

LEADERSHIP MUSIC

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

LEADERSHIP MUSIC

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Leadership Music:

Opinion

We have audited the accompanying financial statements of Leadership Music (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

LBMC, PC

Brentwood, Tennessee
November 3, 2022

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2022 and 2021

Assets

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 731,615	\$ 926,630
Contributions receivable	104,600	304,600
Investments	901,759	545,039
Furniture and equipment, net of accumulated depreciation of \$7,696 in 2022 and \$20,946 in 2021	<u>6,043</u>	<u>901</u>
	<u>\$ 1,744,017</u>	<u>\$ 1,777,170</u>

Liabilities and Net Assets

Liabilities:

Note payable	\$ -	\$ 49,632
Accounts payable	8,218	3,117
Accrued compensation and benefits	<u>692</u>	<u>10,095</u>
Total liabilities	<u>8,910</u>	<u>62,844</u>

Net assets:

Without donor restrictions	1,256,683	1,169,287
With donor restrictions	<u>478,424</u>	<u>545,039</u>
Total net assets	<u>1,735,107</u>	<u>1,714,326</u>
	<u>\$ 1,744,017</u>	<u>\$ 1,777,170</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities and Changes in Net Assets

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Changes in net assets without donor restrictions:		
Revenues and other support:		
Special events	\$ -	\$ 2,366
Contributions	490,175	747,550
Program tuition fees	63,000	-
Alumni dues	38,100	30,525
Investment return	(26,665)	-
Interest income	810	1,366
Gain on forgiveness of debt	49,632	47,200
State and local grant income	-	115,000
Other miscellaneous contributions and income	<u>59,959</u>	<u>1,055</u>
Total revenues and other support	<u>675,011</u>	<u>945,062</u>
Expenses:		
Program	395,752	208,841
Management and general	143,967	117,361
Fundraising	<u>47,896</u>	<u>61,459</u>
Total expenses	<u>587,615</u>	<u>387,661</u>
Increase in net assets without donor restrictions	<u>87,396</u>	<u>557,401</u>
Changes in net assets with donor restrictions:		
Contributions	-	500,000
Investment return	<u>(66,615)</u>	<u>45,039</u>
Increase (decrease) in net assets with donor restrictions	<u>(66,615)</u>	<u>545,039</u>
Increase in net assets	20,781	1,102,440
Net assets at beginning of year	<u>1,714,326</u>	<u>611,886</u>
Net assets at end of year	<u>\$ 1,735,107</u>	<u>\$ 1,714,326</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>20,781</u>	\$ <u>1,102,440</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,928	694
Gain on forgiveness of debt	(49,632)	(47,200)
Unrealized (gain) loss on investments	102,737	(42,108)
(Increase) decrease in operating assets:		
Contributions receivable	200,000	(261,850)
Increase (decrease) in operating liabilities:		
Accounts payable	5,101	2,783
Accrued compensation and benefits	<u>(9,403)</u>	<u>(145)</u>
Total adjustments	<u>250,731</u>	<u>(347,826)</u>
Net cash provided by operating activities	<u>271,512</u>	<u>754,614</u>
Cash flows used by investing activities:		
Expenditures to purchase fixed assets	(7,070)	-
Proceeds from sale of investments	3,766	739
Purchases of investments	<u>(463,223)</u>	<u>(503,670)</u>
Net cash used by investing activities	<u>(466,527)</u>	<u>(502,931)</u>
Cash flows from financing activities - proceeds from note payable	<u>-</u>	<u>49,632</u>
Increase (decrease) in cash and cash equivalents	(195,015)	301,315
Cash and cash equivalents at beginning of year	<u>926,630</u>	<u>625,315</u>
Cash and cash equivalents at end of year	\$ <u><u>731,615</u></u>	\$ <u><u>926,630</u></u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2022

