

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009 AND 2008

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009 AND 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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
November 24, 2009

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 629,992	\$ 262,093
Contributions receivable - operating - Note 2	15,064	-
Prepaid expenses and donated office supplies	16,455	10,637
Property and equipment, net of accumulated depreciation - Note 3	6,785,852	6,924,829
Capital campaign assets:		
Contributions receivable, net - Note 2	154,069	760,965
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	<u>70,526</u>	<u>91,981</u>
TOTAL ASSETS	<u>\$ 7,671,958</u>	<u>\$ 8,050,505</u>
LIABILITIES		
Accounts payable	\$ 336	\$ 254,477
Note payable - Note 5	<u>708,000</u>	<u>960,000</u>
TOTAL LIABILITIES	<u>708,336</u>	<u>1,214,477</u>
NET ASSETS		
Unrestricted:		
Undesignated	661,175	18,253
Designated for property and equipment	6,077,852	5,964,829
Designated for beneficial interest in agency endowment fund - Note 4	<u>70,526</u>	<u>91,981</u>
Total Unrestricted	6,809,553	6,075,063
Temporarily Restricted - Note 6	<u>154,069</u>	<u>760,965</u>
TOTAL NET ASSETS	<u>6,963,622</u>	<u>6,836,028</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,671,958</u>	<u>\$ 8,050,505</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, 2009 AND 2008

	2009		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 138,989	\$ 121,687	\$ 260,676
Contributions - donated equipment	23,000	-	23,000
State, local and foundation grants	98,340	-	98,340
Program fees	5,362	-	5,362
Fundraising events	79,974	-	79,974
Fundraising events - in-kind goods and services	20,000	-	20,000
Less: donor direct benefits	(11,000)	-	(11,000)
Contributed services of instructors - Note 1	379,000	-	379,000
Interest income	4,277	-	4,277
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	(18,455)	-	(18,455)
Loss on doubtful temporarily restricted contributions receivable	-	(65,000)	(65,000)
Loss on securities donated in settlement of contributions receivable - Note 2	-	-	-
Other income:			
Rental income	5,250	-	5,250
Gain on sale of former facility - Note 3	429,244	-	429,244
Temporarily restricted net assets released from restriction	663,583	(663,583)	-
TOTAL SUPPORT AND REVENUE	1,817,564	(606,896)	1,210,668
EXPENSES			
Program services:			
Music programs	841,303	-	841,303
Management and general	174,177	-	174,177
Fundraising	45,327	-	45,327
Fundraising - capital campaign	22,267	-	22,267
TOTAL EXPENSES	1,083,074	-	1,083,074
CHANGE IN NET ASSETS	734,490	(606,896)	127,594
NET ASSETS - BEGINNING OF YEAR	6,075,063	760,965	6,836,028
NET ASSETS - END OF YEAR	\$ 6,809,553	\$ 154,069	\$ 6,963,622

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

2008

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 127,689	\$ 2,141,694	\$ 2,269,383
-	-	-
96,806	-	96,806
4,310	-	4,310
96,486	-	96,486
17,275	-	17,275
(10,649)	-	(10,649)
241,530	-	241,530
31,699	-	31,699
(3,114)	-	(3,114)
-	(85,000)	(85,000)
-	(1,241)	(1,241)
-	-	-
-	-	-
<u>4,055,933</u>	<u>(4,055,933)</u>	<u>-</u>
<u>4,657,965</u>	<u>(2,000,480)</u>	<u>2,657,485</u>
460,342	-	460,342
86,636	-	86,636
39,882	-	39,882
<u>27,723</u>	<u>-</u>	<u>27,723</u>
<u>614,583</u>	<u>-</u>	<u>614,583</u>
4,043,382	(2,000,480)	2,042,902
<u>2,031,681</u>	<u>2,761,445</u>	<u>4,793,126</u>
<u>\$ 6,075,063</u>	<u>\$ 760,965</u>	<u>\$ 6,836,028</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 127,594	\$ 2,042,902
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	213,761	21,394
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee - Note 4	18,455	3,114
Gain on sale of former facility - Note 3	(429,244)	-
Contributions for capital campaign, net of discounts and other losses	(56,687)	(2,056,694)
Noncash contribution of property and equipment	(23,000)	-
Loss on securities donated in settlement of contributions receivable - Note 2	-	1,241
(Increase) decrease in:		
Contributions receivable - operating	(15,064)	29,225
Prepaid expenses	(5,818)	14,817
Increase (decrease) in:		
Accounts payable	(5,353)	(6,875)
TOTAL ADJUSTMENTS	(302,950)	(1,993,778)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(175,356)	49,124
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(144,191)	(5,180,755)
Proceeds from sale of property - former facility - Note 3	521,651	-
Distributions from agency endowment fund - Note 4	3,000	2,250
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	380,460	(5,178,505)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under note payable	-	960,000
Repayments on note payable	(252,000)	-
Payment of prior year accounts payable for construction in progress	(248,788)	(80,769)
Collections on pledges for capital campaign	663,583	2,632,720
NET CASH PROVIDED BY FINANCING ACTIVITIES	162,795	3,511,951
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	367,899	(1,617,430)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	262,093	1,879,523
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 629,992	\$ 262,093
OTHER CASH DISCLOSURES:		
Cash paid for interest	\$ 25,117	\$ 205
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable for construction in progress	\$ -	\$ 248,788

