

LEADERSHIP MUSIC

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)



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

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, 2014 and 2013, and the related statements of activities, functional expenses 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, 2014 and 2013, 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.

Lattimore Black Morgan & Co., P.C.

Brentwood, Tennessee
January 12, 2015

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 543,576	\$ 259,094
Certificates of deposit	-	191,452
Accounts receivable	59,303	56,000
Prepaid expenses	2,602	-
Furniture and equipment, net of accumulated depreciation of \$14,171 in 2014 and \$12,764 in 2013	<u>-</u>	<u>1,407</u>
	<u>\$ 605,481</u>	<u>\$ 507,953</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable	\$ 3,076	\$ -
Accrued compensation and benefits	10,349	12,544
Deferred revenue	<u>41,525</u>	<u>-</u>
Total liabilities	54,950	12,544
Unrestricted net assets	<u>550,531</u>	<u>495,409</u>
	<u>\$ 605,481</u>	<u>\$ 507,953</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues and other support:		
Special events	\$ 76,482	\$ 211,601
Contributions	300,950	300,120
Program tuition fees	44,400	43,500
Alumni dues	27,500	24,730
Interest income	140	929
Expense reimbursements and other	<u>19,795</u>	<u>18,244</u>
Total revenues and other support	<u>469,267</u>	<u>599,124</u>
Expenses:		
Program	266,696	246,175
Management and general	73,087	71,347
Fundraising	<u>74,362</u>	<u>211,928</u>
Total expenses	<u>414,145</u>	<u>529,450</u>
Increase in unrestricted net assets	55,122	69,674
Unrestricted net assets at beginning of year	<u>495,409</u>	<u>425,735</u>
Unrestricted net assets at end of year	<u>\$ 550,531</u>	<u>\$ 495,409</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ <u>55,122</u>	\$ <u>69,674</u>
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation	1,407	1,169
(Increase) decrease in operating assets:		
Accounts receivable	(3,303)	(24,500)
Prepaid expenses	(2,602)	600
Increase (decrease) in operating liabilities:		
Accounts payable	3,076	-
Accrued compensation and benefits	(2,195)	11,920
Deferred revenue	<u>41,525</u>	<u>(1,250)</u>
Total adjustments	<u>37,908</u>	<u>(12,061)</u>
Net cash provided by operating activities	<u>93,030</u>	<u>57,613</u>
Cash flows from investing activities:		
Purchases of certificates of deposit, net	-	(699)
Sale of certificates of deposit, net	<u>191,452</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>191,452</u>	<u>(699)</u>
Increase in cash and cash equivalents	284,482	56,914
Cash and cash equivalents at beginning of year	<u>259,094</u>	<u>202,180</u>
Cash and cash equivalents at end of year	\$ <u>543,576</u>	\$ <u>259,094</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2014

	<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	\$ -	\$ -	\$ 52	\$ 52
Digital Summit	16,597	-	1,844	18,441
Alumni Engagement Events	-	-	18,079	18,079
Total special events expenses	16,597	-	19,975	36,572
Employee compensation:				
Salaries and wages	100,040	33,347	33,347	166,734
Employee benefits	7,594	2,531	2,531	12,656
Payroll taxes	10,149	3,383	3,383	16,915
Total compensation expenses	117,783	39,261	39,261	196,305
Program costs	110,088	-	-	110,088
Development/stewardship	-	-	2,666	2,666
Office supplies	876	2,627	-	3,503
Website	891	-	3,562	4,453
Telephone	877	4,094	877	5,848
Postage	319	-	319	638
Bank charges	293	880	293	1,466
Taxes, licenses and fees	-	2,228	-	2,228
Legal and professional	-	9,715	-	9,715
Rent	6,824	9,176	-	16,000
Insurance - general	2,502	834	834	4,170
Depreciation	-	1,406	-	1,406
Dues and subscriptions	216	865	-	1,081
Meals and entertainment	-	-	4,574	4,574
Transportation	9,430	298	298	10,026
Miscellaneous	-	1,703	1,703	3,406
Total	\$ 266,696	\$ 73,087	\$ 74,362	\$ 414,145