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Leadership Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events - Alumni Engagement Events:				
Party and Events	\$ <u>-</u>	\$ <u>9,161</u>	\$ <u>-</u>	\$ <u>9,161</u>
Employee compensation:				
Salaries and wages	168,782	64,916	25,966	259,664
Employee benefits	31,383	12,070	4,828	48,281
Payroll taxes	<u>13,777</u>	<u>5,299</u>	<u>2,120</u>	<u>21,196</u>
Total compensation expenses	213,942	82,285	32,914	329,141
Program costs	132,087	-	-	132,087
Development/stewardship	-	-	5,834	5,834
Office supplies	519	1,558	-	2,077
Telephone	751	3,503	750	5,004
Postage	665	-	665	1,330
Taxes, licenses and fees	-	4,137	-	4,137
Legal and professional	-	15,850	-	15,850
Rent	26,000	12,000	2,000	40,000
Insurance - general	4,444	1,482	1,482	7,408
Dues and subscriptions	167	666	-	833
Meals and entertainment	-	-	2,385	2,385
Transportation	15,819	-	-	15,819
Depreciation	-	1,928	-	1,928
Travel	-	508	508	1,016
IT Support	1,358	4,073	1,358	6,789
Equipment rental	-	4,750	-	4,750
Archival	-	1,866	-	1,866
Donations	<u>-</u>	<u>200</u>	<u>-</u>	<u>200</u>
Total	\$ <u>395,752</u>	\$ <u>143,967</u>	\$ <u>47,896</u>	\$ <u>587,615</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2021

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Leadership Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events - Alumni Engagement Events				
Party and Events	\$ <u>7,225</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,225</u>
Employee compensation:				
Salaries and wages	123,934	41,312	41,312	206,558
Employee benefits	27,120	9,040	9,040	45,200
Payroll taxes	<u>10,496</u>	<u>3,499</u>	<u>3,499</u>	<u>17,494</u>
Total compensation expenses	161,550	53,851	53,851	269,252
Program costs	21,711	-	-	21,711
Development/stewardship	-	-	1,966	1,966
Office supplies	354	1,061	-	1,415
Website	1,956	5,868	1,956	9,780
Telephone	779	3,634	779	5,192
Postage	294	-	294	588
Taxes, licenses and fees	-	4,468	-	4,468
Legal and professional	-	17,885	-	17,885
Rent	10,663	14,337	-	25,000
Insurance - general	4,167	1,389	1,389	6,945
Dues and subscriptions	142	568	-	710
Meals and entertainment	-	-	1,118	1,118
Depreciation	-	694	-	694
Travel	-	107	106	213
Equipment rental	-	5,449	-	5,449
Archival	-	3,600	-	3,600
Donations	<u>-</u>	<u>4,450</u>	<u>-</u>	<u>4,450</u>
Total	\$ <u>208,841</u>	\$ <u>117,361</u>	\$ <u>61,459</u>	\$ <u>387,661</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2022 and 2021

(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:

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

Net assets with donor restrictions - 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. Other donor restrictions are perpetual in nature, where the donor stipulates the resources be maintained permanently. 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.

(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, 2022 and 2021

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) Investments and investment return

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the statements of financial position. Investment return shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses.

Investment return is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment return that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restrictions are met or expire in the year in which the income is recognized.

All other donor-restricted investment return is reported as an increase in net assets with donor restrictions depending on the nature of the restrictions. See note 4 for discussion of fair value measurements.

(e) Contributions and contributions receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are recorded when the promises are made. Conditional promises to give are not included as support until such time as the conditions are substantially met. Donor restricted contributions are reported as increases to net assets with donor restrictions. As restrictions are met or expire, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Unconditional promises to give due in the next year are reflected as current contributions receivable and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term contributions receivable and are recorded at present value using interest rates applicable to the years in which the contributions receivable are received.

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Notes to the Financial Statements

June 30, 2022 and 2021

The Organization uses the specific identification method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

In-kind contributions are recorded based on their estimated fair value at the date of the contribution.

(f) 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.

