

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of W.O. Smith Nashville Community Music School, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
December 4, 2020

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 1,041,561	\$ 956,494
Contributions receivable	5,579	97,460
Prepaid expenses and other	-	1,566
Property and equipment, net of accumulated depreciation	5,009,951	5,158,000
Donated artwork	6,900	6,900
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>119,246</u>	<u>119,442</u>
TOTAL ASSETS	<u>\$ 6,183,237</u>	<u>\$ 6,339,862</u>
LIABILITIES		
Accounts payable	\$ 1,872	\$ 6,674
Deferred revenue	6,285	10,850
Long term debt	<u>59,735</u>	<u>-</u>
TOTAL LIABILITIES	<u>67,892</u>	<u>17,524</u>
NET ASSETS		
Net assets without donor restrictions	5,913,328	6,045,321
Net assets with donor restrictions	<u>202,017</u>	<u>277,017</u>
TOTAL NET ASSETS	<u>6,115,345</u>	<u>6,322,338</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,183,237</u>	<u>\$ 6,339,862</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 262,841	\$ -	\$ 262,841
Contributed services of instructors	508,464	-	508,464
Contributions - donated supplies and equipment	56,205	-	56,205
State, local and foundation grants	183,685	-	183,685
Program fees	4,167	-	4,167
Fundraising events	71,325	-	71,325
Fundraising events - in-kind goods and services	6,489	-	6,489
Less: donor direct benefits	(52,913)	-	(52,913)
Interest income	472	-	472
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	3,154	-	3,154
Other income:			
Rental income	38,941	-	38,941
Less: rental expenses	(5,070)	-	(5,070)
Net assets released from restriction	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,152,760</u>	 <u>(75,000)</u>	 <u>1,077,760</u>
 EXPENSES			
Program services:			
Music programs	1,078,907	-	1,078,907
Management and general	161,374	-	161,374
Fundraising	<u>44,472</u>	<u>-</u>	<u>44,472</u>
 TOTAL EXPENSES	 <u>1,284,753</u>	 <u>-</u>	 <u>1,284,753</u>
 CHANGE IN NET ASSETS	 (131,993)	 (75,000)	 (206,993)
 NET ASSETS - BEGINNING OF YEAR	 <u>6,045,321</u>	 <u>277,017</u>	 <u>6,322,338</u>
 NET ASSETS - END OF YEAR	 <u>\$ 5,913,328</u>	 <u>\$ 202,017</u>	 <u>\$ 6,115,345</u>

See accompanying notes to the financial statements.

2019

<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
\$ 183,747	\$ 202,017	\$ 385,764
600,049	-	600,049
24,173	-	24,173
152,327	-	152,327
5,551	-	5,551
117,292	-	117,292
11,871	-	11,871
(55,993)	-	(55,993)
758	-	758
5,902	-	5,902
57,826	-	57,826
(6,520)	-	(6,520)
<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
<u>1,171,983</u>	<u>127,017</u>	<u>1,299,000</u>
1,166,614	-	1,166,614
217,752	-	217,752
<u>40,662</u>	<u>-</u>	<u>40,662</u>
<u>1,425,028</u>	<u>-</u>	<u>1,425,028</u>
(253,045)	127,017	(126,028)
<u>6,298,366</u>	<u>150,000</u>	<u>6,448,366</u>
<u>\$ 6,045,321</u>	<u>\$ 277,017</u>	<u>\$ 6,322,338</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (206,993)	\$ (126,028)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	222,916	228,737
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(3,154)	(5,902)
Contribution to agency endowment fund held by the Community Foundation of Middle Tennessee	(400)	(400)
Noncash contribution of property and equipment	(37,950)	(9,364)
(Increase) decrease in:		
Contributions receivable	91,881	252,841
Prepaid expenses and other	1,566	273
Increase (decrease) in:		
Accounts payable	(4,802)	(6,080)
Deferred revenue	(4,565)	(6,955)
TOTAL ADJUSTMENTS	<u>265,492</u>	<u>453,150</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>58,499</u>	<u>327,122</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(36,917)	(42,221)
Distributions from agency endowment fund	<u>3,750</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(33,167)</u>	<u>(42,221)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	<u>59,735</u>	<u>-</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>59,735</u>	<u>-</u>
NET INCREASE IN CASH	85,067	284,901
CASH - BEGINNING OF YEAR	<u>956,494</u>	<u>671,593</u>
CASH - END OF YEAR	<u>\$ 1,041,561</u>	<u>\$ 956,494</u>