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, 2009 AND 2008

	2009					
	<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>	
Salaries	\$ 102,289	\$ 50,257	\$ 17,030	\$ -	\$ 4,031	\$ 173,607
Payroll taxes	7,825	3,845	1,303	-	308	13,281
Pension expense - Note 7	<u>4,313</u>	<u>2,119</u>	<u>718</u>	<u>-</u>	<u>170</u>	<u>7,320</u>
TOTAL PAYROLL AND RELATED EXPENSES	114,427	56,221	19,051	-	4,509	194,208
Contributed services of instructors - Note 1	379,000	-	-	-	-	379,000
Chorus programs	3,389	-	-	-	-	3,389
Cultural events	-	-	-	-	-	-
Dues and subscriptions	578	1,348	-	-	-	1,926
Gifts and flowers	30	30	-	-	-	60
Insurance	14,689	9,793	-	-	-	24,482
Interest	20,094	5,023	-	-	-	25,117
Internet website	1,102	122	-	-	-	1,224
Meals and entertainment	208	1,453	208	-	208	2,077
Miscellaneous	1,795	1,885	243	-	-	3,923
Musical supplies	5,045	-	-	-	-	5,045
Office and computer supplies	5,218	7,827	-	-	-	13,045
Postage and freight	1,630	1,469	735	-	-	3,834
Printing	2,157	1,783	1,783	-	-	5,723
Professional development	-	197	-	-	-	197
Professional services	-	19,920	-	-	-	19,920
Promotion and publicity	-	-	579	-	-	579
Property tax	29,519	7,872	1,968	-	-	39,359
Repairs and maintenance	24,178	6,447	1,612	-	-	32,237
Scholarships	3,000	-	-	-	-	3,000
Security system	1,993	1,328	-	-	-	3,321
Summer music camp	27,659	-	-	-	-	27,659
Telephone	6,510	1,221	406	-	-	8,137
Utilities	28,073	7,486	1,872	-	-	37,431
Special events:						
Beverages, kitchen items, etc.	-	-	7,870	-	-	7,870
Donated goods and services	-	-	9,000	11,000	-	20,000
Groundbreaking event	-	-	-	-	17,550	17,550
Direct costs and expenses related to facility under renovation - Note 9	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	670,294	131,425	45,327	11,000	22,267	880,313
Depreciation of property and equipment	<u>171,009</u>	<u>42,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,761</u>
TOTAL FUNCTIONAL EXPENSES	841,303	174,177	45,327	11,000	22,267	1,094,074
Less expenses netted against revenues on the statement of activities - direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>-</u>	<u>(11,000)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 841,303</u>	<u>\$ 174,177</u>	<u>\$ 45,327</u>	<u>\$ -</u>	<u>\$ 22,267</u>	<u>\$ 1,083,074</u>

