

LEADERSHIP MUSIC

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



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

LEADERSHIP MUSIC

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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, 2012 and 2011, 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, 2012 and 2011, 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
February 13, 2013

LEADERSHIP MUSIC

Statements of Financial Position

June 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 202,180	\$ 172,749
Certificates of deposit	190,753	190,108
Accounts receivable	31,500	20,990
Prepaid expenses	600	-
Furniture and equipment, net of accumulated depreciation of \$11,596 in 2012 and \$9,922 in 2011	<u>2,576</u>	<u>3,059</u>
	<u>\$ 427,609</u>	<u>\$ 386,906</u>

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ -	\$ 509
Accrued compensation and benefits	624	724
Deferred revenue	<u>1,250</u>	<u>-</u>
Total liabilities	1,874	1,233
Unrestricted net assets	<u>425,735</u>	<u>385,673</u>
	<u>\$ 427,609</u>	<u>\$ 386,906</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Activities

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues and other support:		
Special events	\$ 79,232	\$ 416,446
Contributions	260,885	209,450
Program tuition fees	22,500	25,750
Alumni dues	16,590	27,800
Interest income	1,010	2,258
Expense reimbursements and other	<u>17,534</u>	<u>15,801</u>
Total revenues and other support	<u>397,751</u>	<u>697,505</u>
Expenses:		
Program	236,117	330,983
Management and general	65,911	64,788
Fundraising	<u>55,661</u>	<u>282,085</u>
Total expenses	<u>357,689</u>	<u>677,856</u>
Increase in unrestricted net assets	40,062	19,649
Unrestricted net assets at beginning of year	<u>385,673</u>	<u>366,024</u>
Unrestricted net assets at end of year	<u>\$ 425,735</u>	<u>\$ 385,673</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ <u>40,062</u>	\$ <u>19,649</u>
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation	1,672	1,648
(Increase) decrease in operating assets:		
Accounts receivable	(10,510)	22,510
Prepaid expenses	(600)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(509)	(6,921)
Accrued compensation and benefits	(100)	(15,079)
Deferred revenue	<u>1,250</u>	<u>-</u>
Total adjustments	<u>(8,797)</u>	<u>2,158</u>
Net cash provided by operating activities	<u>31,265</u>	<u>21,807</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	(1,189)	-
Purchases of certificates of deposit, net	<u>(645)</u>	<u>(1,356)</u>
Net cash used by investing activities	<u>(1,834)</u>	<u>(1,356)</u>
Increase in cash and cash equivalents	29,431	20,451
Cash and cash equivalents at beginning of year	<u>172,749</u>	<u>152,298</u>
Cash and cash equivalents at end of year	\$ <u>202,180</u>	\$ <u>172,749</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2012

	<u>Program Services</u>	<u>Supporting Services</u>		
		<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Special events:				
Digital Summit	\$ 26,950	\$ -	\$ 2,994	\$ 29,944
Alumni Engagement Events	<u>-</u>	<u>-</u>	<u>1,250</u>	<u>1,250</u>
Total special events expenses	26,950	-	4,244	31,194
Employee compensation:				
Salaries and wages	86,369	28,790	28,790	143,949
Employee benefits	10,446	3,482	3,482	17,410
Payroll taxes	<u>7,483</u>	<u>2,495</u>	<u>2,495</u>	<u>12,473</u>
Total compensation expenses	104,298	34,767	34,767	173,832
Program costs	82,854	-	-	82,854
Development/stewardship	-	-	3,218	3,218
Office supplies	938	2,812	-	3,750
Website	1,898	-	7,596	9,494
Telephone	572	2,666	571	3,809
Postage	149	-	149	298
Bank charges	216	645	215	1,076
Taxes, licenses and fees	-	1,458	-	1,458
Legal and professional	-	9,965	-	9,965
Rent	6,824	9,203	-	16,027
Insurance - general	2,563	855	855	4,273
Depreciation	-	1,672	-	1,672
Dues and subscriptions	47	188	-	235
Meals and entertainment	-	-	2,365	2,365
Transportation	8,808	325	325	9,458
Miscellaneous	<u>-</u>	<u>1,355</u>	<u>1,356</u>	<u>2,711</u>
Total	<u>\$ 236,117</u>	<u>\$ 65,911</u>	<u>\$ 55,661</u>	<u>\$ 357,689</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Statement of Functional Expenses

