

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2007 AND 2006

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2007 AND 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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
September 15, 2007

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 788,732	\$ 464,640
Contributions receivable - operating - Note 2	29,225	57,696
Prepaid expenses and donated office supplies - Note 7	25,454	11,910
Property and equipment, net of accumulated depreciation - Note 3	1,516,680	1,195,301
Capital campaign assets:		
Cash and cash equivalents	1,090,791	410,394
Contributions receivable, net - Note 2	1,338,232	1,932,687
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 5	<u>97,345</u>	<u>86,547</u>
TOTAL ASSETS	<u>\$ 4,886,459</u>	<u>\$ 4,159,175</u>
LIABILITIES		
Accounts payable	<u>\$ 93,333</u>	<u>\$ 17,293</u>
NET ASSETS		
Unrestricted:		
Undesignated	417,656	409,924
Designated for property and equipment	1,516,680	1,195,301
Designated for beneficial interest in agency endowment fund - Note 5	<u>97,345</u>	<u>86,547</u>
Total Unrestricted	2,031,681	1,691,772
Temporarily Restricted - Note 1	<u>2,761,445</u>	<u>2,450,110</u>
TOTAL NET ASSETS	<u>4,793,126</u>	<u>4,141,882</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,886,459</u>	<u>\$ 4,159,175</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, 2007 AND 2006

	2007		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 135,054	\$ 646,433	\$ 781,487
Contributions - donated equipment and other - Note 7	109,000	-	109,000
State, local and foundation grants	78,198	-	78,198
Program fees	4,415	-	4,415
Fundraising events	60,444	-	60,444
Fundraising events - in-kind goods and services	17,575	-	17,575
Less: donor direct benefits	(7,525)	-	(7,525)
Contributed services of instructors - Note 1	311,880	-	311,880
Investment income	28,901	-	28,901
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 5	13,798	-	13,798
Loss on securities donated in settlement of contributions receivable - Note 2	-	(7,529)	(7,529)
Temporarily restricted net assets released from restriction	327,569	(327,569)	-
TOTAL SUPPORT AND REVENUE	1,079,309	311,335	1,390,644
EXPENSES			
Program services:			
Music programs	560,001	-	560,001
Management and general	81,366	-	81,366
Fundraising	65,793	-	65,793
Fundraising - capital campaign	32,240	-	32,240
TOTAL EXPENSES	739,400	-	739,400
RENTAL PROPERTY ACTIVITY			
Rental income - Note 3	-	-	-
Direct costs and expenses of rental property - Note 8	-	-	-
RENTAL PROPERTY ACTIVITY, net	-	-	-
CHANGE IN NET ASSETS	339,909	311,335	651,244
NET ASSETS - BEGINNING OF YEAR	1,691,772	2,450,110	4,141,882
NET ASSETS - END OF YEAR	\$ 2,031,681	\$ 2,761,445	\$ 4,793,126

