	551	-	551
Legal and professional	-	7,411	-	7,411
Rent	6,824	9,533	-	16,357
Insurance - general	2,250	750	750	3,750
Depreciation	-	1,102	-	1,102
Dues and subscriptions	313	1,253	-	1,566
Meals and entertainment	-	-	1,622	1,622
Transportation	8,650	391	391	9,432
Miscellaneous	-	214	214	428
Total	\$ 246,134	\$ 71,338	\$ 270,731	\$ 588,203

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2009

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events:				
Dale Franklin Leadership Dinner	\$ -	\$ -	\$ 124,091	\$ 124,091
Digital Summit	60,639	-	6,738	67,377
Yard sale	<u>-</u>	<u>-</u>	<u>4,190</u>	<u>4,190</u>
Total special events expenses	60,639	-	135,019	195,658
Employee compensation:				
Salaries and wages	106,250	35,417	35,417	177,084
Employee benefits	15,546	5,182	5,182	25,910
Payroll taxes	<u>8,810</u>	<u>2,937</u>	<u>2,937</u>	<u>14,684</u>
Total compensation expenses	130,606	43,536	43,536	217,678
Program costs	91,613	-	-	91,613
Development/stewardship	-	-	2,440	2,440
Education outreach	-	-	922	922
Office supplies	1,006	3,017	-	4,023
Printing and publications	3,374	-	1,125	4,499
Website	2,385	-	9,540	11,925
Telephone	849	3,963	849	5,661
Postage	356	-	356	712
Bank charges	371	1,112	371	1,854
Taxes, licenses and fees	-	470	-	470
Legal and professional	-	8,353	-	8,353
Rent	11,900	16,387	-	28,287
Insurance - general	2,176	725	725	3,626
Depreciation	-	1,113	-	1,113
Dues and subscriptions	534	2,137	-	2,671
Meals and entertainment	-	-	3,046	3,046
Transportation	9,051	322	322	9,695
Miscellaneous	<u>-</u>	<u>155</u>	<u>230</u>	<u>385</u>
Total	<u>\$ 314,860</u>	<u>\$ 81,290</u>	<u>\$ 198,481</u>	<u>\$ 594,631</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

(1) Nature of operations

Leadership Music (the "Organization") is a nonprofit corporation, organized in the State of Tennessee in 1989. Its mission is to nurture a knowledgeable, issue-oriented community of music industry professionals. 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 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) FAS 168 accounting codification

On June 29, 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("Codification" or "ASC") No. 105, *Generally Accepted Accounting Principles* ("ASC 105"). ASC 105 establishes the Codification as the sole source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). Existing GAAP was not intended to be changed as a result of the Codification, and accordingly the change did not impact the financial statements. The Codification does change the way the guidance is organized and presented.

(b) 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 specific purposes.

The Organization had no temporarily or permanently restricted net assets as of June 30, 2010 and 2009.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

(c) Program activities

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

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 nine-month program, which begins in the fall. The first and last meetings are weekend retreats. Between these retreats are six monthly meetings, which average 12 hours each. The participants make on-site visits around the community, focusing on such subjects as songwriting/publishing, broadcast, artist, studio/audit, record company, and touring. They hear from numerous speakers and participate in hands-on exercises.

(d) 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.

(e) Certificates of deposit

Certificates of deposit are measured at cost, which approximates fair value, in the accompanying statements of financial position. Investment income is included in revenues and other support unless the income is restricted by donor or law.

(f) Accounts receivable

Accounts receivable are uncollateralized obligations arising primarily from events. 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, 2010 and 2009.

(g) 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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

(h) Deferred revenue

Deferred revenue consists primarily of prepaid program tuition fees.

(i) 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). As of June 30, 2010, 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 which are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2006.

(j) 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.

(k) 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.

(l) Use of estimates

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

(m) 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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

(n) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2010 and January 5, 2011, 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 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.

(4) Assets and liabilities measured at fair value

During 2009, the Organization adopted components of the accounting standards for fair value, which define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements for both financial and non-financial assets and liabilities. These standards apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3).

