

# VH1 SAVE THE MUSIC FOUNDATION



Financial Statements  
(Together with Independent Auditors' Report)

Years Ended September 30, 2013 and 2012

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**VH1 SAVE THE MUSIC FOUNDATION**  
**FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**  
**YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

**CONTENTS**

**Page**

Independent Auditors' Report.....	1
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Functional Expenses .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6-10

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
VH1 Save The Music Foundation

We have audited the accompanying financial statements of VH1 Save the Music Foundation (the "Foundation"), which comprise the statements of financial position as of September 30, 2013 and 2012, 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 State 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 audit 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 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 audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VH1 Save the Music Foundation. as of September 30, 2013 and 2012, 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.



New York, NY  
June 4, 2014



**VH1 SAVE THE MUSIC FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 2B)	\$ 894,560	\$ 1,238,482
Contributions and grants receivable, net (Notes 2H, 2I and 3)	256,175	340,940
Accounts receivable, net and other assets (Note 2J)	12,566	35,243
Equipment, net (Notes 2D and 4)	54,167	-
Inventories, net (Note 2F)	<u>46,749</u>	<u>114,158</u>
<b>TOTAL ASSETS</b>	<b>\$ 1,264,217</b>	<b>\$ 1,728,823</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 377,202	\$ 694,438
Deferred revenue (Note 2K)	-	42,712
Due to MTV Networks (Note 7)	<u>813,315</u>	<u>881,408</u>
<b>TOTAL LIABILITIES</b>	<u>1,190,517</u>	<u>1,618,558</u>
<b>NET ASSETS (Note 2C)</b>		
Unrestricted (Note 10)	(156,300)	(58,235)
Temporarily restricted (Note 5)	<u>230,000</u>	<u>168,500</u>
<b>TOTAL NET ASSETS</b>	<u>73,700</u>	<u>110,265</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,264,217</b>	<b>\$ 1,728,823</b>

**VH1 SAVE THE MUSIC FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<u>Year Ended September 30, 2013</u>			<u>Year Ended September 30, 2012</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2013</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2012</u>
<b>PUBLIC SUPPORT AND REVENUE:</b>						
Public Support:						
Special events revenue	\$ 249,513	\$ -	\$ 249,513	\$ 117,122	\$ -	\$ 117,122
Less direct special event expenses (Note 2L)	<u>(44,266)</u>	<u>-</u>	<u>(44,266)</u>	<u>(26,013)</u>	<u>-</u>	<u>(26,013)</u>
Special events, net	205,247	-	205,247	91,109	-	91,109
Contributions and grants	1,505,148	65,000	1,570,148	1,906,339	168,500	2,074,839
Donated musical instruments (Note 2M)	4,440	-	4,440	-	-	-
Donated materials and services (Notes 2M and 7)	<u>1,720,748</u>	<u>-</u>	<u>1,720,748</u>	<u>1,581,439</u>	<u>-</u>	<u>1,581,439</u>
Total Public Support	<u>3,435,583</u>	<u>65,000</u>	<u>3,500,583</u>	<u>3,578,887</u>	<u>168,500</u>	<u>3,747,387</u>
Revenue:						
Royalties (Note 2N)	1,075	-	1,075	1,252	-	1,252
Net assets released from restrictions (Notes 2C and 5)	<u>3,500</u>	<u>(3,500)</u>	<u>-</u>	<u>103,696</u>	<u>(103,696)</u>	<u>-</u>
Total Revenue	<u>4,575</u>	<u>(3,500)</u>	<u>1,075</u>	<u>104,948</u>	<u>(103,696)</u>	<u>1,252</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>3,440,158</u>	<u>61,500</u>	<u>3,501,658</u>	<u>3,683,835</u>	<u>64,804</u>	<u>3,748,639</u>
<b>EXPENSES (NOTE 2G):</b>						
Program services						
Musical education restoration (Note 2O)	2,391,766	-	2,391,766	2,226,912	-	2,226,912
Supporting services						
Management and general	367,197	-	367,197	361,004	-	361,004
Fundraising	<u>779,260</u>	<u>-</u>	<u>779,260</u>	<u>655,952</u>	<u>-</u>	<u>655,952</u>
<b>TOTAL EXPENSES</b>	<u>3,538,223</u>	<u>-</u>	<u>3,538,223</u>	<u>3,243,868</u>	<u>-</u>	<u>3,243,868</u>
<b>CHANGE IN NET ASSETS</b>	(98,065)	61,500	(36,565)	439,967	64,804	504,771
Net assets - beginning of year	<u>(58,235)</u>	<u>168,500</u>	<u>110,265</u>	<u>(498,202)</u>	<u>103,696</u>	<u>(394,506)</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ (156,300)</u>	<u>\$ 230,000</u>	<u>\$ 73,700</u>	<u>\$ (58,235)</u>	<u>\$ 168,500</u>	<u>\$ 110,265</u>

