

**INTERNATIONAL BLUEGRASS
MUSIC ASSOCIATION, INC.**

FINANCIAL STATEMENTS

June 30, 2016 and 2015

International Bluegrass Music Association, Inc.
June 30, 2016 and 2015

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USELTON CLAY & BRIGHT, P.C.

certified public accountants | consultants

Cummins Station
209 10th Avenue South, Ste 414
Nashville, TN 37205

p 615.322.9900

f 615.322.9379

P. O. Box 626
107 Armour Road
Kingston, TN 37763

p 865.376.9564

f 865.376.1819

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
International Bluegrass Music Association, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of International Bluegrass Music Association, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 qualified audit opinion.



Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the Association records certain revenues related to membership dues as they are received. In our opinion, such revenues should be recorded as they are earned over the membership period to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of International Bluegrass Music Association, Inc. as of June 30, 2016 and 2015, 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.

Usselman, Clay & Bright, P.C.

August 2, 2017
Nashville, Tennessee

International Bluegrass Music Association, Inc.
Statements of Financial Position
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 588,917	\$ 608,800
Other receivable	21,361	-
Inventory	6,805	10,600
Prepaid expenses	45,529	33,700
Refundable deposits on venues	4,500	8,500
Security deposit	2,855	-
Total Current Assets	669,967	661,600
PROPERTY AND EQUIPMENT		
Equipment	81,682	80,318
Less: accumulated depreciation	(78,178)	(77,195)
Property and Equipment, Net	3,504	3,123
OTHER ASSETS		
Website, net of accumulated amortization	-	-
Total Assets	\$ 673,471	\$ 664,723
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 36,185	\$ 23,037
Deferred income/revenue	443,006	493,435
Due to related party	39,202	493
Total Current Liabilities	518,393	516,965
NET ASSETS		
Unrestricted	155,078	147,758
Total Liabilities and Net Assets	\$ 673,471	\$ 664,723

The accompanying notes are an integral part of these financial statements.

International Bluegrass Music Association, Inc.
Statements of Activities
For the years ended June 30, 2016 and 2015

	2016	2015
SUPPORT AND REVENUES		
Contributions	\$ 73,500	\$ 75,000
Membership dues	147,450	151,650
Event revenue	1,175,826	1,098,763
Leadership programs	14,602	20,921
Merchandise sales, net of cost of goods sold of \$16,406 and \$24,530	20,868	28,684
Interest income	399	1,432
Other income	<u>10,048</u>	<u>10,022</u>
Total Support and Revenues	<u>1,442,693</u>	<u>1,386,472</u>
EXPENSES		
Program services	1,315,637	1,280,624
Management and general	<u>119,736</u>	<u>95,526</u>
Total Expenses	<u>1,435,373</u>	<u>1,376,150</u>
Change in Net Assets	<u>7,320</u>	<u>10,322</u>
Net assets, beginning of year	<u>147,758</u>	<u>137,436</u>
Net assets, end of year	<u>\$ 155,078</u>	<u>\$ 147,758</u>

The accompanying notes are an integral part of these financial statements.

International Bluegrass Music Association, Inc.
Statement of Functional Expenses
For the year ended June 30, 2016

	Program Services	Management and General	Total
Accounting fees	\$ -	\$ 39,455	\$ 39,455
Advertising and promotion	9,971	-	9,971
Communications	13,413	1,490	14,903
Contributions and grants	13,956	-	13,956
Depreciation and amortization	885	98	983
Dues and memberships	80	-	80
Events	897,177	-	897,177
Health insurance	28,077	9,359	37,436
Insurance	4,599	511	5,110
Leadership bluegrass expense	1,450	-	1,450
Meetings	3,619	-	3,619
Miscellaneous	1,800	1,800	3,600
Office supplies	-	4,823	4,823
Payroll taxes	11,499	3,833	15,332
Pension	1,321	440	1,761
Postage and shipping	2,830	314	3,144
Printing and reproduction	25,994	-	25,994
Professional fees	-	2,134	2,134
Rent	28,629	3,181	31,810
Repairs and maintenance	350	1,045	1,395
Salaries	150,500	50,167	200,667
Security	485	54	539
Service charges	35,298	-	35,298
Taxes and licenses	154	-	154
Telephone	4,850	539	5,389
Travel	35,269	-	35,269
Trust fund donations	38,992	-	38,992
Utilities	4,439	493	4,932
Total Expenses	<u>\$ 1,315,637</u>	<u>\$ 119,736</u>	<u>\$ 1,435,373</u>

The accompanying notes are an integral part of these financial statements.

