

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023 AND 2022

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023 AND 2022

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
W.O. Smith Nashville Community Music School, Inc.  
Nashville, Tennessee

### OPINION

We have audited the financial statements of W.O. Smith Nashville Community Music School, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the W.O. Smith Nashville Community Music School, Inc. as of June 30, 2023 and 2022, 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.

### BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

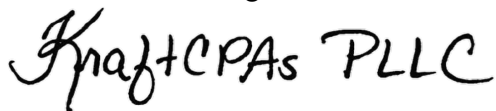
## AUDITOR'S RESPONSIBILITIES FOR THE AUDITS OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audits.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee  
January 4, 2024

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 1,332,076	\$ 1,175,547
Contributions receivable	18,533	18,988
Insurance claim receivable	146,671	-
Prepaid expenses and other	-	1,125
Property and equipment, net of accumulated depreciation	4,551,780	4,617,027
Donated artwork	6,900	6,900
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>122,936</u>	<u>119,946</u>
TOTAL ASSETS	<u>\$ 6,178,896</u>	<u>\$ 5,939,533</u>
LIABILITIES		
Accounts payable	\$ 120,066	\$ 10,655
Deferred revenue	<u>18,367</u>	<u>11,131</u>
TOTAL LIABILITIES	<u>138,433</u>	<u>21,786</u>
NET ASSETS		
Net assets without donor restrictions	5,812,225	5,693,261
Net assets with donor restrictions	<u>228,238</u>	<u>224,486</u>
TOTAL NET ASSETS	<u>6,040,463</u>	<u>5,917,747</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,178,896</u>	<u>\$ 5,939,533</u>

See accompanying notes to the financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUE</b>			
Public support:			
Contributions	\$ 237,095	\$ 3,752	\$ 240,847
Contributed services of instructors	308,060	-	308,060
Contributions - donated supplies and equipment	22,534	-	22,534
State, local and foundation grants	178,260	-	178,260
Fundraising events	39,490	-	39,490
Fundraising events - in-kind goods and services	1,125	-	1,125
Less: direct donor benefits	(12,456)	-	(12,456)
Interest income	1,561	-	1,561
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	9,897	-	9,897
Other income:			
Insurance claim	479,705	-	479,705
Rental income	42,064	-	42,064
Less: rental expenses	<u>(4,490)</u>	<u>-</u>	<u>(4,490)</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,302,845</u>	<u>3,752</u>	<u>1,306,597</u>
<b>EXPENSES</b>			
Program services:			
Music programs	930,099	-	930,099
Management and general	201,328	-	201,328
Fundraising	<u>52,454</u>	<u>-</u>	<u>52,454</u>
<b>TOTAL EXPENSES</b>	<u>1,183,881</u>	<u>-</u>	<u>1,183,881</u>
<b>CHANGE IN NET ASSETS</b>	118,964	3,752	122,716
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>5,693,261</u>	<u>224,486</u>	<u>5,917,747</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 5,812,225</u>	<u>\$ 228,238</u>	<u>\$ 6,040,463</u>

See accompanying notes to the financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 337,331	\$ 22,469	\$ 359,800
Contributed services of instructors	254,295	-	254,295
Contributions - donated supplies and equipment	33,706	-	33,706
State, local and foundation grants	176,660	-	176,660
Fundraising events	492	-	492
Interest income	189	-	189
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(15,724)	-	(15,724)
Other income:			
Rental income	29,775	-	29,775
Less: rental expenses	<u>(3,260)</u>	<u>-</u>	<u>(3,260)</u>
TOTAL SUPPORT AND REVENUE	<u>813,464</u>	<u>22,469</u>	<u>835,933</u>
EXPENSES			
Program services:			
Music programs	851,749	-	851,749
Management and general	197,074	-	197,074
Fundraising	<u>51,446</u>	<u>-</u>	<u>51,446</u>
TOTAL EXPENSES	<u>1,100,269</u>	<u>-</u>	<u>1,100,269</u>
CHANGE IN NET ASSETS	(286,805)	22,469	(264,336)
NET ASSETS - BEGINNING OF YEAR	<u>5,980,066</u>	<u>202,017</u>	<u>6,182,083</u>
NET ASSETS - END OF YEAR	<u>\$ 5,693,261</u>	<u>\$ 224,486</u>	<u>\$ 5,917,747</u>