The Organization does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2010 and 2009.

(a) Financial instruments

The carrying amount of financial instruments, consisting of cash and cash equivalents, certificates of deposits, accounts receivable, accounts payable, accrued compensation and benefits and deferred revenue approximate their fair value due to their relatively short maturities.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

(b) Non-financial assets

The Organization's non-financial assets, which consists of furniture and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Organization is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at its fair value. During the years ended June 30, 2010 and 2009, the Organization did not measure any non-financial assets at fair value or recognize any amounts in the decrease in unrestricted net assets related to changes in fair value for non-financial assets.

(5) Certificates of deposit

A summary of certificates of deposit as of June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
CD (0.50%, matures August 2011)	\$ 62,512	\$ 61,898
CD (1.00%, matures October 2011)	64,424	63,408
CD (1.14%, matures May 2011)	61,815	60,494
CD (4.10%, matured September 2009)	<u>-</u>	<u>20,735</u>
	<u>\$ 188,751</u>	<u>\$ 206,535</u>

(6) Special events

The Organization conducted significant fundraising events during fiscal years 2010 and 2009. A description of these events is as follows:

The Dale Franklin Leadership Dinner is an annual event held to honor an individual in the music industry.

The Digital Summit is an annual meeting of business leaders to discuss technological advancements in the music industry. Revenue from this event is generated by participant fees and corporate sponsorships. In 2010, the Organization changed the date of the Digital Summit from March 2010 to September 2010, and therefore recognized no income for the year ended June 30, 2010 as a result of this change.

The Yard Sale was a fundraiser consisting of an online auction and live event. The Organization did not conduct a yard sale fundraiser during fiscal 2010 or 2009; however, it incurred revenue and expense in 2009 in conjunction with terminating the event. The Organization does not intend to hold future yard sale fundraisers.

The 20th Anniversary was a reunion of all alumni to celebrate the 20th anniversary of the Organization. Revenue from this event was generated by alumni donations.

The Nashville Music Awards was an awards show voted on by fans. Leadership Music partnered with another organization and a committee of alumni was formed to help tally the votes and announce the winners. No revenue was recognized for the event during fiscal 2010 as only expenses were incurred to form the committee.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2010 and 2009

Revenue and expense from these events are summarized below:

<u>2010</u>						
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Yard Sale</u>	<u>20th Anniversary</u>	<u>Nashville Music Awards</u>	<u>Total</u>
Revenue	\$ 235,687	\$ -	\$ -	\$ 31,795	\$ -	\$ 267,482
Expense	<u>179,284</u>	<u>2,822</u>	<u>-</u>	<u>31,112</u>	<u>1,094</u>	<u>214,312</u>
Net	<u>\$ 56,403</u>	<u>\$ (2,822)</u>	<u>\$ -</u>	<u>\$ 683</u>	<u>(1,094)</u>	<u>\$ 53,170</u>

<u>2009</u>						
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Yard Sale</u>	<u>20th Anniversary</u>	<u>Nashville Music Awards</u>	<u>Total</u>
Revenue	\$ 198,397	\$ 90,345	\$ 6,236	\$ -	\$ -	\$ 294,978
Expense	<u>124,091</u>	<u>67,377</u>	<u>4,190</u>	<u>-</u>	<u>-</u>	<u>195,658</u>
Net	<u>\$ 74,306</u>	<u>\$ 22,968</u>	<u>\$ 2,046</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 99,320</u>

(7) In-kind contributions

The Organization received in-kind contributed goods and services during fiscal years 2010 and 2009 meeting the requirements for recognition consisting of the following:

	<u>2010</u>	<u>2009</u>
Program contributions	\$ 46,524	\$ 48,700
Digital Summit	-	9,150
Rent	16,000	27,900
Dale Franklin Leadership Dinner	76,525	39,850
Legal and professional	<u>1,200</u>	<u>1,200</u>
	<u>\$ 140,249</u>	<u>\$ 126,800</u>

(8) Benefit plans

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 Plan began January 1, 2009 and the Organization made annual contributions of approximately \$2,000 during 2010 and 2009.