International Bluegrass Music Association, Inc.
Statement of Functional Expenses
For the year ended June 30, 2015

	Program Services	Management and General	Total
Accounting fees	\$ -	\$ 28,499	\$ 28,499
Advertising and promotion	20,934	-	20,934
Communications	22,013	2,446	24,459
Depreciation and amortization	3,995	444	4,439
Dues and memberships	243	-	243
Events	894,381	-	894,381
Health insurance	10,607	3,536	14,143
Insurance	3,200	356	3,556
Leadership bluegrass expense	11,173	-	11,173
Meetings	3,370	-	3,370
Miscellaneous	972	972	1,944
Office supplies	-	8,206	8,206
Payroll taxes	8,652	2,884	11,536
Pension	3,290	1,097	4,387
Postage and shipping	4,718	524	5,242
Printing and reproduction	21,553	-	21,553
Professional fees	-	1,815	1,815
Rent	27,561	3,062	30,623
Repairs and maintenance	-	288	288
Salaries	120,474	40,158	160,632
Security	15,309	-	15,309
Service charges	16,339	-	16,339
Taxes and licenses	171	-	171
Telephone	6,458	718	7,176
Travel	15,162	-	15,162
Trust fund donations	65,356	-	65,356
Utilities	4,693	521	5,214
Total Expenses	<u>\$ 1,280,624</u>	<u>\$ 95,526</u>	<u>\$ 1,376,150</u>

The accompanying notes are an integral part of these financial statements.

International Bluegrass Music Association, Inc.
Statements of Cash Flow
For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,320	\$ 10,322
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	983	4,439
Changes in operating assets and liabilities:		
Accounts receivable	-	1,839
Other receivable	(21,361)	-
Inventory	3,795	(8,195)
Refundable deposits on venues	4,000	(6,000)
Security deposit	(2,855)	-
Prepaid expenses	(11,829)	(16,200)
Accounts payable and accrued liabilities	51,855	(17,271)
Deferred income/revenue	(50,429)	(9,397)
Cash Flows Provided (Used) by Operating Activities	<u>(18,521)</u>	<u>(40,463)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	<u>(1,362)</u>	<u>-</u>
Net Increase (Decrease) in Cash	<u>(19,883)</u>	<u>(40,463)</u>
Net Cash, beginning of year	<u>608,800</u>	<u>649,263</u>
Net Cash, end of year	<u>\$ 588,917</u>	<u>\$ 608,800</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 1. ORGANIZATION

The International Bluegrass Music Association, Inc. (the "Association") was incorporated in the state of Kentucky in 1986 as a nonprofit organization. The Association's headquarters are currently located in Nashville, Tennessee. The Association serves as a trade organization to the bluegrass music industry to promote awareness and appreciation of bluegrass music around the world. The Association's mission to connect and educate bluegrass professionals, empower the bluegrass community, and encourage worldwide appreciation of bluegrass music of yesterday, today, and tomorrow.

The programs through which the Association provides its services are as follows:

World of Bluegrass Business Conference and Wide Open Bluegrass

The Association produces an annual business conference which provides an opportunity for those in the industry to meet and discuss issues affecting the industry. It also is an opportunity for emerging musicians to make contact with others within the industry, thereby promoting bluegrass music. The business conference consists of vendors who sell merchandise related to the bluegrass music industry, particularly vendors who make music instruments used to produce bluegrass music. The business conference also includes seminars, the Gig Fair, a keynote address, member constituent meetings, and artist showcases.

The Association produces the Wide Open Bluegrass Festival which allows musicians to perform at discounted rates to promote bluegrass music to the public and also to support the Association and the Bluegrass Trust Fund. The World of Bluegrass music conference which occurs on an annual basis and is normally scheduled either on the last week of September or the first week of October. The World of Bluegrass music conference lasts for a week every year and is hosted at the Raleigh Convention Center in Raleigh, North Carolina. The World of Bluegrass is segmented into two halves. The first three or four days of the World of Bluegrass conference is focused on the business aspect of the bluegrass music industry and consists of meetings and luncheons of a business nature which are provided to those who are engaged in the production of concerts, advertisements, sponsorships, etc. The second half of the World of Bluegrass conference or the last three or four days of the conference is focused on the fans of the bluegrass music industry including the Awards Show and the Wide Open Bluegrass concert.