(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, 2022 and 2021, 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) Revenue recognition

The Organization recognizes revenue in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization's exchange related transactions primarily consist of fees for program tuition and alumni dues. The performance obligations for these services are to provide education programming to the participants and membership benefits to its members. These obligations generally are met over time within the Organization's fiscal year.

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Notes to the Financial Statements

June 30, 2022 and 2021

The Organization also conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. The performance obligation is delivery of the event. The Organization allocates the exchange and contribution components of the gross proceeds from special events. Special event fees collected by the Organization in advance of its delivery are initially recognized as liabilities (deferred revenue) and recognized as special event revenue after delivery of the event.

(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 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.

(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) Events occurring after reporting date

Management of the Organization has evaluated events and transactions that occurred between June 30, 2022 and November 3, 2022, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

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Notes to the Financial Statements

June 30, 2022 and 2021

(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.

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible for changes in the values of investment securities occurring in the near term and those changes could materially affect the amounts reported in the financial statements.

(4) Investments and fair value measurements

FASB Accounting Standards Codification 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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Notes to the Financial Statements

June 30, 2022 and 2021

The asset's 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 following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at June 30, 2022.

- (i) *Mutual funds and exchange traded funds:* Valued at the net asset value of shares held by the Organization at year end as reported on the active market on which the individual fund is traded.

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022 and 2021:

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ <u>18,055</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>18,055</u>
Mutual funds and exchange traded funds:				
Fixed income	296,771	-	-	296,771
Equity	<u>586,933</u>	<u>-</u>	<u>-</u>	<u>586,933</u>
	<u>883,704</u>	<u>-</u>	<u>-</u>	<u>883,704</u>
Total	\$ <u>901,759</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>901,759</u>
	<u>2021</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ <u>8,146</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,146</u>
Mutual funds and exchange traded funds:				
Fixed income	167,348	-	-	167,348
Equity	<u>369,545</u>	<u>-</u>	<u>-</u>	<u>369,545</u>
	<u>536,893</u>	<u>-</u>	<u>-</u>	<u>536,893</u>
Total	\$ <u>545,039</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>545,039</u>

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Notes to the Financial Statements

June 30, 2022 and 2021

(5) Special events

The Alumni Engagement Events were not physically held during 2022 and 2021; however, virtual events were held with the intention of engaging interest of the Organization's alumni as well as a retirement event for specific personnel. There was no revenue generated in 2022 whereas in 2021 revenue was generated by donations.

Revenue and expense from these events are summarized below:

	<u>2022</u>		
	<u>Mixer Event</u>	<u>Retirement Lunch Event</u>	<u>Total</u>
Revenue	\$ -	\$ -	\$ -
Expense	<u>4,483</u>	<u>4,678</u>	<u>9,161</u>
Net	<u>\$ (4,483)</u>	<u>\$ (4,678)</u>	<u>\$ (9,161)</u>

	<u>2021</u>	
	<u>Jon Meacham Event</u>	
Revenue	\$ 2,366	
Expense	<u>7,225</u>	
Net	<u>\$ (4,859)</u>	

(6) In-kind contributions

The Organization received in-kind contributed goods and services during 2022 and 2021 meeting the requirements for recognition consisting of the following:

	<u>2022</u>	<u>2021</u>
Program food, venue, and transportation	\$ 45,650	\$ -
Rent	40,000	25,000
Legal and professional	<u>8,000</u>	<u>7,200</u>
	<u>\$ 93,650</u>	<u>\$ 32,200</u>

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Notes to the Financial Statements

June 30, 2022 and 2021

(7) Note payable

During fiscal year 2021, the Organization was granted a loan from a bank in the amount of \$49,632 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provided loans to qualifying businesses for amounts up to 2.5 times of average monthly payroll expenses of the qualifying business. The loans and accrued interest were forgivable after 24 weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained its payroll levels.

The Organization's application for forgiveness of the entire balance of the PPP loan and related interest was approved by the SBA during 2022, and, accordingly, the PPP loan payable totaling \$49,632 is reported as a gain on forgiveness of debt in the accompanying statements of activities and changes in net assets during 2022.

