

LEADERSHIP MUSIC

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

LEADERSHIP MUSIC

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses for 2019	6
Statement of Functional Expenses for 2018	7
Notes to the Financial Statements	8 - 13

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, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses 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, 2019 and 2018, 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.

LBMCP

Brentwood, Tennessee
October 31, 2019

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 637,900	\$ 577,756
Accounts receivable	56,925	79,050
Prepaid expenses	14	28
Furniture and equipment, net of accumulated depreciation of \$18,728 in 2019 and \$17,327 in 2018	<u>2,496</u>	<u>3,717</u>
	<u>\$ 697,335</u>	<u>\$ 660,551</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 10,476	\$ 1,648
Accrued compensation and benefits	6,188	5,005
Deferred revenue	<u>325</u>	<u>1,000</u>
Total liabilities	16,989	7,653
Net assets without donor restrictions	<u>680,346</u>	<u>652,898</u>
	<u>\$ 697,335</u>	<u>\$ 660,551</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues and other support:		
Special events	\$ 120,035	\$ 4,630
Contributions	305,944	292,147
Program tuition fees	45,000	48,500
Alumni dues	38,100	30,825
Interest income	6,264	408
Other miscellaneous contributions and income	<u>53,566</u>	<u>68,585</u>
Total revenues and other support	<u>568,909</u>	<u>445,095</u>
Expenses:		
Program	384,204	279,682
Management and general	95,887	96,994
Fundraising	<u>61,370</u>	<u>58,039</u>
Total expenses	<u>541,461</u>	<u>434,715</u>
Increase in net assets without donor restrictions	27,448	10,380
Net assets without donor restrictions at beginning of year	<u>652,898</u>	<u>642,518</u>
Net assets without donor restrictions at end of year	<u>\$ 680,346</u>	<u>\$ 652,898</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ <u>27,448</u>	\$ <u>10,380</u>
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	1,400	1,374
(Increase) decrease in operating assets:		
Accounts receivable	22,125	(21,575)
Prepaid expenses	14	14
Increase (decrease) in operating liabilities:		
Accounts payable	8,828	505
Accrued compensation and benefits	1,183	(348)
Deferred revenue	<u>(675)</u>	<u>515</u>
Total adjustments	<u>32,875</u>	<u>(19,515)</u>
Net cash provided (used) by operating activities	60,323	(9,135)
Cash flows used by investing activities -		
Purchases of furniture and equipment	<u>(179)</u>	<u>(2,117)</u>
Increase (decrease) in cash and cash equivalents	60,144	(11,252)
Cash and cash equivalents at beginning of year	<u>577,756</u>	<u>589,008</u>
Cash and cash equivalents at end of year	\$ <u>637,900</u>	\$ <u>577,756</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2019

	<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	\$ <u>98,434</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>98,434</u>
Employee compensation:				
Salaries and wages	123,169	41,056	41,056	205,281
Employee benefits	18,809	6,269	6,269	31,347
Payroll taxes	<u>10,472</u>	<u>3,491</u>	<u>3,491</u>	<u>17,454</u>
Total compensation expenses	152,450	50,816	50,816	254,082
Program costs	101,481	-	-	101,481
Development/stewardship	-	-	2,568	2,568
Office supplies	384	676	-	1,060
Website	1,295	3,886	1,295	6,476
Telephone	886	4,136	886	5,908
Postage	362	-	362	724
Taxes, licenses and fees	-	4,064	-	4,064
Legal and professional	-	14,325	-	14,325
Rent	10,663	14,337	-	25,000
Insurance - general	3,971	1,324	1,324	6,619
Dues and subscriptions	140	560	-	700
Meals and entertainment	-	-	3,756	3,756
Transportation	14,138	-	-	14,138
Depreciation	-	1,400	-	1,400
Travel	<u>-</u>	<u>363</u>	<u>363</u>	<u>726</u>
Total	\$ <u>384,204</u>	\$ <u>95,887</u>	\$ <u>61,370</u>	\$ <u>541,461</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>Leadership Program</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

Notes to the Financial Statements

June 30, 2019 and 2018

(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) Recently adopted accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The Organization adopted ASU 2016-14 for fiscal year 2019, and the provisions have been applied retrospectively. Total net assets did not change as a result of adoption of this ASU and the primary impact relates to enhanced disclosures.

(b) New accounting pronouncements, not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ("ASU 2014-09") which will eliminate the transaction and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of the transition. Management of the Organization is currently evaluating the impact adoption of ASU 2014-09 will have on its financial statements and disclosures.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2019 and 2018

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 is intended to clarify (1) when transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of contribution accounting guidance, or as exchange (reciprocal) transactions subject to other guidance, and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for the Organization's fiscal year 2020 for transactions in which the Organization serves as a resource recipient, and for its fiscal year 2021, for transactions in which the Organization serves as a resource provider. Early adoption is permitted.

(c) 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.

(d) 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.

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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2019 and 2018

(e) 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.

(f) 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, 2019 and 2018.

(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.

(h) 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.

(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). 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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2019 and 2018

As of June 30, 2019 and 2018, 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.

(j) Contributions

Contributions received are classified as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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 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 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.

(n) Events occurring after reporting date

Management of the Organization has evaluated events and transactions that occurred between June 30, 2019 and October 31, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2019 and 2018

(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 2019 and 2018 with the intention of engaging interest of the Organization's alumni. Revenue was generated by ticket sales and from food sponsors.

The 30th Anniversary Celebration was held during fiscal year 2019 to celebrate the anniversary of the Organization. Revenue was generated from sponsor payments and ticket sales.

Revenue and expense from these events are summarized below:

	<u>2019</u>		
	<u>30th Anniversary Event</u>	<u>Grammy Event</u>	<u>Total</u>
Revenue	\$ 113,110	\$ 6,925	\$ 120,035
Expense	<u>91,912</u>	<u>6,522</u>	<u>98,434</u>
Net	\$ <u>21,198</u>	\$ <u>403</u>	\$ <u>21,601</u>
	<u>2018</u>		
	<u>Alumni Engagement Events</u>		
Revenue	\$ 4,630		
Expense	<u>5,230</u>		
Net	\$ <u>(600)</u>		

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2019 and 2018

(5) In-kind contributions

The Organization received in-kind contributed goods and services during fiscal years 2019 and 2018 meeting the requirements for recognition consisting of the following:

	<u>2019</u>	<u>2018</u>
Program food, venue, and transportation	\$ 27,790	\$ 36,670
Rent	25,000	25,000
Legal and professional	7,200	7,200
Other - party and events	<u>6,250</u>	<u>2,000</u>
	<u>\$ 66,240</u>	<u>\$ 70,870</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 \$3,701 and \$3,252 during 2019 and 2018, respectively.

(7) Liquidity and availability

At June 30, 2019, the Organization has cash of \$637,900 and accounts receivable of \$56,925 available to meet its obligations during the period from July 1, 2019 through June 30, 2020. 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.