Year ended June 30, 2011

	<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	\$ -	\$ -	\$ 210,005	\$ 210,005
Digital Summit	123,066	-	13,674	136,740
Legal Symposium	<u>-</u>	<u>-</u>	<u>7,708</u>	<u>7,708</u>
Total special events expenses	123,066	-	231,387	354,453
Employee compensation:				
Salaries and wages	90,226	30,075	30,075	150,376
Employee benefits	11,433	3,811	3,811	19,055
Payroll taxes	<u>7,640</u>	<u>2,547</u>	<u>2,547</u>	<u>12,734</u>
Total compensation expenses	109,299	36,433	36,433	182,165
Program costs	79,826	-	-	79,826
Development/stewardship	-	-	1,364	1,364
Office supplies	730	2,189	-	2,919
Printing and publications	(4,800)	-	(1,600)	(6,400)
Website	2,372	-	9,486	11,858
Telephone	801	3,737	801	5,339
Postage	393	-	393	786
Bank charges	439	1,318	439	2,196
Taxes, licenses and fees	-	1,208	-	1,208
Legal and professional	-	6,180	-	6,180
Rent	6,824	9,476	-	16,300
Insurance - general	2,255	752	752	3,759
Depreciation	-	1,648	-	1,648
Dues and subscriptions	158	634	-	792
Meals and entertainment	-	-	1,117	1,117
Transportation	9,620	466	466	10,552
Miscellaneous	<u>-</u>	<u>747</u>	<u>1,047</u>	<u>1,794</u>
Total	\$ <u>330,983</u>	\$ <u>64,788</u>	\$ <u>282,085</u>	\$ <u>677,856</u>

See accompanying notes to the financial statements.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011.

(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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011.

(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.

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Notes to the Financial Statements

June 30, 2012 and 2011

(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, 2012, 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, 2008.

(h) Contributions

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

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

(i) Donated goods and services

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

(j) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("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.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2012 and 2011

(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

The Organization has evaluated events and transactions that occurred between June 30, 2012 and February 13, 2013, 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

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, 2012 and 2011.

LEADERSHIP MUSIC

Notes to the Financial Statements

June 30, 2012 and 2011

(5) Certificates of deposit

A summary of certificates of deposit as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
CD (0.35%, matures August 2013)	\$ 63,204	\$ 62,879
CD (0.15%, matures October 2013)	64,928	64,780
CD (0.05%, matures May 2013)	<u>62,621</u>	<u>62,449</u>
	<u>\$ 190,753</u>	<u>\$ 190,108</u>

(6) Special events

The Organization conducted significant fundraising events during fiscal years 2012 and 2011. 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. In fiscal year 2011, the Organization held two Dale Franklin Leadership Dinners. Due to hosting two of these events in 2011, they did not host the dinner in 2012. The Organization intends to host the dinner again in 2013.

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.

The Alumni Engagement Events were two events held during fiscal year 2012 with the intention for Leadership Music to engage interest in their alumni. Revenue was generated by ticket sales and food sponsors.

The Legal Symposium was an event held during fiscal year 2011 to discuss the legal issues associated with the music industry. Revenue from the event was generated through ticket sales.

Revenue and expense from these events are summarized below:

	<u>2012</u>				
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Alumni Engagement Events</u>	<u>Legal Symposium</u>	<u>Total</u>
Revenue	\$ -	\$ 76,212	\$ 3,020	\$ -	\$ 79,232
Expense	<u>-</u>	<u>29,944</u>	<u>1,250</u>	<u>-</u>	<u>31,194</u>
Net	<u>\$ -</u>	<u>\$ 46,268</u>	<u>\$ 1,770</u>	<u>\$ -</u>	<u>\$ 48,038</u>

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Notes to the Financial Statements

June 30, 2012 and 2011

<u>2011</u>					
	<u>Dale Franklin Leadership Dinner</u>	<u>Digital Summit</u>	<u>Alumni Engagement Events</u>	<u>Legal Symposium</u>	<u>Total</u>
Revenue	\$ 258,033	\$ 152,689	\$ -	\$ 5,724	\$ 416,446
Expense	<u>210,005</u>	<u>136,740</u>	<u>-</u>	<u>7,708</u>	<u>354,453</u>
Net	\$ <u>48,028</u>	\$ <u>15,949</u>	\$ <u>-</u>	\$ <u>(1,984)</u>	\$ <u>61,993</u>

(7) In-kind contributions

The Organization received in-kind contributed goods and services during fiscal years 2012 and 2011 meeting the requirements for recognition consisting of the following:

	<u>2012</u>	<u>2011</u>
Program contributions	\$ 46,500	\$ 36,675
Digital Summit	5,850	136,740
Rent	16,000	16,000
Dale Franklin Leadership Dinner	-	43,481
Legal and professional	<u>4,200</u>	<u>1,200</u>
	\$ <u>72,550</u>	\$ <u>234,096</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 \$2,587 and \$3,500 during 2012 and 2011, respectively.