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

2006		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$ 157,463	\$ 1,233,835	\$ 1,391,298
7,500	-	7,500
83,640	-	83,640
4,536	-	4,536
69,978	-	69,978
19,600	-	19,600
(7,950)	-	(7,950)
250,169	-	250,169
11,796	-	11,796
8,247	-	8,247
-	-	-
<u>127,936</u>	<u>(127,936)</u>	<u>-</u>
<u>732,915</u>	<u>1,105,899</u>	<u>1,838,814</u>
416,006	-	416,006
77,171	-	77,171
43,758	-	43,758
<u>34,968</u>	<u>-</u>	<u>34,968</u>
<u>571,903</u>	<u>-</u>	<u>571,903</u>
33,950	-	33,950
<u>31,610</u>	<u>-</u>	<u>31,610</u>
<u>2,340</u>	<u>-</u>	<u>2,340</u>
163,352	1,105,899	1,269,251
<u>1,528,420</u>	<u>1,344,211</u>	<u>2,872,631</u>
<u>\$ 1,691,772</u>	<u>\$ 2,450,110</u>	<u>\$ 4,141,882</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 651,244	\$ 1,269,251
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,890	27,290
Non-cash contribution of equipment and office supplies - Note 7	(42,500)	(7,500)
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee - Note 5	(13,798)	(8,247)
Loss on securities donated in settlement of contributions receivable - Note 2	7,529	-
(Increase) decrease in:		
Contributions receivable - operating	20,942	27,736
Prepaid expenses	326	(1,934)
Increase (decrease) in:		
Accounts payable	12,564	(2,000)
Contributions for capital campaign, net of discounts	(646,433)	(1,233,835)
 TOTAL ADJUSTMENTS	 (642,480)	 (1,198,490)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 8,764	 70,761
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(230,870)	(80,224)
Distributions from agency endowment fund - Note 5	3,000	-
 NET CASH USED IN INVESTING ACTIVITIES	 (227,870)	 (80,224)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of prior year accounts payable for construction in progress	(17,293)	(3,063)
Collections on pledges for capital campaign	1,240,888	456,050
 NET CASH PROVIDED BY FINANCING ACTIVITIES	 1,223,595	 452,987
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 1,004,489	 443,524
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 875,034	 431,510
 CASH AND CASH EQUIVALENTS - END OF YEAR	 \$ 1,879,523	 \$ 875,034
 NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable for construction in progress	\$ 80,769	\$ 17,293

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, 2007 AND 2006

	2007					
	<u>Program Services</u> <u>Music Programs</u>	<u>Management and</u> <u>General</u>	<u>Fundraising</u>	<u>Direct Benefits</u> <u>To Donors -</u> <u>Fundraising Events</u>	<u>Fundraising -</u> <u>Capital</u> <u>Campaign</u>	<u>Totals</u>
Salaries	\$ 68,925	\$ 40,470	\$ 16,200	\$ -	\$ 27,255	\$ 152,850
Payroll taxes	5,273	3,096	1,239	-	2,085	11,693
Pension expense - Note 4	<u>3,158</u>	<u>1,862</u>	<u>787</u>	<u>-</u>	<u>1,258</u>	<u>7,065</u>
TOTAL PAYROLL AND RELATED EXPENSES	77,356	45,428	18,226	-	30,598	171,608
Contributed services of instructors - Note 1	311,880	-	-	-	-	311,880
Musical supplies	6,472	-	-	-	-	6,472
Summer music camp	26,163	-	-	-	-	26,163
Chorus programs	1,641	-	-	-	-	1,641
Scholarships	1,500	-	-	-	-	1,500
Dues and subscriptions	705	1,646	-	-	-	2,351
Meals and entertainment	142	992	142	-	142	1,418
Insurance	6,665	4,443	-	-	-	11,108
Office and computer supplies	1,418	2,128	-	-	-	3,546
Postage and freight	2,172	1,277	638	-	-	4,087
Professional services	-	10,034	-	-	1,500	11,534
Promotion and publicity	-	-	25	-	-	25
Professional development	-	-	81	-	-	81
Printing	-	4,553	4,553	-	-	9,106
Repairs and maintenance	6,518	1,737	435	-	-	8,690
Security system	569	379	-	-	-	948
Telephone	2,421	454	150	-	-	3,025
Utilities	3,436	2,290	-	-	-	5,726
Gifts and flowers	492	492	-	-	-	984
Cultural events	524	-	-	-	-	524
Internet website	4,056	451	-	-	-	4,507
Donated gifts to program participants - Note 7	62,000	-	-	-	-	62,000
Miscellaneous	1,426	1,284	423	-	-	3,133
Special events:						
Beverages, kitchen items, etc.	-	-	6,825	-	-	6,825
Donated goods and services	-	-	10,050	7,525	-	17,575
Groundbreaking event	-	-	24,245	-	-	24,245
Direct costs and expenses related to facility under renovation - Note 8	<u>27,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,333</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	544,889	77,588	65,793	7,525	32,240	728,035
Depreciation of property and equipment	<u>15,112</u>	<u>3,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,890</u>
TOTAL FUNCTIONAL EXPENSES	560,001	81,366	65,793	7,525	32,240	746,925
Less expenses netted against revenues on the statement of activities - direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,525)</u>	<u>-</u>	<u>(7,525)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 560,001</u>	<u>\$ 81,366</u>	<u>\$ 65,793</u>	<u>\$ -</u>	<u>\$ 32,240</u>	<u>\$ 739,400</u>