See accompanying notes to the financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020				
	Program Services - Music Programs	Management and General	Fundraising	Direct Benefits To Donors - Fundraising Events	Totals
Salaries	\$ 192,049	\$ 43,540	\$ 30,490	\$ -	\$ 266,079
Payroll taxes	14,962	3,392	2,375	-	20,729
Fringe benefits	<u>36,921</u>	<u>8,370</u>	<u>5,862</u>	<u>-</u>	<u>51,153</u>
TOTAL PAYROLL AND RELATED EXPENSES	243,932	55,302	38,727	-	337,961
Contributed services of instructors	508,464	-	-	-	508,464
Chorus programs	1,904	-	-	-	1,904
Cultural events	7,359	-	-	-	7,359
Depreciation	178,333	44,583	-	-	222,916
Dues and subscriptions	988	2,306	-	-	3,294
Gifts and flowers	2,658	-	-	-	2,658
Insurance	8,376	5,584	-	-	13,960
Internet website	1,931	241	241	-	2,413
Local transportation	2,326	-	-	-	2,326
Meals and entertainment	394	1,838	394	-	2,626
Miscellaneous	407	955	1,019	-	2,381
Musical supplies	8,883	-	-	-	8,883
Musical supplies - donated	18,255	-	-	-	18,255
Office and computer supplies	2,666	3,999	-	-	6,665
Postage and freight	1,352	94	94	-	1,540
Printing	2,987	1,124	1,124	-	5,235
Professional development	-	1,530	-	-	1,530
Professional services	-	17,848	-	-	17,848
Promotion and publicity	-	-	462	-	462
Repairs - instruments	2,180	-	-	-	2,180
Repairs and maintenance	32,323	8,619	2,155	-	43,097
Scholarships	8,995	-	-	-	8,995
Security system	1,930	1,286	-	-	3,216
Summer music camp	11,664	-	-	-	11,664
Telephone	4,092	767	256	-	5,115
Utilities	22,948	15,298	-	-	38,246
Volunteer background checks	3,560	-	-	-	3,560
Rental expenses	-	5,070	-	-	5,070
Special events:					
Beverages, kitchen items, etc.	-	-	-	46,424	46,424
Donated goods and services	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,489</u>	<u>6,489</u>
TOTAL FUNCTIONAL EXPENSES	1,078,907	166,444	44,472	52,913	1,342,736
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(52,913)	(52,913)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>(5,070)</u>	<u>-</u>	<u>-</u>	<u>(5,070)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 1,078,907</u>	<u>\$ 161,374</u>	<u>\$ 44,472</u>	<u>\$ -</u>	<u>\$ 1,284,753</u>

See accompanying notes to the financial statements.

2019

Program Services - Music Programs	Management and General	Fundraising	Direct Benefits To Donors -		Totals
			Fundraising Events		
\$ 156,461	\$ 68,546	\$ 26,540	\$ -	\$	251,547
11,745	5,145	1,992	-		18,882
<u>26,511</u>	<u>11,614</u>	<u>4,497</u>	<u>-</u>		<u>42,622</u>
194,717	85,305	33,029	-		313,051
600,049	-	-	-		600,049
1,285	-	-	-		1,285
1,837	-	-	-		1,837
182,990	45,747	-	-		228,737
1,289	3,009	-	-		4,298
2,167	-	-	-		2,167
8,743	5,828	-	-		14,571
1,559	195	195	-		1,949
3,427	-	-	-		3,427
1,626	7,587	1,626	-		10,839
1,662	16,119	1,387	-		19,168
6,170	-	-	-		6,170
14,809	-	-	-		14,809
2,225	3,338	-	-		5,563
569	190	190	-		949
3,017	1,190	1,190	-		5,397
457	2,587	-	-		3,044
-	17,971	-	-		17,971
-	-	269	-		269
3,642	-	-	-		3,642
37,887	10,103	2,526	-		50,516
8,161	-	-	-		8,161
1,880	1,254	-	-		3,134
54,843	-	-	-		54,843
4,003	751	250	-		5,004
24,866	16,578	-	-		41,444
2,734	-	-	-		2,734
-	6,520	-	-		6,520
-	-	-	43,922		43,922
<u>-</u>	<u>-</u>	<u>-</u>	<u>12,071</u>		<u>12,071</u>
1,166,614	224,272	40,662	55,993		1,487,541
-	-	-	(55,993)		(55,993)
<u>-</u>	<u>(6,520)</u>	<u>-</u>	<u>-</u>		<u>(6,520)</u>
<u>\$ 1,166,614</u>	<u>\$ 217,752</u>	<u>\$ 40,662</u>	<u>\$ -</u>	<u>\$</u>	<u>1,425,028</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 - GENERAL

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

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

Unconditional contributions of cash and other assets, including contributions receivable (unconditional promises to give), are recorded as revenue based upon any donor-imposed restrictions on the date of the donor's commitment or gift. Noncash contributions are recorded at the estimated fair value at the date of the gift.