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

2008

Program Services	Management and		Direct Benefits	Fundraising -	
Music Programs	General	Fundraising	To Donors -	Capital	Totals
			Fundraising Events	Campaign	
\$ 77,078	\$ 39,383	\$ 15,416	\$ -	\$ 24,436	\$ 156,313
5,887	3,008	1,177	-	1,866	11,938
<u>3,712</u>	<u>1,897</u>	<u>742</u>	<u>-</u>	<u>1,177</u>	<u>7,528</u>
86,677	44,288	17,335	-	27,479	175,779
241,530	-	-	-	-	241,530
3,317	-	-	-	-	3,317
714	-	-	-	-	714
727	1,697	-	-	-	2,424
558	558	-	-	-	1,116
8,086	5,391	-	-	-	13,477
-	-	-	-	-	-
3,495	388	-	-	-	3,883
244	1,707	244	-	244	2,439
4,618	3,090	343	-	-	8,051
2,895	-	-	-	-	2,895
3,242	4,864	-	-	-	8,106
1,283	1,033	517	-	-	2,833
-	1,854	1,854	-	-	3,708
-	-	75	-	-	75
-	12,215	-	-	-	12,215
-	-	3,983	-	-	3,983
-	-	-	-	-	-
6,395	1,705	426	-	-	8,526
2,250	-	-	-	-	2,250
581	387	-	-	-	968
28,533	-	-	-	-	28,533
2,551	478	159	-	-	3,188
4,052	2,702	-	-	-	6,754
-	-	6,971	-	-	6,971
-	-	7,975	10,649	-	18,624
-	-	-	-	-	-
<u>41,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,479</u>
443,227	82,357	39,882	10,649	27,723	603,838
<u>17,115</u>	<u>4,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,394</u>
460,342	86,636	39,882	10,649	27,723	625,232
<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,649)</u>	<u>-</u>	<u>(10,649)</u>
\$ <u>460,342</u>	\$ <u>86,636</u>	\$ <u>39,882</u>	\$ <u>-</u>	\$ <u>27,723</u>	\$ <u>614,583</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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.

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.

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of June 30, 2009 and 2008.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

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.

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. Conditional promises to give are not included as support until such time as the conditions are substantially met.

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. Increases in the allowance relating to temporarily restricted pledges are reported as a doubtful accounts loss under support and revenue.

Cash and cash equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist principally of checking accounts.

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 \$500 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, 2009 AND 2008

NOTE 1 - 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 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 4.)

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 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.

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 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 500 students (350 students in 2008), 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 160 member volunteer faculty of area musicians (100 member volunteer faculty in 2008) from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - 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 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.

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.

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.

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 amounts in the prior year's financial statements have been reclassified in order to be comparative with the current year's presentation. The reclassifications had no effect on the change in net assets as previously reported.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between June 30, 2009 and November 24, 2009, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Recent accounting pronouncement

In July 2006, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. Prior to adopting FIN 48, the Organization will continue to evaluate uncertain tax positions and related income tax contingencies under Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Organization is currently evaluating the impact, if any, of the adoption of this pronouncement on the financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2009</u>	<u>2008</u>
Temporarily restricted:		
Due in less than one year	\$ 154,279	\$ 580,851
One to five years	<u>83,640</u>	<u>284,850</u>
	237,919	865,701
Less: discounts to net present value	(3,786)	(14,488)
Less: allowance for doubtful accounts	<u>(65,000)</u>	<u>(90,248)</u>
Net contributions receivable	<u>\$ 169,133</u>	<u>\$ 760,965</u>

Contributions receivable are classified as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Operating	\$ 15,064	\$ -
Capital campaign	<u>154,069</u>	<u>760,965</u>
	<u>\$ 169,133</u>	<u>\$ 760,965</u>

During 2008, the Organization received certain marketable securities in settlement of previously recognized contributions receivable. The securities were sold and converted to cash on the day received. The difference between the cash sale proceeds and the contribution receivable was \$1,241, which was recognized as a loss in the Statement of Activities in 2008.

Substantially all of the contributions receivable are from related parties (board members and members of management) of the Organization.

