

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006 AND 2005

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
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INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006 AND 2005

CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u> .....	1
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Statements of Functional Expenses.....	5
Notes to Financial Statements .....	6 - 12



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of W. O. Smith Nashville Community Music School, Inc. (the "Organization") as of June 30, 2006 and 2005, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 W. O. Smith Nashville Community Music School, Inc. as of June 30, 2006 and 2005, 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.

*KraftCPAs PLLC*

Nashville, Tennessee  
October 5, 2006

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents - Note 7	\$ 875,034	\$ 431,510
Contributions receivable - Note 2:		
Operating	57,696	85,432
Capital campaign	1,932,687	1,154,902
Prepaid insurance	11,910	9,976
Property and equipment, net of accumulated depreciation - Note 3	1,195,301	1,117,574
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 5	<u>86,547</u>	<u>78,300</u>
TOTAL ASSETS	<u>\$ 4,159,175</u>	<u>\$ 2,877,694</u>
LIABILITIES		
Accounts payable	<u>\$ 17,293</u>	<u>\$ 5,063</u>
NET ASSETS		
Unrestricted:		
Undesignated	409,924	332,546
Designated for property and equipment	1,195,301	1,117,574
Designated for beneficial interest in agency endowment fund - Note 5	<u>86,547</u>	<u>78,300</u>
Total Unrestricted	1,691,772	1,528,420
Temporarily Restricted - Note 1	<u>2,450,110</u>	<u>1,344,211</u>
TOTAL NET ASSETS	<u>4,141,882</u>	<u>2,872,631</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,159,175</u>	<u>\$ 2,877,694</u>

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

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUES FROM RENTAL PROPERTY			
Rental income - Note 3	\$ 33,950	\$ -	\$ 33,950
DIRECT COSTS AND EXPENSES - RENTAL PROPERTY - Note 7	<u>31,610</u>	<u>-</u>	<u>31,610</u>
INCOME FROM RENTAL PROPERTY	<u>2,340</u>	<u>-</u>	<u>2,340</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	164,963	1,233,835	1,398,798
State, local and foundation grants	83,640	-	83,640
Program fees	4,536	-	4,536
Fundraising events	69,978	-	69,978
Fundraising events - in-kind goods and services	19,600	-	19,600
Less: donor direct benefits	(7,950)	-	(7,950)
Contributed services of instructors - Note 1	250,169	-	250,169
Temporarily restricted net assets released from restriction	<u>127,936</u>	<u>(127,936)</u>	<u>-</u>
Total Public Support	712,872	1,105,899	1,818,771
Investment income	11,796	-	11,796
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 5	<u>8,247</u>	<u>-</u>	<u>8,247</u>
TOTAL SUPPORT AND REVENUE	<u>732,915</u>	<u>1,105,899</u>	<u>1,838,814</u>
EXPENSES			
Program services:			
Music programs	416,006	-	416,006
Management and general	77,171	-	77,171
Fundraising	43,758	-	43,758
Fundraising - capital campaign	<u>34,968</u>	<u>-</u>	<u>34,968</u>
TOTAL EXPENSES	<u>571,903</u>	<u>-</u>	<u>571,903</u>
CHANGE IN NET ASSETS	163,352	1,105,899	1,269,251
NET ASSETS - BEGINNING OF YEAR	<u>1,528,420</u>	<u>1,344,211</u>	<u>2,872,631</u>
NET ASSETS - END OF YEAR	<u>\$ 1,691,772</u>	<u>\$ 2,450,110</u>	<u>\$ 4,141,882</u>

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

2005		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$ 58,200	\$ -	\$ 58,200
49,882	-	49,882
8,318	-	8,318
110,491	437,766	548,257
67,300	-	67,300
5,099	-	5,099
53,454	-	53,454
10,700	-	10,700
(5,200)	-	(5,200)
242,357	-	242,357
32,105	(32,105)	-
516,306	405,661	921,967
3,043	-	3,043
6,583	-	6,583
525,932	405,661	931,593
389,840	-	389,840
75,413	-	75,413
30,172	-	30,172
42,381	-	42,381
537,806	-	537,806
(3,556)	405,661	402,105
1,531,976	938,550	2,470,526
\$ 1,528,420	\$ 1,344,211	\$ 2,872,631