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

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>Totals</u>
			<u>Fundraising Events</u>	<u>Campaign</u>	
\$ 69,099	\$ 40,092	\$ 16,626	\$ -	\$ 28,381	\$ 154,198
5,286	3,067	1,272	-	2,171	11,796
<u>2,580</u>	<u>1,605</u>	<u>741</u>	<u>-</u>	<u>934</u>	<u>5,860</u>
76,965	44,764	18,639	-	31,486	171,854
250,169	-	-	-	-	250,169
1,656	-	-	-	-	1,656
24,903	-	-	-	-	24,903
8,417	-	-	-	-	8,417
-	-	-	-	-	-
707	1,649	-	-	-	2,356
150	1,051	150	-	150	1,501
4,090	2,726	-	-	-	6,816
2,142	3,212	-	-	-	5,354
2,231	1,549	774	-	-	4,554
-	9,158	-	-	3,150	12,308
-	-	4,526	-	182	4,708
-	-	25	-	-	25
-	2,387	2,387	-	-	4,774
7,285	1,942	486	-	-	9,713
1,262	842	-	-	-	2,104
2,529	474	157	-	-	3,160
3,365	2,243	-	-	-	5,608
269	269	-	-	-	538
-	-	-	-	-	-
842	94	-	-	-	936
-	-	-	-	-	-
630	1,264	253	-	-	2,147
-	-	4,711	-	-	4,711
-	-	11,650	7,950	-	19,600
-	-	-	-	-	-
<u>14,204</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,204</u>
401,816	73,624	43,758	7,950	34,968	562,116
<u>14,190</u>	<u>3,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,737</u>
416,006	77,171	43,758	7,950	34,968	579,853
<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,950)</u>	<u>-</u>	<u>(7,950)</u>
<u>\$ 416,006</u>	<u>\$ 77,171</u>	<u>\$ 43,758</u>	<u>\$ -</u>	<u>\$ 34,968</u>	<u>\$ 571,903</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

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 financial statements of the Organization have been prepared on the accrual basis 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 in perpetuity 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, 2007 and 2006.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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 (5.03% for 2007; 5.10% for 2006). 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.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and investment account balances, and are classified either as operating fund or capital campaign assets. Such amounts are combined for purposes of the statement of cash flows.

Property and 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. 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 transportation vehicles, 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. This building is currently under renovation and will serve as the new instructional facility for the Organization. The lease ended in January 2006 (see Note 3).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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 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 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

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 that are not allocated to music program services are 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 Metropolitan Nashville and 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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.

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.

Temporarily Restricted Net Assets

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

	<u>2007</u>	<u>2006</u>
Development of human capital	\$ 29,225	\$ 57,696
Donations for capital campaign	<u>2,732,220</u>	<u>2,392,414</u>
	<u>\$ 2,761,445</u>	<u>\$ 2,450,110</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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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>2007</u>	<u>2006</u>
Temporarily restricted:		
Due in less than one year	\$ 752,701	\$ 998,491
One to five years	<u>656,790</u>	<u>1,089,225</u>
	1,409,491	2,087,716
Less: discounts to net present value	(38,034)	(83,333)
Less: allowance for doubtful accounts	<u>(4,000)</u>	<u>(14,000)</u>
Net contributions receivable	<u>\$ 1,367,457</u>	<u>\$ 1,990,383</u>

Pledges receivable are classified as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Operating	\$ 29,225	\$ 57,696
Capital campaign	<u>1,338,232</u>	<u>1,932,687</u>
	<u>\$ 1,367,457</u>	<u>\$ 1,990,383</u>