See accompanying notes to the financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 122,716	\$ (264,336)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	218,282	220,494
Loss on disposal of property and equipment	8,909	13,155
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(9,497)	16,174
Contribution to agency endowment fund held by the Community Foundation of Middle Tennessee	(400)	(450)
Noncash contribution of property and equipment	(9,025)	(8,690)
(Increase) decrease in:		
Contributions receivable	455	(7,172)
Prepaid expenses and other	1,125	(1,125)
Insurance receivable	(146,671)	-
Increase (decrease) in:		
Accounts payable	109,411	10,515
Deferred revenue	<u>7,236</u>	<u>10,131</u>
TOTAL ADJUSTMENTS	<u>179,825</u>	<u>253,032</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>302,541</u>	<u>(11,304)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(152,919)	(14,462)
Distributions from agency endowment fund	<u>6,907</u>	<u>6,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(146,012)</u>	<u>(8,462)</u>
NET INCREASE (DECREASE) IN CASH	156,529	(19,766)
CASH - BEGINNING OF YEAR	<u>1,175,547</u>	<u>1,195,313</u>
CASH - END OF YEAR	<u>\$ 1,332,076</u>	<u>\$ 1,175,547</u>

See accompanying notes to the financial statements.



W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

	Program Services - Music Programs	Management and General	Fundraising	Totals
Salaries	\$ 160,302	\$ 60,924	\$ 30,906	\$ 252,132
Payroll taxes	12,452	4,733	2,401	19,586
Fringe benefits	<u>48,430</u>	<u>18,406</u>	<u>9,338</u>	<u>76,174</u>
 TOTAL PAYROLL AND RELATED EXPENSES	 221,184	 84,063	 42,645	 347,892
Contributed services of instructors	308,060	-	-	308,060
Chorus expense	107	-	-	107
Cultural events	1,000	-	-	1,000
Depreciation	174,626	43,656	-	218,282
Dues and subscriptions	692	1,615	-	2,307
Gifts and flowers	1,456	-	-	1,456
Insurance	10,473	6,982	-	17,455
Internet website	5,763	720	720	7,203
Local transportation	4,364	-	-	4,364
Meals and entertainment	183	856	183	1,222
Miscellaneous	8,772	8,477	1,749	18,998
Musical supplies	5,705	-	-	5,705
Musical supplies - donated	13,509	-	-	13,509
Office and computer supplies	1,189	1,783	-	2,972
Postage	942	50	50	1,042
Printing	3,784	1,262	1,262	6,308
Professional development	-	-	471	471
Professional services	-	18,996	-	18,996
Promotion and publicity	-	-	2,095	2,095
Rental expense	-	4,490	-	4,490
Repairs - instruments	8,083	-	-	8,083
Repairs and maintenance	45,456	12,122	3,030	60,608
Scholarships	27,000	-	-	27,000
Security system	2,105	1,404	-	3,509
Special events	-	-	11,331	11,331
Special events - donated	-	-	1,125	1,125
Summer music camp	50,856	-	-	50,856
Telephone	3,986	747	249	4,982
Utilities	27,892	18,595	-	46,487
Volunteer background checks	<u>2,912</u>	<u>-</u>	<u>-</u>	<u>2,912</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>930,099</u>	 <u>205,818</u>	 <u>64,910</u>	 <u>1,200,827</u>
 Less expenses netted against revenues on the statement of activities - direct benefits to donors	 -	 -	 (12,456)	 (12,456)
Less expenses netted against revenues on the statement of activities - rental expenses	 -	 (4,490)	 -	 (4,490)
 TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	 <u>\$ 930,099</u>	 <u>\$ 201,328</u>	 <u>\$ 52,454</u>	 <u>\$ 1,183,881</u>