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2013

	<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	\$ -	\$ -	\$ 137,653	\$ 137,653
Digital Summit	5,815	-	646	6,461
Alumni Engagement Events	-	-	13,393	13,393
Total special events expenses	5,815	-	151,692	157,507
Employee compensation:				
Salaries and wages	96,583	32,194	32,194	160,971
Employee benefits	7,244	2,414	2,414	12,072
Payroll taxes	8,405	2,802	2,802	14,009
Total compensation expenses	112,232	37,410	37,410	187,052
Program costs	104,250	-	-	104,250
Development/stewardship	-	-	3,610	3,610
Office supplies	1,135	3,407	-	4,542
Website	2,304	-	9,214	11,518
Telephone	579	2,701	579	3,859
Postage	364	-	363	727
Bank charges	441	1,322	441	2,204
Taxes, licenses and fees	-	1,655	-	1,655
Legal and professional	-	9,515	-	9,515
Rent	6,824	9,176	-	16,000
Insurance - general	2,365	788	788	3,941
Depreciation	-	1,169	-	1,169
Dues and subscriptions	117	469	-	586
Meals and entertainment	-	-	4,097	4,097
Transportation	9,749	721	721	11,191
Miscellaneous	-	3,014	3,013	6,027
Total	\$ 246,175	\$ 71,347	\$ 211,928	\$ 529,450

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2014 and 2013

(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, 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, 2014 and 2013.

(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, 2014 and 2013

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/audio, record company, and touring. 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) 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.

(e) Accounts receivable

Accounts receivable arise primarily from sponsorships of 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, 2014 and 2013.

(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) 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.

Deferred revenue at June 30, 2014 consists primarily of sponsorship donations for the 25th anniversary celebration.

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Notes to the Financial Statements

June 30, 2014 and 2013

(h) 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, 2014, 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, 2010.

(i) 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.

(j) 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.

(k) 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, 2014 and 2013

(l) 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.

(m) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2014 and January 12, 2015, 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) Assets and liabilities measured at fair value

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, 2014 and 2013.

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Notes to the Financial Statements

June 30, 2014 and 2013

(5) Certificates of deposit

A summary of certificates of deposit as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
CD (0.35%, matured August 2013)	\$ -	\$ 63,585
CD (0.15%, matured October 2013)	-	65,026
CD (0.05%, matured May 2014)	<u>-</u>	<u>62,841</u>
	<u>\$ -</u>	<u>\$ 191,452</u>

All of the CD's matured prior to June 30, 2014. Funds were transferred to the Organization's money market account.

(6) Special events

The Organization conducted significant fundraising events during fiscal years 2014 and 2013. A description of these events is as follows:

The Dale Franklin Leadership Dinner is an event held to honor an individual in the music industry. This event was not held during fiscal year 2014. The Organization most recently hosted this dinner during 2013.

The Digital Summit is a meeting of business leaders to discuss technological advancements in the music industry. Revenue from this event is generated by participant fees and corporate sponsorships. This event was held during 2014, but due to timing of the event, there was not a Digital Summit held in fiscal year 2013.

Several Alumni Engagement Events were held during fiscal years 2014 and 2013 with the intention for Leadership Music to engage interest in their alumni. Revenue was generated by ticket sales and from food sponsors.

Revenue and expense from these events are summarized below:

	<u>2014</u>			
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Alumni Engagement Events</u>	<u>Total</u>
Revenue	\$ -	\$ 37,489	\$ 38,993	\$ 76,482
Expense	<u>52</u>	<u>18,441</u>	<u>18,079</u>	<u>36,572</u>
Net	<u>\$ (52)</u>	<u>\$ 19,048</u>	<u>\$ 20,914</u>	<u>\$ 39,910</u>

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Notes to the Financial Statements

June 30, 2014 and 2013

	<u>2013</u>			
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Alumni Engagement Events</u>	<u>Total</u>
Revenue	\$ 161,560	\$ -	\$ 50,041	\$ 211,601
Expense	<u>137,653</u>	<u>6,461</u>	<u>13,393</u>	<u>157,507</u>
Net	\$ <u>23,907</u>	\$ <u>(6,461)</u>	\$ <u>36,648</u>	\$ <u>54,094</u>

(7) In-kind contributions

The Organization received in-kind contributed goods and services during fiscal years 2014 and 2013 meeting the requirements for recognition consisting of the following:

	<u>2014</u>	<u>2013</u>
Program contributions	\$ 56,400	\$ 52,850
Digital Summit	6,550	-
Rent	16,000	16,000
Dale Franklin Leadership Dinner	-	66,698
Legal and professional	<u>4,200</u>	<u>4,200</u>
	\$ <u>83,150</u>	\$ <u>139,748</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 Organization made annual contributions of \$3,619 and \$1,858 during 2014 and 2013, respectively.