Awards Show

The Association produces an awards show which is an event at the annual World of Bluegrass convention that provides an opportunity for the organization to recognize those individuals in the industry who have successfully promoted bluegrass music.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association reports information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Association has no temporarily or permanently restricted net assets.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis for Accounting

The Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

Classification of Net Assets

In the accompanying financial statements, the Association's net assets that have similar characteristics have been combined into the following three categories:

- Unrestricted net assets are free of donor-imposed restrictions and included all revenues, expenses, gains and losses that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets include gifts, grants, income, gains, and pledges for which donor-imposed restrictions have not been met.
- Permanently restricted net assets include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase. The Association considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents.

Inventory

Inventory consists of music merchandise available for resale and is stated at the lower of cost or market value based on the first-in, first-out basis.

Property and Equipment

Fixed assets are recorded at cost, or in the case of contributed property, at the fair market value at the date of contribution. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is expensed as incurred. Depreciation is computed generally using the straight-line method over estimated useful lives as follows:

<u>Asset Category</u>	<u>Years</u>
Equipment	5-7

Depreciation expense for the years ended June 30, 2016 and 2015 totaled \$983 and \$739, respectively.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Advertising

The Association uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2016 and 2015 was \$9,971 and \$20,934, respectively.

Donated Service

Unpaid volunteers make contribution of time in various administrative and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to objective measurement of valuation.

In-Kind Donations

Contributions of donated non-cash assets are recorded at the fair values in the period received.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Association is exempt from federal and state income taxes under Section 501(c)(6) of the Internal Revenue code and similar state income tax laws. The Association is a non-private foundation.

The Association recognizes a tax position 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.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Tax Status - Continued

As of June 30, 2016 and 2015, the Association has accrued no interest or penalties related to uncertain tax positions. It is the Association's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Association's Form 990, Return of Organization Exempt From Income Tax, for the years ended June 30, 2016 and 2015 and 2014 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Subsequent Events

Subsequent events have been evaluated through August 2, 2017, which is the date the financial statements were available to be issued.

Note 3. WEBSITE

The Association has elected to amortize costs to develop its website over five years. Costs as of June 30, 2016 and 2015 were as follows:

	2016	2015
Website	\$ 18,500	\$ 18,500
Less accumulated amortization	(18,500)	(18,500)
Website, net	\$ -	\$ -

Amortization expense for the years ending June 30, 2016 and 2015 totaled \$- and \$3,700, respectively.

Note 4. DEFERRED REVENUE

The Association hosts the annual World of Bluegrass event in September. Ticket sales begin annually in March and sponsorships and showcase fees are also accepted at the time. Ticket sales, sponsorships and show case fees received between March 1st and June 30th are deferred until the September event occurs. At June 30, 2016 and 2015, deferred revenue totaled \$443,006 and \$493,435, respectively.

Note 5. COMPENSATED ABSENCES

Employees of the Association are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the cost of compensated absences when actually paid to employees.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 6. MEMBERSHIP DUES

The Association currently has over 2,500 members which are maintained in a database. The current database does not accept financial data and the Association records membership dues when they are received. Accounting principles generally accepted in the United States of America requires such revenues to be recorded as they are earned over the membership term and the unearned portion of the memberships to be deferred until future periods.

Membership dues received during the years ending June 30, 2016 and 2015 totaled \$147,450 and \$151,650, respectively.

Note 7. RELATED PARTY TRANSACTIONS

The Association has recorded expenses of \$38,992 and \$65,356 for the years ending June 30, 2016 and 2015 due to money paid to the International Bluegrass Music Association Trust Fund to assist the Organization in producing revenue generating programs.

Note 8. PENSION PLAN

The Association, Inc. provides full-time employees with one year of continuous service the opportunity to participate in a retirement savings plan where the Association will match the contributions of the employee to the retirement savings plan, up to 3% of the employee's annual compensation. For the years ending June 30, 2016 and 2015 matching contributions totaled \$1,761 and \$4,387, respectively.