See accompanying notes to the financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	<u>Program Services - Music Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 156,521	\$ 61,650	\$ 31,500	\$ 249,671
Payroll taxes	12,106	4,769	2,436	19,311
Fringe benefits	<u>46,629</u>	<u>18,366</u>	<u>9,384</u>	<u>74,379</u>
 TOTAL PAYROLL AND RELATED EXPENSES	 215,256	 84,785	 43,320	 343,361
 Contributed services of instructors	 254,295	 -	 -	 254,295
Depreciation	176,395	44,099	-	220,494
Dues and subscriptions	694	1,620	-	2,314
Insurance	10,920	7,280	-	18,200
Internet website	2,876	359	359	3,594
Meals and entertainment	105	489	105	699
Miscellaneous	11,976	4,897	2,237	19,110
Musical supplies	10,596	-	-	10,596
Musical supplies - donated	25,016	-	-	25,016
Office and computer supplies	2,528	3,793	-	6,321
Postage	332	110	110	552
Printing	2,939	1,144	1,144	5,227
Professional services	-	18,247	-	18,247
Promotion and publicity	-	-	1,269	1,269
Rental expense	-	3,260	-	3,260
Repairs - instruments	3,692	-	-	3,692
Repairs and maintenance	39,472	10,526	2,631	52,629
Scholarships	25,420	-	-	25,420
Security system	1,927	1,285	-	3,212
Summer music camp	33,692	-	-	33,692
Telephone	4,336	813	271	5,420
Utilities	26,440	17,627	-	44,067
Volunteer background checks	<u>2,842</u>	<u>-</u>	<u>-</u>	<u>2,842</u>
 TOTAL FUNCTIONAL EXPENSES	 <u>851,749</u>	 <u>200,334</u>	 <u>51,446</u>	 <u>1,103,529</u>
 Less expenses netted against revenues on the statement of activities - rental expenses	 <u>-</u>	 <u>(3,260)</u>	 <u>-</u>	 <u>(3,260)</u>
 TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	 <u>\$ 851,749</u>	 <u>\$ 197,074</u>	 <u>\$ 51,446</u>	 <u>\$ 1,100,269</u>

See accompanying notes to the financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 1 - GENERAL

W.O. Smith Nashville Community Music School, Inc. (the "Organization") was organized in 1984 to provide music instruction to children from low-income families through professional, quality teaching by an all-volunteer faculty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements present the financial position and changes in net assets of the Organization on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Resources are classified as net assets without donor restrictions and net assets with donor restrictions, based on the existence or absence of donor-imposed restrictions, as follows:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor/grantor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor/grantor restrictions are perpetual in nature, whereby the donor/grantor has stipulated the funds be maintained in perpetuity. There are no donor restrictions that are perpetual in nature.

Donor restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities as net assets released from restrictions.

Cash

Cash consists principally of checking accounts.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Program fees are recognized when earned. Rental income is recognized when the associated event occurs. Payments received in advance are recorded as deferred revenue. Contributions and grants are recognized when cash, securities, other assets or an unconditional promise to give is received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Gifts of equipment or materials are reported as support without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. For 2023 and 2022, no discount is recorded as all promises to give are due within 1 year.

An allowance for uncollectible contributions is provided based on historical experience and management's estimates. Pledges determined to be uncollectible are charged off against the allowance in the period of determination. Management considers all receivables fully collectible as of June 30, 2023 and 2022.

Property, Equipment and Depreciation

Property and equipment are recorded at cost at the date of purchase or estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: five to eight years for vehicles, musical equipment, office equipment and furniture, fifteen years for land improvements and twenty to forty years for buildings.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency Endowment Fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Foundation") is recognized as an asset. Investment income and changes in the value of the fund are recognized in the Statement of Activities, and distributions received from the fund are recorded as decreases in the beneficial interest.

Donated Goods and Services

The Organization's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the estimated fair value of services received.

The Organization has an all-volunteer faculty of music instructors. The services provided by these volunteers represent a material contribution to the Organization's operations and are valued at an average hourly rate for music lessons in the Nashville area.

Donated goods represent musical instruments, equipment, and supplies. These items are valued based on estimates of comparable sales prices for similar equipment of similar age and condition. Donated goods are all utilized by the Organization throughout the year in the Organization's programs.

Members of the Board of Directors have also provided substantial assistance to the Organization by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

Music Programs - making quality music instruction available to talented, interested, deserving children from low-income families. The Organization also seeks to encourage student participation in the cultural life of the community through concert attendance and performance. Over 350 students in 2023 and 2022, ages 6 to 18, representing academic schools from across Metropolitan Nashville and Davidson County and the Middle Tennessee area, participate in the Organization's programs. Instruction is provided by a 120-member (174-member in 2022) volunteer faculty of area musicians from many different disciplines.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

Supporting Services

Management and General - relates to the overall direction of the Organization. Activities include organization oversight, business management, recordkeeping, financing, board operations and community planning and networking activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials. These costs include staff time, materials and other related expenses. Activities related to obtaining financial support include the annual fundraising campaign and solicitation of volunteer musicians.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management. The expenses that are allocated include salaries, payroll taxes, fringe benefits, dues and subscriptions, website, meals and entertainment, miscellaneous, postage, printing, repairs and maintenance security system, special events and telephone which are allocated on the basis of estimates of time and effort, and utilities, insurance and depreciation, which are allocated primarily based on a location or square footage basis.

Income Taxes

The Organization qualifies as a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization files U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with 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.