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

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. For 2020 and 2019, no discount is recorded as all promises to give are due within 1 year.

An allowance for uncollectible contributions is provided based on historical experience and management's estimates. Pledges determined to be uncollectible are charged off against the allowance in the period of determination. Management considers all receivables fully collectible as of June 30, 2020 and 2019.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Agency Endowment Fund

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

Donated 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 in 2020 and 2019, 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 227-member (207-member in 2019) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Supporting Services

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

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

Allocation of Functional Expenses

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

Income Taxes

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement

On July 1, 2019, the Organization adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent amendments to the ASU (collectively, “ASC 606”), which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. The Organization adopted ASC 606 using the modified retrospective method. The Organization performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope for purposes of ASC 606 include certain grant revenues and most revenues associated with performance of special events. The Organization recognizes revenues that fall within the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in a material change to the accounting for any of the revenue streams; as such, the Organization did not record a cumulative effect adjustment.

On July 1, 2019, the Organization adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2020 and December 4, 2020, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 3 - LIQUIDITY

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash	\$ 1,041,561	\$ 956,494
Contributions receivable	<u>5,579</u>	<u>97,460</u>
Total financial assets	1,047,140	1,053,954
Less amounts not available to be used within one year:		
Restricted by the donor with time or purpose restrictions	<u>202,017</u>	<u>277,017</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 845,123</u>	<u>\$ 776,937</u>

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,649,485	6,649,485
Vehicles	50,948	50,948
Musical equipment	598,129	527,711
Office equipment and furniture	<u>183,157</u>	<u>178,708</u>
	7,801,198	7,726,331
Less: accumulated depreciation	<u>(2,791,247)</u>	<u>(2,568,331)</u>
	<u>\$ 5,009,951</u>	<u>\$ 5,158,000</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 5 - AGENCY ENDOWMENT FUND

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

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

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year	<u>\$ 119,442</u>	<u>\$ 113,140</u>
Contributions to the fund	400	400
Change in value of beneficial interest in agency endowment fund:		
Investment income - net	3,930	6,629
Administrative expenses	<u>(776)</u>	<u>(727)</u>
	3,154	5,902
Distributions to the Organization	<u>(3,750)</u>	<u>-</u>
Balance - end of year	<u>\$ 119,246</u>	<u>\$ 119,442</u>

NOTE 6 - LONG TERM DEBT

The Organization entered into a Paycheck Protection Program loan of \$59,735 in May 2020, which is fully forgivable if at least 60% of the funds are used for payroll costs, and if certain other terms are met. As of the date of these financial statements were available to be issued, the Organization has not yet applied for forgiveness of the loan, and the amount of loan forgiveness has not been determined. If the loan is fully forgiven, the Organization will not be responsible for any payments, and the balance of the loan will be reclassified to other income on the statements of activities at the time forgiveness is granted. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid on or before the maturity date of the loan, including accrued interest. The loan bears interest at a fixed rate of 1% and matures in May 2022.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Purpose-restricted contributions for special projects	\$ 202,017	\$ 202,017
Time-restricted foundation grants	<u>-</u>	<u>75,000</u>
	<u>\$ 202,017</u>	<u>\$ 277,017</u>

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a Section 401(k) defined contribution plan for the benefit of eligible employees. The plan provides for the Organization to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by the Organization to the plan amounted to \$6,750 in 2020 and \$9,962 in 2019.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

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

Contributions received from two donors totaled approximately \$187,000 comprising 42% of total contributions and grants received for the year ended June 30, 2020 (\$238,840 from two donors comprised 42% of total contributions in 2019).

Contributions receivable from two donors totaled approximately \$97,000 at June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 10 - 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>2020</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 119,246</u>	<u>\$ -</u>	<u>\$ 119,246</u>
<u>2019</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 119,442</u>	<u>\$ -</u>	<u>\$ 119,442</u>

NOTE 11 - COVID 19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, management is continuing to evaluate the evolving situation and will implement appropriate countermeasures as needed.