Note 9. RENT EXPENSE

On February 2, 2016, the Association agreed to a five year leasing agreement commencing May 1, 2016 and ending April 30, 2021 Under the leasing agreement monthly payments are as follows:

<u>Year(s)</u>	<u>Monthly Rental Fee</u>
1-3	\$2,680
4	\$2,760
5	\$2,843

Minimum future lease payments required under the operating lease agreements in effect at June 30, 2016 was as follows:

<u>Year Ending June 30,</u>	
2017	\$ 32,160
2018	32,160
2019	32,321
2020	33,290
2021	28,432
	<u>\$ 158,363</u>

The Association also rents storage space on a month-to-month basis. Rent expense for the years ending June 30, 2016 and 2015 totaled \$31,810 and \$30,623, respectively.

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 10. CONCENTRATIONS

The Association maintains deposits in financial institutions that at times exceed the amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC).

Note 11. COMMITMENTS

On April 24 2014, the Association entered into a room night commitment for 2,660 rooms with a hotel chain for the 2016 World of Bluegrass event. The agreement states that if actual usage is less than 70% of the room night commitment that the Association will be required to pay the difference between the 70% of the room night commitment and the Association's actual usage. The hotel agrees to make all efforts to resell any unused rooms in the room block and shall credit those sales against any attrition charge in accordance with the hotel selling out each night of contracted dates. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
Date of agreement to 90 days prior	\$ 396,340
From 91 days to 120 days prior	\$ 297,255
From 121 days to 180 days prior	\$ 198,170
From 181 days to 365 days prior	\$ 99,085

On April 24 2014, the Association entered into a room night commitment for 2,660 rooms with a hotel chain for the 2017 World of Bluegrass event. The agreement states that if actual usage is less than 70% of the room night commitment that the Association will be required to pay the difference between the 70% of the room night commitment and the Association's actual usage. The hotel agrees to make all efforts to resell any unused rooms in the room block and shall credit those sales against any attrition charge in accordance with the hotel selling out each night of contracted dates. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
Date of agreement to 90 days prior	\$ 409,640
From 91 days to 120 days prior	\$ 307,230
From 121 days to 180 days prior	\$ 204,820
From 181 days to 365 days prior	\$ 102,410

On April 24 2014, the Association entered into a room night commitment for 2,660 rooms with a hotel chain for the 2018 World of Bluegrass event. The agreement states that if actual usage is less than 70% of the room night commitment that the Association will be required to pay the difference between the 70% of the room night commitment and the Association's actual usage. The hotel agrees to make all efforts to resell any unused rooms in the room block and shall credit those sales against any attrition charge in accordance with the hotel selling out each night of contracted dates. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

International Bluegrass Music Association, Inc.
Notes to the Financial Statements
June 30, 2016 and 2015

Note 11. COMMITMENTS - CONTINUED

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
Date of agreement to 90 days prior	\$ 432,288
From 91 days to 120 days prior	\$ 324,216
From 121 days to 180 days prior	\$ 216,144
From 181 days to 365 days prior	\$ 108,072

On April 24, 2014, the Association entered into a room block agreement beginning September 24, 2016 with a hotel chain for 968 rooms for the 2016 World of Bluegrass event. The agreement states that if actual usage is less than 80% of the room night commitment that the Association will be required to pay the difference between the 80% of the room night commitment and the Association's actual usage. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
From 30 days or less prior	\$ 144,232
From 31 days to 179 days prior	\$ 72,116
Date of agreement to 180 days prior	\$ 36,058

On April 24, 2014, the Association entered into a room block agreement beginning September 23, 2017 with a hotel chain for 968 rooms for the 2017 World of Bluegrass event. The agreement states that if actual usage is less than 80% of the room night commitment that the Association will be required to pay the difference between the 80% of the room night commitment and the Association's actual usage. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
From 30 days or less prior	\$ 149,072
From 31 days to 179 days prior	\$ 74,536
Date of agreement to 180 days prior	\$ 37,268

On April 24, 2014, the Association entered into a room block agreement beginning September 22, 2018 with a hotel chain for 968 rooms for the 2018 World of Bluegrass event. The agreement states that if actual usage is less than 80% of the room night commitment that the Association will be required to pay the difference between the 80% of the room night commitment and the Association's actual usage. If the Association elects to cancel the agreement, the Association has agreed to pay the hotel liquidated damages per the following table:

<u>Date of Cancellation</u>	<u>Amount of Liquidated Damages Due</u>
From 30 days or less prior	\$ 153,912
From 31 days to 179 days prior	\$ 76,956
Date of agreement to 180 days prior	\$ 38,478