Fair Value Measurements

The Organization classifies assets measured at fair value based on a hierarchy of valuation techniques consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (valued using quoted prices for similar assets in active markets or quoted prices for identical or similar assets in markets that are not active or are directly or indirectly observable) and Level 3 (valued based on significant unobservable inputs that reflect estimates and assumptions). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets measured at fair value on a recurring basis include the following:

*Beneficial interest in agency endowment fund* - The agency endowment fund held at the Foundation represents the Organization's interest in pooled investments with other participants in the funds. The Foundation prepares a valuation of the fund based on the fair value of the underlying investments and allocates income or loss to each participant based on market results.

No changes in the valuation methodology have been made since the prior year.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date, and the difference could be significant.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Organization was required to adopt ASC Topic 842, *Leases*, for its year ending June 30, 2023. The Organization does not have any material lease commitments and therefore, no right-to-use asset or related liability is recorded in the financial statements.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the changes in net assets or ending net assets as previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2023 and January 4, 2024, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - LIQUIDITY

The following reflects the Organization's financial assets, reduced by amounts not available for general use within one year from the statement of financial position date because of donor imposed time or purpose restrictions, as of June 30:

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash	\$ 1,332,076	\$ 1,175,547
Contributions receivable	<u>18,533</u>	<u>18,988</u>
Total financial assets	1,350,609	1,194,535
Less amounts not available to be used within one year:		
Restricted by the donor with time or purpose restrictions	<u>228,238</u>	<u>224,486</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 1,122,371</u>	<u>\$ 970,049</u>



W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,695,868	6,676,831
Vehicles	47,490	47,490
Musical equipment	570,128	583,742
Office equipment and furniture	181,879	194,254
Construction in progress	<u>119,926</u>	<u>-</u>
	7,934,770	7,821,796
Less: accumulated depreciation	<u>(3,382,990)</u>	<u>(3,204,769)</u>
	<u>\$ 4,551,780</u>	<u>\$ 4,617,027</u>

The construction in progress is related to a roof replacement in process as of June 30, 2023. During 2023, the Organization received an insurance claim in the amount of \$479,705 for the replacement which is included in other income on the Statements of Activities. As of June 30, 2023, \$333,034 of the claim had been received and \$146,671 remained due from the insurance company and is included in insurance claim receivable on the Statement of Financial Position. The remaining cost to complete the replacement was \$362,279, and the project was completed in August 2023.

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 5 - AGENCY ENDOWMENT FUND

The Organization established and holds a beneficial interest in the W.O. Smith Nashville Community Music School - Scholarship Fund, an agency endowment fund held by the Foundation. Earnings on this fund are used for college scholarships for music school students who wish to pursue a degree in music.

The Organization has granted variance power to the Foundation, and the Foundation has the ultimate authority and control over the fund and the income derived therefrom. The fund is charged a .4% administrative fee by the Foundation annually. Upon request by the Organization, income from the fund representing a 5% annual return may be distributed to the Organization or to another suggested beneficiary.

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Balance - beginning of year	<u>\$ 119,946</u>	<u>\$ 141,670</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	400	450
Investment income - net	10,220	(15,309)
Administrative expenses	<u>(723)</u>	<u>(865)</u>
	9,897	(15,724)
Distributions to the Organization	<u>(6,907)</u>	<u>(6,000)</u>
Balance - end of year	<u>\$ 122,936</u>	<u>\$ 119,946</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Purpose-restricted contributions for special projects	<u>\$ 228,238</u>	<u>\$ 224,486</u>

W.O. SMITH NASHVILLE COMMUNITY MUSIC SCHOOL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a Section 401(k) defined contribution plan for the benefit of eligible employees. The plan provides for the Organization to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by the Organization to the plan amounted to \$9,350 and \$7,313 in 2023 and 2022, respectively.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash accounts at reputable financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. At times, the Organization's cash balances exceed statutory limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash balances.

Contributions received from one donor totaled approximately \$90,800 comprising 20% of total cash contributions and grants received for the year ended June 30, 2023 (\$87,300 from one donor comprised 14% of total cash contributions and grants received for the year ended June 30, 2022).

NOTE 9 - FAIR VALUE MEASUREMENTS

The following table summarizes financial assets measured at fair value on a recurring basis, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30:

<u>2023</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 122,936</u>	<u>\$ -</u>	<u>\$ 122,936</u>
<u>2022</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 119,946</u>	<u>\$ -</u>	<u>\$ 119,946</u>