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

**VH1 SAVE THE MUSIC FOUNDATION  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	Program Services	Supportive Services		Total 2013	Program Services	Supportive Services		Total 2012
		Management and General	Fundraising			Management and General	Fundraising	
Salaries	\$ 153,382	\$ 10,822	\$ 240,389	\$ 404,593	\$ 294,882	\$ 10,808	\$ 227,301	\$ 532,991
Benefits and related payroll expenses	81,479	3,814	81,098	166,391	78,785	2,896	63,479	145,160
<b>Total Salaries and Related Costs (Notes 6 and 7)</b>	234,861	14,636	321,487	570,984	373,667	13,704	290,780	678,151
Musical instrument grants (Note 2O)	1,674,359	-	-	1,674,359	1,380,990	-	-	1,380,990
Donated professional services and office expenses (Notes 2M and 7)	341,122	169,267	232,395	742,784	357,288	143,234	217,665	718,187
Professional services	43,200	182,762	47,130	273,092	44,560	203,292	44,560	292,412
Travel and meetings	-	-	10,000	10,000	471	1	-	472
Office expenses	9,101	532	18,142	27,775	23,879	773	16,643	41,295
Special event expenses	-	-	134,196	134,196	-	-	56,327	56,327
Website expense	20,016	-	22,211	42,227	22,490	-	33,830	56,320
Marketing and promotion	1,244	-	27,032	28,276	218	-	14,528	14,746
Depreciation	5,416	-	5,417	10,833	-	-	-	-
Miscellaneous	62,447	-	5,516	67,963	23,349	-	7,632	30,981
Subtotal	2,391,766	367,197	823,526	3,582,489	2,226,912	361,004	681,965	3,269,881
Less: direct special event expenses (Note 2L)	-	-	(44,266)	(44,266)	-	-	(26,013)	(26,013)
<b>TOTAL EXPENSES</b>	<b>\$ 2,391,766</b>	<b>\$ 367,197</b>	<b>\$ 779,260</b>	<b>\$ 3,538,223</b>	<b>\$ 2,226,912</b>	<b>\$ 361,004</b>	<b>\$ 655,952</b>	<b>\$ 3,243,868</b>

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

**VH1 SAVE THE MUSIC FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (36,565)	\$ 504,771
Adjustment to reconcile change in net assets to net cash (used) provided by operating activities:		
Decrease in provision for inventory obsolescence	-	(6,000)
Donated equipment	(32,500)	-
Unamortized discount on grants receivable	-	106
Allowance for doubtful contributions and grants receivable	5,000	30,000
Allowance for doubtful account receivable	-	1,652
Depreciation	10,833	-
Subtotal	(53,232)	530,529
Changes in operating assets and liabilities:		
(Increase) or decrease in assets:		
Contributions and grants receivable	79,765	(170,426)
Accounts receivable and other assets	22,677	(25,676)
Change in inventory	67,409	(60,149)
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	(317,236)	71,153
Deferred revenue	(42,712)	42,712
Due to MTV Networks	(68,093)	(20,404)
<b>Net Cash (Used) Provided by Operating Activities</b>	<b>(311,422)</b>	<b>367,739</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(32,500)	-
<b>Net Cash Used by Investing Activities</b>	<b>(32,500)</b>	<b>-</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(343,922)</b>	<b>367,739</b>
Cash and cash equivalents - beginning of year	1,238,482	870,743
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 894,560</b>	<b>\$ 1,238,482</b>