(8) Net assets

Donor restricted net assets as of June 30, 2022 and 2021 relate to the Joe Galante Leadership Music Preservation Fund endowment (Note 11).

(9) 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 \$6,401 and \$4,864 during 2022 and 2021, respectively.

(10) Liquidity and availability

As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in short-term investments and money market funds. At June 30, 2022 and June 30, 2021, the Organization has cash of \$731,615 and \$926,630, respectively, and contributions receivable of \$104,600 and \$304,600, respectively, available to meet its obligations within one-year of the financial statements for the respective years.

Board-designated endowment funds of \$423,335 at June 30, 2022 are subject to the Organization's spending policy as described in Note 11. No board-designated endowment funds were subject to the Organization's spending policy at June 30, 2021. The Organization does not intend to spend from the board-designated endowment funds other than amounts appropriated for expenditure in accordance with the spending policy; therefore these funds are not available for operating purposes during the next fiscal year. However, these board designated net assets could be made available if necessary.

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Notes to the Financial Statements

June 30, 2022 and 2021

(11) Endowments

During 2021, the Organization established the Joe Galante Leadership Music Preservation Fund which was funded with a \$500,000 contribution from a donor under a grant agreement ("Agreement"). The Agreement has restricted the corpus for five years after the date of receipt, except in the event of emergency that impacts the solvency of the Organization. During the initial five years, the corpus shall be invested, in accordance with Leadership Music's Endowment Investment Policy Statement ("Investment Statement"), and any investment returns will be reinvested and added to the corpus of the endowment fund. The investment return will continue to be used in accordance with the Investment Statement for operational and/or program expenses.

As prescribed by the Tennessee Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"), the Organization intends to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in accordance with the terms of the donor agreement. In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or TPMIFA requires the Organization to retain as a fund of perpetual duration. Deficiencies generally result from unfavorable market fluctuations that occurred shortly after the investment or new donor restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. The Joe Galante Leadership Music Preservation Fund endowment had fair values below the level that the donor or TUPMIFA required of \$21,576 at June 30, 2022. No endowment funds had fair values below the level that the donor or TUPMIFA required at June 30, 2021.

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Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

Strategies Employed for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with in prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Subsequent to the five-year accumulation period, the Organization has established a spending policy which appropriates an annual distribution from the endowment fund between 3% to 5% of the average of the prior three fiscal year beginning endowment values.

A summary of endowment asset balances and the changes in endowment net assets as of and for the year ended June 30, 2021 is as follows:

A summary of endowment asset composition by type of fund as of June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ 423,335	\$ -	\$ 423,335
Donor-restricted	<u>-</u>	<u>478,424</u>	<u>478,424</u>
Total	<u>\$ 423,335</u>	<u>\$ 478,424</u>	<u>\$ 901,759</u>

A summary of endowment asset composition by type of fund as of June 30, 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated	\$ -	\$ -	\$ -
Donor-restricted	<u>-</u>	<u>545,039</u>	<u>545,039</u>
Total	<u>\$ -</u>	<u>\$ 545,039</u>	<u>\$ 545,039</u>

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A summary of changes in endowment net assets for the years ended June 30, 2022 and 2021 is as follows::

	Without donor <u>restrictions</u>	With donor <u>restrictions</u>	<u>Total</u>
Balance at June 30, 2020	\$ -	\$ -	\$ -
Contributions	-	500,000	500,000
Investment gain, net	<u>-</u>	<u>45,039</u>	<u>45,039</u>
Balance at June 30, 2021	-	545,039	545,039
Contributions	450,000	-	\$ 450,000
Investment return, net	<u>(26,665)</u>	<u>(66,615)</u>	<u>(93,280)</u>
Balance at June 30, 2022	\$ <u>423,335</u>	\$ <u>478,424</u>	\$ <u>901,759</u>

Earnings from the endowment are to be reinvested, in accordance with the Organization's Endowment Investment Policy Statement for the initial five years and then used to pay for operational and/or program expenses thereafter.