

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011 AND 2010

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011 AND 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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 22, 2011

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 428,586	\$ 733,542
Prepaid expenses and donated office supplies	2,258	17,624
Property and equipment, net of accumulated depreciation	6,481,421	6,622,745
Capital campaign assets:		
Contributions receivable, net	17,119	76,998
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>91,663</u>	<u>78,878</u>
TOTAL ASSETS	<u>\$ 7,021,047</u>	<u>\$ 7,529,787</u>
LIABILITIES		
Accounts payable	\$ 3,363	\$ 4,603
Note payable	<u>308,000</u>	<u>708,000</u>
TOTAL LIABILITIES	<u>311,363</u>	<u>712,603</u>
NET ASSETS		
Unrestricted:		
Undesignated	427,481	746,563
Designated for property and equipment, net of related debt	6,173,421	5,914,745
Designated for beneficial interest in agency endowment fund	<u>91,663</u>	<u>78,878</u>
Total Unrestricted	6,692,565	6,740,186
Temporarily Restricted	<u>17,119</u>	<u>76,998</u>
TOTAL NET ASSETS	<u>6,709,684</u>	<u>6,817,184</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,021,047</u>	<u>\$ 7,529,787</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, 2011 AND 2010

	2011		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 335,895	\$ 1,221	\$ 337,116
Contributed services of instructors	500,325	-	500,325
Contributions - donated equipment	51,600	-	51,600
State, local and foundation grants	85,850	-	85,850
Program fees	5,873	-	5,873
Fundraising events	70,314	-	70,314
Fundraising events - in-kind goods and services	20,550	-	20,550
Less: donor direct benefits	(11,000)	-	(11,000)
Interest income	90	-	90
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	16,385	-	16,385
Other income:			
Rental income	51,525	-	51,525
Less: rental expenses	(11,825)	-	(11,825)
Temporarily restricted net assets released from restriction	61,100	(61,100)	-
TOTAL SUPPORT AND REVENUE	1,176,682	(59,879)	1,116,803
EXPENSES			
Program services:			
Music programs	978,061	-	978,061
Management and general	182,725	-	182,725
Fundraising	63,517	-	63,517
TOTAL EXPENSES	1,224,303	-	1,224,303
CHANGE IN NET ASSETS	(47,621)	(59,879)	(107,500)
NET ASSETS - BEGINNING OF YEAR	6,740,186	76,998	6,817,184
NET ASSETS - END OF YEAR	\$ 6,692,565	\$ 17,119	\$ 6,709,684

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

2010		
UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$ 217,208	\$ 24,274	\$ 241,482
440,510	-	440,510
34,500	-	34,500
111,225	-	111,225
5,657	-	5,657
74,480	-	74,480
29,200	-	29,200
(15,100)	-	(15,100)
121	-	121
9,552	-	9,552
45,780	-	45,780
(5,320)	-	(5,320)
<u>101,345</u>	<u>(101,345)</u>	<u>-</u>
<u>1,049,158</u>	<u>(77,071)</u>	<u>972,087</u>
891,802	-	891,802
166,942	-	166,942
<u>59,781</u>	<u>-</u>	<u>59,781</u>
<u>1,118,525</u>	<u>-</u>	<u>1,118,525</u>
(69,367)	(77,071)	(146,438)
<u>6,809,553</u>	<u>154,069</u>	<u>6,963,622</u>
<u>\$ 6,740,186</u>	<u>\$ 76,998</u>	<u>\$ 6,817,184</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	<u>\$ (107,500)</u>	<u>\$ (146,438)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	222,052	216,334
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(16,385)	(9,552)
Contributions for capital campaign, net of discounts and other losses	(921)	(24,274)
Noncash contribution of property and equipment	(51,600)	(34,500)
(Increase) decrease in:		
Contributions receivable - operating	-	15,064
Prepaid expenses and donated office supplies	15,366	(1,169)
Increase (decrease) in:		
Accounts payable	<u>(1,240)</u>	<u>4,267</u>
TOTAL ADJUSTMENTS	<u>167,272</u>	<u>166,170</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>59,772</u>	<u>19,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(29,128)	(18,727)
Distributions from agency endowment fund	<u>3,600</u>	<u>1,200</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(25,528)</u>	<u>(17,527)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	(400,000)	-
Collections on pledges for capital campaign	<u>60,800</u>	<u>101,345</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(339,200)</u>	<u>101,345</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(304,956)	103,550
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>733,542</u>	<u>629,992</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 428,586</u>	<u>\$ 733,542</u>
OTHER CASH DISCLOSURES:		
Cash paid for interest	<u>\$ 7,703</u>	<u>\$ 25,117</u>