During the 2007 fiscal year, the Organization was notified that a \$150,000 donation to the Capital Campaign would be recommended by a donor to the Community Foundation of Middle Tennessee, Inc. (the "Foundation"), to be paid over a three-year period. This gift was approved by the Foundation and has been recognized as support by the Organization in the amount of \$50,000 each year in fiscal years 2007, 2008 and 2009.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 319,479	\$ 22,000
Buildings	6,568,108	198,396
Vehicles	26,458	26,458
Musical equipment	105,747	56,884
Office equipment and furniture	166,061	44,258
Land and building - facility under renovation	-	905,032
Construction in progress and related costs	-	5,999,155
	<u>7,185,853</u>	<u>7,252,183</u>
Less: accumulated depreciation	<u>(400,001)</u>	<u>(327,354)</u>
	<u>\$ 6,785,852</u>	<u>\$ 6,924,829</u>

In November, 1999, the Organization purchased certain real property to renovate and convert for its new music instructional facility. Construction at the new location began in May 2007 and was completed in June 2008. The Organization relocated to the new facility in July 2008. The previously occupied facility was sold in August 2008 for \$521,651, resulting in a gain of \$429,244 recognized in the 2009 fiscal year.

NOTE 4 - 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 Community Foundation of Middle Tennessee (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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 4 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2009 and 2008, follows:

	<u>2009</u>	<u>2008</u>
Balance - beginning of year	<u>\$ 91,981</u>	<u>\$ 97,345</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	450	535
Investment income (loss) - net	(18,412)	(3,048)
Administrative expenses	<u>(493)</u>	<u>(601)</u>
	(18,455)	(3,114)
Distributions to the Organization	<u>(3,000)</u>	<u>(2,250)</u>
Balance - end of year	<u>\$ 70,526</u>	<u>\$ 91,981</u>

NOTE 5 - NOTE PAYABLE

On August 29, 2007, the Organization entered into a maximum \$4 million construction loan agreement with a financial institution. As of June 30, 2009, the total outstanding balance of the note was \$708,000 (\$960,000 at June 30, 2008). The agreement provides for payment of all outstanding principal and unpaid interest on March 28, 2013. Interest is due monthly and is charged at the LIBOR rate plus 80 basis points. The agreement requires the Organization to make principal payments annually on October 1 to reduce the outstanding balance to a maximum outstanding amount, as defined in the agreement. The amount borrowed at June 30, 2009 is less than the maximum outstanding balance allowed in any subsequent year prior to maturity. The note is secured by a deed of trust, capital campaign pledges and all other real and personal property of the Organization.

Substantially all draws on the note occurred near the end of the 2008 fiscal year, and there was no significant capitalized interest.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist entirely of contributions receivable on the capital campaign at June 30, 2009 and 2008.

NOTE 7 - 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, subject to limitations. Total contributions by the Organization to the plan amounted to \$7,320 in 2009 and \$7,528 in 2008.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash balances in bank deposit accounts at various financial institutions which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program. Under the program, all non-interest bearing funds held by qualifying financial institutions for the period October 14, 2008 through December 31, 2009 are fully insured. The Organization's cash balances at June 30, 2009 exceeded the FDIC coverage by approximately \$263,000.

Contributions received from two donors totaling \$143,238 (before present value discount) comprised 55% of total contributions received for the year ended June 30, 2009 (\$2,000,000 from one donor comprised 88% of total contributions in 2008). The balance of contributions receivable, exclusive of present value discount, from three major donors at June 30, 2009, totaled \$155,000 (\$500,000 at June 30, 2008).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 9 - DIRECT COSTS AND EXPENSES - RENOVATED FACILITY

The Organization's new music instructional facility was under renovation until June 2008 (see Note 3). Direct costs and expenses related to the property prior to completion of construction follows for the year ended June 30, 2008:

Insurance	\$ 7,141
Property tax	16,860
Utilities	16,857
Other	<u>621</u>
Total	<u>\$ 41,479</u>

NOTE 10 - FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Organization adopted the provisions of SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Academy has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2009 AND 2008

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 Community Foundation of Middle Tennessee (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. Due to the nature of the underlying investments and method of allocation of the fund, the beneficial interest in the agency endowment fund is classified within Level 3 of the valuation hierarchy.

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.

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>	<u>Total</u> <u>Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,526</u>	<u>\$ 70,526</u>

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 4.