**VH1 SAVE THE MUSIC FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

VH1 Save The Music Foundation (the “Foundation”) is a nonprofit organization dedicated to improving the quality of education in America’s public schools by restoring and supporting instrumental music education programs in America’s public schools, and by raising public awareness about the importance of music participation and the positive impact it has on our Nation’s youth. The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and recognized as a public charity under Section 509(a)(1) of the Internal Revenue Code.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The Foundation’s financial statements have been prepared on the accrual basis of accounting. The Foundation adheres to accounting principles generally accepted in the United States of America, (“U.S. GAAP”).
- B. The Foundation considers all highly liquid instruments purchased with a maturity of three months or less to be cash and cash equivalents.
- C. The Foundation maintains its net assets under the following two classes:
- Unrestricted – represents resources available for support of the Foundation’s operations over which the Board of Directors (the “Board”) has discretionary control.
  - Temporarily Restricted – resulting from contributions and other inflows of assets subject to donor imposed stipulations that either can be fulfilled and removed by actions of the Foundation pursuant to those stipulations or that expire by the passage of time. When such stipulations are fulfilled or time restrictions expire, such temporarily restricted net assets are reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets that have been both earned and have had their restrictions met in the current year are recorded as unrestricted net assets.
- D. Equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Contributed fixed assets are stated at fair value at the date of gift. The Foundation has established a \$1,000 threshold above which assets are capitalized. Purchases below \$1,000 are expensed at the time of acquisition. Equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.
- E. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- F. The Foundation has inventories of certain donated and purchased musical instruments which will be granted to educational institutions in accordance with the Foundation’s mission. The Foundation also has inventories of donated items for sale such as concert tickets, memorabilia and collectibles. Inventories are recorded at cost at the time of purchase or the fair value at date of donation. As of September 30, 2013 and 2012, the Foundation had an inventory obsolescence provision of \$24,000.

The Foundation reports revenue for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills and represents services that would have been purchased had they not been donated. See Note 7 for details of such contributed services.



**VH1 SAVE THE MUSIC FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- G. The following program and supporting services are included in the accompanying financial statements:
- Program*** – Includes musical instrument grants, public education and advocacy programs to explain the importance and value of music education.
- Management and general*** – Provides coordination and articulation of the Foundation’s program strategy through the Office of the Executive Director; secures proper administrative functioning of the Board of Directors; maintains competent legal services for the proper administration of the Foundation; and manages the financial responsibilities of the Foundation.
- Fundraising*** – Provides the structure necessary to encourage and secure financial support from individuals, foundations, and corporations.
- H. Unconditional contributions receivable are recognized as contribution revenue and contributions receivable during the period in which they are promised. Conditional contributions are recognized only when the stipulated conditions on which they depend are substantially met and the contributions become unconditional.
- I. The Foundation’s management evaluates the need for an allowance for doubtful accounts applicable to its contributions and grants receivable based on various factors including an assessment of the credit-worthiness of its donors, agings of the amounts due and historical experience. As of September 30, 2013 and 2012, the Foundation determined that an allowance for uncollectable contributions and grants was necessary in the amount of \$35,000 and \$30,000, respectively.
- J. The Foundation’s management evaluates the need for an allowance for doubtful accounts applicable to its accounts receivable based on various factors including an assessment of the credit worthiness of its vendors, agings of the amounts due and historical experience. As of September 30, 2013 and 2012, an allowance of approximately \$0 and \$1,700, respectively was considered necessary for accounts receivable relating to one specific vendor.
- K. The Foundation receives cash in advance of a special event that is held after the statement of financial position date. It is the Foundation’s policy to refund money paid for an event if it is cancelled or postponed based on the donor’s request.
- L. The direct costs of special events include the cost of labor and equipment rental, as well as expenses for the benefit of the donor. The Foundation includes cost of meals, beverages, entertainment and gift bags as part of expenses for the benefit of the donor.
- M. The estimated fair values of materials and services are recorded in the statements of activities as revenue in the year received and as expenses (musical instruments, donated professional services, and office expenses) in the period in which they are provided or used. The Foundation receives musical instruments from donors to benefit public school music programs.
- N. The Foundation receives nonrefundable royalty payments for its licensing agreements pertaining to cargo cases and music CDs. Royalty income is recorded when initial nonrefundable royalty payments are received and when subsequent royalties are earned.
- O. The Foundation distributes musical instruments to various public schools around the United States for their music programs. Grant expense is recorded at the date of the unconditional promise to give and is recorded at an amount equal to the fair value of musical instruments originally donated to the Foundation.

**VH1 SAVE THE MUSIC FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 3 – CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributions and grants receivable consist of the following as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Amounts due in less than one year	\$ 283,675	\$ 308,546
Amounts due in one to five years	<u>7,500</u>	<u>62,500</u>
Total	291,175	371,046
Less: Reserve for uncollectible pledges	(35,000)	(30,000)
Less: Unamortized discount	<u>-</u>	<u>(106)</u>
Total contributions and grants receivable, net	<u>\$ 256,175</u>	<u>\$ 340,940</u>

**NOTE 4 – EQUIPMENT**

Equipment consists of the following as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Computer software	\$ <u>65,000</u>	\$ <u>-</u>	3 years
Total costs	65,000	-	
Less: accumulated depreciation and amortization	<u>(10,833)</u>	<u>-</u>	
Net book value	<u>\$ 54,167</u>	<u>\$ -</u>	

Depreciation expense amounted to \$10,833 and \$0 for the years ended September 30, 2013 and 2012, respectively.