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, 2011 AND 2010

	2011				
	<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>Totals</u>
Salaries	\$ 135,423	\$ 67,124	\$ 29,337	\$ -	231,884
Payroll taxes	10,288	5,099	2,229	-	17,616
Fringe benefits	<u>10,712</u>	<u>5,309</u>	<u>2,321</u>	<u>-</u>	<u>18,342</u>
TOTAL PAYROLL AND RELATED EXPENSES	156,423	77,532	33,887	-	267,842
Contributed services of instructors	500,325	-	-	-	500,325
Chorus programs	2,231	-	-	-	2,231
Cultural events	140	-	-	-	140
Dues and subscriptions	502	1,171	-	-	1,673
Gifts and flowers	1,720	-	-	-	1,720
Insurance	10,525	7,015	-	-	17,540
Interest	6,162	1,541	-	-	7,703
Internet website	1,148	144	144	-	1,436
Local transportation	5,163	-	-	-	5,163
Meals and entertainment	501	2,336	501	-	3,338
Miscellaneous	664	439	634	-	1,737
Musical supplies	4,845	-	-	-	4,845
Office and computer supplies	2,528	3,792	-	-	6,320
Postage and freight	2,734	1,449	725	-	4,908
Printing	2,268	1,579	1,579	-	5,426
Professional development	-	65	-	-	65
Professional services	-	15,025	-	-	15,025
Promotion and publicity	-	-	6,727	-	6,727
Repairs - instruments	2,735	-	-	-	2,735
Repairs and maintenance	28,900	7,707	1,927	-	38,534
Scholarships	4,000	-	-	-	4,000
Security system	1,757	1,172	-	-	2,929
Summer music camp	33,599	-	-	-	33,599
Telephone	7,690	1,442	481	-	9,613
Utilities	23,859	15,906	-	-	39,765
Rental expenses	-	-	11,825	-	11,825
Special events:					
Beverages, kitchen items, etc.	-	-	7,362	-	7,362
Donated goods and services	-	-	9,550	11,000	20,550
Groundbreaking event	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	800,419	138,315	75,342	11,000	1,025,076
Depreciation of property and equipment	<u>177,642</u>	<u>44,410</u>	<u>-</u>	<u>-</u>	<u>222,052</u>
TOTAL FUNCTIONAL EXPENSES	978,061	182,725	75,342	11,000	1,247,128
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(11,000)	(11,000)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>-</u>	<u>(11,825)</u>	<u>-</u>	<u>(11,825)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 978,061</u>	<u>\$ 182,725</u>	<u>\$ 63,517</u>	<u>\$ -</u>	<u>\$ 1,224,303</u>

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



## 2010

Program Services		Management and	Direct Benefits To Donors -		
Music Programs		General	Fundraising	Fundraising Events	Totals
\$	116,404	\$ 55,577	\$ 24,791	\$ -	\$ 196,772
	9,032	4,311	1,924	-	15,267
	7,219	4,425	437	-	12,081
	132,655	64,313	27,152	-	224,120
	440,510	-	-	-	440,510
	12,837	-	-	-	12,837
	7,016	-	-	-	7,016
	412	962	-	-	1,374
	495	495	-	-	990
	10,176	6,783	-	-	16,959
	6,082	1,521	-	-	7,603
	1,094	122	-	-	1,216
	4,260	-	-	-	4,260
	161	751	161	-	1,073
	604	3,633	243	-	4,480
	5,753	-	-	-	5,753
	1,517	2,276	-	-	3,793
	1,737	801	401	-	2,939
	1,877	858	858	-	3,593
	-	-	-	-	-
	-	15,039	-	-	15,039
	-	-	351	-	351
	2,634	-	-	-	2,634
	22,293	7,783	1,946	-	32,022
	3,000	-	-	-	3,000
	1,757	1,172	-	-	2,929
	31,165	-	-	-	31,165
	6,888	1,291	430	-	8,609
	23,812	15,875	-	-	39,687
	-	-	5,320	-	5,320
	-	-	14,139	-	14,139
	-	-	14,100	15,100	29,200
	-	-	-	-	-
	718,735	123,675	65,101	15,100	922,611
	173,067	43,267	-	-	216,334
	891,802	166,942	65,101	15,100	1,138,945
	-	-	-	(15,100)	(15,100)
	-	-	(5,320)	-	(5,320)
\$	891,802	\$ 166,942	\$ 59,781	\$ -	\$ 1,118,525