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,269,251	\$ 402,105
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,290	32,557
Non-cash contribution of equipment	(7,500)	-
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee - Note 5	(8,247)	(6,583)
(Increase) decrease in:		
Contributions receivable - operating	27,736	27,020
Prepaid insurance	(1,934)	1,827
Increase (decrease) in:		
Accounts payable	(2,000)	2,000
Contributions for capital campaign, net of discounts	(1,233,835)	(437,766)
TOTAL ADJUSTMENTS	(1,198,490)	(380,945)
NET CASH PROVIDED BY OPERATING ACTIVITIES	70,761	21,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(80,224)	(23,737)
Distributions from agency endowment fund	-	750
NET CASH USED IN INVESTING ACTIVITIES	(80,224)	(22,987)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of prior year accounts payable for construction in progress	(3,063)	-
Collections on pledges for capital campaign	456,050	189,234
NET CASH PROVIDED BY FINANCING ACTIVITIES	452,987	189,234
NET INCREASE IN CASH AND CASH EQUIVALENTS	443,524	187,407
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	431,510	244,103
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 875,034	\$ 431,510
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable for construction in progress - architect fees	\$ 17,293	\$ 3,063

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

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

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006					
	<u>Program Services</u>	<u>Management and</u>		<u>Direct Benefits</u>	<u>Fundraising -</u>	
	<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>To Donors -</u>	<u>Capital</u>	
				<u>Fundraising Events</u>	<u>Campaign</u>	<u>Totals</u>
Salaries	\$ 69,099	\$ 40,092	\$ 16,626	\$ -	\$ 28,381	\$ 154,198
Payroll taxes	5,286	3,067	1,272	-	2,171	11,796
Pension expense - Note 4	<u>2,580</u>	<u>1,605</u>	<u>741</u>	-	<u>934</u>	<u>5,860</u>
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	76,965	44,764	18,639	-	31,486	171,854
Contributed services of instructors - Note 1	250,169	-	-	-	-	250,169
Musical supplies	1,656	-	-	-	-	1,656
Summer music camp	24,903	-	-	-	-	24,903
Chorus programs	8,417	-	-	-	-	8,417
Scholarships	-	-	-	-	-	-
Dues and subscriptions	707	1,649	-	-	-	2,356
Meals and entertainment	150	1,051	150	-	150	1,501
Insurance	4,090	2,726	-	-	-	6,816
Office and computer supplies	2,142	3,212	-	-	-	5,354
Postage and freight	2,231	1,549	774	-	-	4,554
Professional services	-	9,158	-	-	3,150	12,308
Promotion and publicity	-	-	4,526	-	182	4,708
Professional development	-	-	25	-	-	25
Printing	-	2,387	2,387	-	-	4,774
Repairs and maintenance	7,285	1,942	486	-	-	9,713
Security system	1,262	842	-	-	-	2,104
Telephone	2,529	474	157	-	-	3,160
Utilities	3,365	2,243	-	-	-	5,608
Gifts and flowers	269	269	-	-	-	538
Cultural events	-	-	-	-	-	-
Internet website	842	94	-	-	-	936
Miscellaneous	630	1,264	253	-	-	2,147
Special events:						
Beverages, kitchen items, etc.	-	-	4,711	-	-	4,711
Donated goods and services	-	-	11,650	7,950	-	19,600
Direct costs and expenses related to facility that will be renovated - Note 7	<u>14,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,204</u>
<b>TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION</b>	401,816	73,624	43,758	7,950	34,968	562,116
Depreciation of property and equipment	<u>14,190</u>	<u>3,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,737</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	416,006	77,171	43,758	7,950	34,968	579,853
Less expenses netted against revenues on the statement of activities - direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,950)</u>	<u>-</u>	<u>(7,950)</u>
<b>TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES</b>	<u>\$ 416,006</u>	<u>\$ 77,171</u>	<u>\$ 43,758</u>	<u>\$ -</u>	<u>\$ 34,968</u>	<u>\$ 571,903</u>