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following as of September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
New Haven, CT schools	\$ 40,000	\$ -
Philadelphia, PA schools	-	3,000
New Jersey schools	190,000	165,000
Madison, WI schools	<u>-</u>	<u>500</u>
	<u>\$ 230,000</u>	<u>\$ 168,500</u>

**VH1 SAVE THE MUSIC FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Net assets were released from restrictions by incurring expenses or the passage of time thus satisfying the restricted purposes for the year ended September 30, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Family Day	\$ -	\$ 88,696
Chicago, IL schools	-	15,000
Madison, WI schools	500	-
Philadelphia, PA schools	<u>3,000</u>	<u>-</u>
	<u>\$ 3,500</u>	<u>\$ 103,696</u>

**NOTE 6 – TAX-DEFERRED ANNUITY PLAN**

The Foundation has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code that covers full-time employees of the Foundation. The Foundation matches 75% of the first 6% that an employee contributes to the plan (maximum of 4.5% of gross salary per employee). Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Pension expense for the years ended September 30, 2013 and 2012 was \$17,008 and \$17,758, respectively.

**NOTE 7 – RELATED PARTY**

The Foundation is a co-employer of its staff with a professional employer organization. Through an agreement, which is renewable every two years, with MTV Networks, the Foundation recognizes the benefit contributed from the services of certain employees including the Executive Director of the Foundation, management and general support, office space, travel and other expenses. MTV Networks also grants to the Foundation a non-exclusive and non-transferable right to use certain trademarks and logos and an exclusive right to certain trademarks and logos, both to be used solely in connection with the Foundation's charitable and educational activities. MTV Networks has rights to appoint two of the three members of the nominating committee to nominate persons for election to the Foundation's Board. However, the directors, officers and employees of MTV Networks shall in the aggregate constitute less than a majority of the directors of the Foundation's Board. Donated services, including use of office space, contributed by MTV Networks were \$686,184 and \$683,807 for the years ended September 30, 2013 and 2012, respectively. Donated accounting services were \$56,600 and \$34,380 for the years ended September 30, 2013 and 2012, respectively. Donated equipment amounted to \$32,500 and \$0 for the years ended September 30, 2013 and 2012 respectively.

In addition, the Foundation incurred expenses of \$45,060 and \$92,096 for the years ended September 30, 2013 and 2012, respectively, for other services provided by MTV Networks. As of September 30, 2013 and 2012, the Foundation has a liability to MTV Networks amounting to \$813,315 and \$881,408, respectively.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The Foundation has no uncertain tax positions as of September 30, 2013 and 2012 in accordance with Accounting Standards Codification ("ASC") Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions. The Foundation is no longer subject to federal or state and local income tax examinations by tax authorities for years ended before fiscal year 2010.

**NOTE 9 – CONCENTRATIONS**

Cash and cash equivalents that potentially subject the Foundation to a concentration of credit risk include cash accounts with a bank that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest-bearing accounts are insured up to \$250,000 per depositor. Through December 31, 2012, noninterest-bearing accounts were fully insured. Beginning in 2013, noninterest-bearing accounts are insured the same as interest-bearing accounts. As of September 30, 2013 and 2012 there was approximately \$637,000 and \$0, respectively, of cash and cash equivalents held by banks that exceeded FDIC limits. Such excess includes outstanding checks.

**VH1 SAVE THE MUSIC FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013 AND 2012**

**NOTE 10 – DEFICIT UNRESTRICTED NET ASSETS - OPERATIONS**

The Foundation operations resulted in an decrease in unrestricted net assets of approximately \$98,000 for the year ended September 30, 2013. As a result, the unrestricted net deficit decreased to approximately \$156,000 as of September 30, 2013. The Foundation is currently financed by MTV Networks and its continued operation depends to some extent on support from MTV Networks. The unrestricted net deficit raises substantial doubt about the entity's ability to operate as going concern and the accompanying financial statements do not include any adjustments that might be necessary if the going concern should materialize. The Foundation is taking numerous steps to reduce and eliminate the net asset deficit. These steps include careful budgeting relating to the fiscal year ending September 30, 2014, close monitoring of fundraising activities against projections and monitoring of the Foundation's overall expenses so that future years will generate surpluses.

**NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of statement of financial position through June 4, 2014, the date the financial statements were available to be issued. No events have occurred subsequent to the date of statement of financial position through June 4, 2014 that would require adjustment to or disclosure in the financial statements.