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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 ("GAAP").

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, 2011 and 2010.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 (3.77% in 2005, the last multi-year pledge 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.

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, 2011 AND 2010

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 (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. (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 800 students (600 students in 2010), 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 187 member (160 member in 2010) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

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 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.

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.

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 and Form 990-T, an exempt organization business income tax return. In addition, the Organization files a Tennessee state income tax return. Tax returns for years prior to fiscal year 2008 are closed.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2010 and November 22, 2011, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain reclassifications have been made in the June 30, 2010 financial statements to conform to the June 30, 2011 presentation. Rental expenses in the amount of \$5,320 were reclassified from program services and management and general to fundraising expenses. These rental expenses were then shown as a reduction of total revenues and total expenses in the Statement of Activities. The effect on the June 30, 2010 totals were as follows: program expenses were reduced by \$4,264, management and general expenses were reduced by \$1,056 and fundraising expenses were increased by \$5,320. These 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, 2011 AND 2010

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Temporarily restricted:		
Due in less than one year	\$ 27,730	\$ 81,230
One to five years	<u>53,980</u>	<u>65,280</u>
	81,710	146,510
Less: discounts to net present value	(3,591)	(4,512)
Less: allowance for doubtful accounts	<u>(61,000)</u>	<u>(65,000)</u>
Net contributions receivable	<u>\$ 17,119</u>	<u>\$ 76,998</u>

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

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,582,738	6,581,308
Vehicles	46,458	46,458
Musical equipment	200,626	121,328
Office equipment and furniture	<u>170,507</u>	<u>170,507</u>
	7,319,808	7,239,080
Less: accumulated depreciation	<u>(838,387)</u>	<u>(616,335)</u>
	<u>\$ 6,481,421</u>	<u>\$ 6,622,745</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

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 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, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Balance - beginning of year	<u>\$ 78,878</u>	<u>\$ 70,526</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	570	1,100
Investment income (loss) - net	16,423	8,969
Administrative expenses	<u>(608)</u>	<u>(517)</u>
	16,385	9,552
Distributions to the Organization	<u>(3,600)</u>	<u>(1,200)</u>
Balance - end of year	<u>\$ 91,663</u>	<u>\$ 78,878</u>



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

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, 2011 the total outstanding balance of the note was \$308,000 (\$708,000 in 2010). 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 (.99% at June 30, 2011). 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 outstanding balance at June 30, 2011 and 2010 is less than the maximum outstanding balance allowed in any subsequent year until maturity. The note is secured by a deed of trust, capital campaign pledges and all other real and personal property of the Organization.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist entirely of contributions receivable on the capital campaign at June 30, 2011 and 2010.

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 \$7,665 in 2011 and \$3,469 in 2010.

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. The Organization's cash balances exceeded the FDIC coverage by approximately \$138,000 at June 30, 2011.

Contributions received from two donors totaling \$150,000 comprised 44% of total contributions received for the year ended June 30, 2011 (\$85,093 from two donors comprised 35% of total contributions in 2010). The balance of contributions receivable, exclusive of present value discount, from two major donors at June 30, 2011, totaled \$40,000 (\$95,000 from three major donors at June 30, 2010).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2011 AND 2010

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>2011</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>\$ -</u>	<u>\$ 91,663</u>	<u>\$ 91,663</u>

  

<u>2010</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>\$ -</u>	<u>\$ 78,878</u>	<u>\$ 78,878</u>

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