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



2005

<u>Program Services</u>	<u>Management and</u>		<u>Direct Benefits</u>	<u>Fundraising -</u>	
<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>To Donors -</u>	<u>Capital</u>	<u>Totals</u>
			<u>Fundraising Events</u>	<u>Campaign</u>	
\$ 64,279	\$ 36,912	\$ 14,700	\$ -	\$ 26,666	\$ 142,557
4,917	2,824	1,125	-	2,039	10,905
<u>2,450</u>	<u>1,540</u>	<u>735</u>	<u>-</u>	<u>875</u>	<u>5,600</u>
71,646	41,276	16,560	-	29,580	159,062
242,357	-	-	-	-	242,357
1,875	-	-	-	-	1,875
23,684	-	-	-	-	23,684
1,885	-	-	-	-	1,885
750	-	-	-	-	750
637	1,486	-	-	-	2,123
113	790	113	-	113	1,129
6,866	4,578	-	-	-	11,444
2,193	3,289	-	-	-	5,482
1,533	898	449	-	-	2,880
-	9,802	-	-	12,500	22,302
-	-	1,246	-	188	1,434
-	-	-	-	-	-
-	1,530	1,530	-	-	3,060
11,770	3,138	784	-	-	15,692
979	653	-	-	-	1,632
2,722	510	170	-	-	3,402
3,979	2,653	-	-	-	6,632
403	403	-	-	-	806
1,000	-	-	-	-	1,000
1,949	217	-	-	-	2,166
553	954	243	-	-	1,750
-	-	-	-	-	-
-	-	9,077	5,200	-	14,277
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
376,894	72,177	30,172	5,200	42,381	526,824
<u>12,946</u>	<u>3,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,182</u>
389,840	75,413	30,172	5,200	42,381	543,006
<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,200)</u>	<u>-</u>	<u>(5,200)</u>
<u>\$ 389,840</u>	<u>\$ 75,413</u>	<u>\$ 30,172</u>	<u>\$ -</u>	<u>\$ 42,381</u>	<u>\$ 537,806</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Gifts of equipment or materials are reported as unrestricted support 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.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and investment account balances maintained at a financial institution.

Property and Equipment and Depreciation

Land, buildings and improvements, automobile, equipment and furniture are recorded at cost, when purchased, or at estimated fair value, when gifted to the Organization. Depreciation is calculated by the straight-line method to allocate the cost of depreciable assets, as so determined, to operations over estimated useful lives of five to eight years for the automobile, equipment and furniture, and twenty to forty years for buildings and building improvements.

Depreciation was recognized through January 2006, on the leased portion of a building purchased in 1999 and held for renovation as a new instructional facility. The lease ended in January 2006 (see Note 3).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (5.10% for 2006; 3.77% for 2005). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The allowance for uncollectible contributions is provided based on historical experience and management's estimates.

Agency Endowment Fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activity, and distributions received from the fund are recorded as decreases in the beneficial interest. (See Note 5.)

Donated 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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

Costs of providing the Organization's music programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and activities benefited. Costs which have not been allocated to music program services have been classified as management and general or fundraising expenses.

The following program and supporting services classifications 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 at the nominal fee of 50 cents a lesson. The Organization also seeks to encourage student participation in the cultural life of the community through concert attendance and performance. Over three hundred fifty students, ages 7 to 18, representing academic schools from across Metro Davidson County and the Middle Tennessee area, participate in the Organization's programs. Instruction is provided by a one hundred member volunteer faculty of area musicians from many different disciplines.

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 cost of solicitations and 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. Fundraising expenses related to the capital campaign are reported separately.