In December 2006, the Organization received certain marketable securities in settlement of a previously recognized contribution 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 \$7,529. Such amount has been recognized as a loss in the current year.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 2 - CONTRIBUTIONS RECEIVABLE (CONTINUED)

During the 2007 fiscal year, the Organization was notified that a \$150,000 donation to the Capital Campaign will be recommended by a donor to the Community Foundation of Middle Tennessee, Inc. (the "Foundation"), to be paid over a three-year period. The first \$50,000 of this gift was approved by the Foundation and recognized as support by the Organization in 2007. The Foundation has final authority over these donor recommendations, which are advisory only and, accordingly, the balance of the donation will not be recognized by the Organization until the period approved by the Foundation.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Land and buildings	\$ 110,208	\$ 110,208
Building improvements	109,013	105,959
Automobile	26,458	23,000
Musical equipment	56,884	33,734
Office equipment	49,031	43,551
Security system	1,175	1,175
Land and building - facility under renovation	905,032	905,032
Construction in progress and related costs	<u>571,557</u>	<u>266,430</u>
	1,829,358	1,489,089
Less: accumulated depreciation	<u>(312,678)</u>	<u>(293,788)</u>
	<u>\$ 1,516,680</u>	<u>\$ 1,195,301</u>

In November, 1999, the Organization purchased certain real property to renovate and convert for its 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 began May 1, 2007 and is expected to be completed by April 2008. Total construction costs are estimated to approximate \$5 million. (See Note 8.)

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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 \$7,065 in 2007; \$5,860 in 2006.

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 "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, 2007 and 2006, follows:

	<u>2007</u>	<u>2006</u>
Balance - beginning of year	\$ 86,547	\$ 78,300
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	15	685
Investment income (loss) - net	14,370	8,102
Administrative expenses	<u>(587)</u>	<u>(540)</u>
	13,798	8,247
Distributions to the Organization	<u>(3,000)</u>	<u>-</u>
Balance - end of year	<u>\$ 97,345</u>	<u>\$ 86,547</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

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 approximated \$1.6 million at June 30, 2007.

Contributions received from one donor totaling \$500,000 (before present value discount) comprised 59% of total contributions received for the year ended June 30, 2007 (\$1,250,000 from two donors comprised 87% of total contributions in 2006). The balance of contributions receivable, exclusive of present value discount, from three major donors at June 30, 2007, totaled \$931,241 (\$1,361,241 at June 30, 2006).

NOTE 7 - DONATED GOODS AND SERVICES

In April 2007, the *Today* show presented the Organization with non-cash gifts which had an estimated fair value of approximately \$106,000. The Agency has recognized such gifts as follows: \$25,630 capitalized as musical, video and computer equipment; \$13,870 as prepaid office supplies that will be utilized in the next fiscal year; \$4,500 in other musical supplies; and \$62,000 in clothing, backpacks, wallets, and other items that were gifted to the program's participants.

In addition, the Organization received donated musical equipment from other donors valued at approximately \$3,000 in 2007; \$7,500 in 2006.

NOTE 8 - 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), follows:

	<u>2006</u>
Depreciation	\$ 9,553
Insurance	3,921
Property tax	9,835
Repairs and maintenance	1,602
Security system	1,448
Utilities	5,226
Miscellaneous	<u>25</u>
Total	<u>\$ 31,610</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2007 AND 2006

NOTE 8 - DIRECT COSTS AND EXPENSES - RENTAL PROPERTY AND PROPERTY TO BE RENOVATED (CONTINUED)

The property is currently being renovated 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 (all of the 2007 fiscal year and for the period from February 1, 2006 through June 30, 2006), are as follows:

	<u>2007</u>	<u>2006</u>
Insurance	\$ 3,687	\$ 2,800
Property tax	16,860	7,025
Repairs and maintenance	1,080	740
Security system	1,839	836
Telephone	641	358
Utilities	<u>3,226</u>	<u>2,445</u>
Total	<u>\$ 27,333</u>	<u>\$ 14,204</u>