Use of Estimates in the Preparation of Financial Statements

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 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Development of human capital	\$ 57,696	\$ 85,432
Donations for capital campaign	<u>2,392,414</u>	<u>1,258,779</u>
	<u>\$ 2,450,110</u>	<u>\$ 1,344,211</u>

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. Accordingly, income taxes are not provided.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year presentation.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2006</u>	<u>2005</u>
Temporarily restricted:		
Due in less than one year	\$ 998,491	\$ 451,266
One to five years	<u>1,089,225</u>	<u>855,000</u>
	2,087,716	1,306,266
Less: discounts to net present value	(83,333)	(65,932)
Less: allowance for doubtful accounts	<u>(14,000)</u>	<u>-</u>
Net contributions receivable	<u>\$ 1,990,383</u>	<u>\$ 1,240,334</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 2 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

Pledges receivable are classified as follows as of June 30:

	<u>2006</u>	<u>2005</u>
Operating	\$ 57,696	\$ 85,432
Capital campaign	<u>1,932,687</u>	<u>1,154,902</u>
	<u>\$ 1,990,383</u>	<u>\$ 1,240,334</u>

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Land and buildings	\$ 110,208	\$ 110,208
Building improvements	105,959	105,959
Automobile	23,000	23,000
Musical equipment	33,734	26,234
Office equipment	43,551	42,902
Security system	1,175	1,175
Land and buildings - facility to be renovated	905,032	905,032
Construction in progress and related costs	<u>266,430</u>	<u>169,562</u>
	1,489,089	1,384,072
Less accumulated depreciation	<u>(293,788)</u>	<u>(266,498)</u>
	<u>\$ 1,195,301</u>	<u>\$ 1,117,574</u>

In November, 1999, the Organization purchased certain real property and is in the process of conducting a capital campaign to fund the renovation and conversion of the property to a new music instructional facility. The Organization leased a portion of the building to a non-related tenant under a month-to-month agreement for \$5,000 per month (less a \$150 administrative fee) through January 2006, when the lease ended.

Construction at the new location is expected to begin in December 2006, with a targeted completion by November 2007. Costs incurred to date consist primarily of architectural fees and certain other preliminary costs. Total estimated construction costs are \$4.7 million.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 4 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a Section 403(b) 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. Total contributions by the Organization to the plan amounted to \$5,860 in 2006, and \$5,600 in 2005.

NOTE 5 - AGENCY ENDOWMENT FUND

The Organization has a beneficial interest in the W. O. Smith Nashville Community Music School - Scholarship Fund, an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community 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 Community Foundation, and the Community 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 Community 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, 2006 and 2005, follows:

	<u>2006</u>	<u>2005</u>
Balance - beginning of year	\$ 78,300	\$ 72,467
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	685	617
Investment income (loss) - net	8,102	6,467
Administrative expenses	<u>(540)</u>	<u>(501)</u>
	8,247	6,583
Distributions to the Organization	<u>-</u>	<u>(750)</u>
Balance - end of year	<u>\$ 86,547</u>	<u>\$ 78,300</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006 AND 2005

NOTE 6 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains deposit balances with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Excess uninsured balances per bank amounted to \$612,684 at June 30, 2006.

Contributions received from two donors totaling \$1,250,000 (before present value discount) comprised 98% of total contributions received for the year ended June 30, 2006 (\$300,000 from two donors comprised 56% of total contributions in 2005). The balance of contributions receivable, exclusive of present value discount, from three major donors at June 30, 2006, totaled \$1,361,241 (\$911,241 from four donors at June 30, 2005).

NOTE 7 - DIRECT COSTS AND EXPENSES - RENTAL PROPERTY AND PROPERTY TO BE RENOVATED

A schedule of direct costs and expenses related to the rented portion of certain property until the lease ended (for the period July 1, 2005 through January 31, 2006, and the year ended June 30, 2005), follows:

	<u>2006</u>	<u>2005</u>
Depreciation	\$ 9,553	\$ 16,376
Insurance	3,921	5,506
Property tax	9,835	15,021
Repairs and maintenance	1,602	2,843
Security system	1,448	2,260
Utilities	5,226	7,813
Miscellaneous	<u>25</u>	<u>63</u>
Total	<u>\$ 31,610</u>	<u>\$ 49,882</u>

The property is currently being held for renovation as the Organization's new music instructional facility (see Note 3). Direct costs and expenses related to the property that were incurred subsequent to the lease (February 1, 2006 through June 30, 2006), are as follows:

Insurance	\$ 2,800
Property tax	7,025
Repairs and maintenance	740
Security system	836
Telephone	358
Utilities	<u>2,445</u>
Total	<u>\$ 14,204</u>