

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014 AND 2013

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014 AND 2013

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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, 2014 and 2013, 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 of material misstatement.

An audit involves performing procedures to obtain 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, 2014 and 2013, 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 10, 2014

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 248,402	\$ 276,991
Contributions receivable - operating	-	5,300
Prepaid expenses and other	19,597	18,422
Property and equipment, net of accumulated depreciation	5,958,748	6,136,355
Donated artwork	5,900	5,000
Capital campaign assets:		
Contributions receivable, net	2,300	7,810
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>111,393</u>	<u>97,684</u>
TOTAL ASSETS	<u>\$ 6,346,340</u>	<u>\$ 6,547,562</u>
LIABILITIES		
Accounts payable	\$ 4,938	\$ 8,160
Deferred revenue	<u>10,360</u>	<u>8,900</u>
TOTAL LIABILITIES	<u>15,298</u>	<u>17,060</u>
NET ASSETS		
Unrestricted:		
Undesignated	258,601	273,353
Designated for property and equipment	5,958,748	6,136,355
Designated for beneficial interest in agency endowment fund	<u>111,393</u>	<u>97,684</u>
Total Unrestricted	6,328,742	6,507,392
Temporarily Restricted	<u>2,300</u>	<u>23,110</u>
TOTAL NET ASSETS	<u>6,331,042</u>	<u>6,530,502</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,346,340</u>	<u>\$ 6,547,562</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, 2014 AND 2013

	2014		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 161,776	\$ -	\$ 161,776
Contributed services of instructors	606,890	-	606,890
Contributions - donated supplies and equipment	24,658	-	24,658
State, local and foundation grants	180,250	-	180,250
Program fees	5,570	-	5,570
Fundraising events	131,535	-	131,535
Fundraising events - in-kind goods and services	22,101	-	22,101
Less: donor direct benefits	(57,596)	-	(57,596)
Interest income	213	-	213
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	15,209	-	15,209
Other income:			
Rental income	47,765	-	47,765
Less: rental expenses	(8,680)	-	(8,680)
Miscellaneous income	1,607		1,607
Temporarily restricted net assets released from restriction	<u>20,810</u>	<u>(20,810)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,152,108</u>	<u>(20,810)</u>	<u>1,131,298</u>
EXPENSES			
Program services:			
Music programs	1,111,168	-	1,111,168
Management and general	179,841	-	179,841
Fundraising	<u>39,749</u>	<u>-</u>	<u>39,749</u>
TOTAL EXPENSES	<u>1,330,758</u>	<u>-</u>	<u>1,330,758</u>
CHANGE IN NET ASSETS	(178,650)	(20,810)	(199,460)
NET ASSETS - BEGINNING OF YEAR	<u>6,507,392</u>	<u>23,110</u>	<u>6,530,502</u>
NET ASSETS - END OF YEAR	<u>\$ 6,328,742</u>	<u>\$ 2,300</u>	<u>\$ 6,331,042</u>

See accompanying notes to the financial statements.

2013

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 345,199	\$ 3,396	\$ 348,595
596,323	-	596,323
39,411	-	39,411
123,450	65,300	188,750
6,353	-	6,353
102,845	-	102,845
14,300	-	14,300
(9,850)	-	(9,850)
41	-	41
12,426	-	12,426
54,192	-	54,192
(11,510)	-	(11,510)
<u>72,900</u>	<u>(72,900)</u>	<u>-</u>
<u>1,346,080</u>	<u>(4,204)</u>	<u>1,341,876</u>
1,156,679	-	1,156,679
209,305	-	209,305
<u>78,222</u>	<u>-</u>	<u>78,222</u>
<u>1,444,206</u>	<u>-</u>	<u>1,444,206</u>
(98,126)	(4,204)	(102,330)
<u>6,605,518</u>	<u>27,314</u>	<u>6,632,832</u>
<u>\$ 6,507,392</u>	<u>\$ 23,110</u>	<u>\$ 6,530,502</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (199,460)	\$ (102,330)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	224,449	242,151
Loss on disposition of assets	91	-
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(15,209)	(12,426)
Contributions for capital campaign, net of discounts and other losses	3,510	(3,396)
Noncash contribution of property and equipment	(13,650)	(4,280)
Noncash contribution of artwork	(900)	(5,000)
(Increase) decrease in:		
Contributions receivable - operating	5,300	(250)
Prepaid expenses and other	(1,175)	(12,857)
Increase (decrease) in:		
Accounts payable	(3,222)	(14,914)
Deferred revenue	1,460	2,485
TOTAL ADJUSTMENTS	<u>200,654</u>	<u>191,513</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,194</u>	<u>89,183</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(34,313)	(25,292)
Proceeds from sale of property and equipment	1,030	-
Distributions from agency endowment fund	1,500	2,500
NET CASH USED IN INVESTING ACTIVITIES	<u>(31,783)</u>	<u>(22,792)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	-	(308,000)
Collections on pledges for capital campaign	2,000	12,900
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>2,000</u>	<u>(295,100)</u>
NET DECREASE IN CASH	(28,589)	(228,709)
CASH - BEGINNING OF YEAR	<u>276,991</u>	<u>505,700</u>
CASH - END OF YEAR	<u>\$ 248,402</u>	<u>\$ 276,991</u>
OTHER CASH DISCLOSURES:		
Cash paid for interest	<u>\$ -</u>	<u>\$ 2,365</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, 2014 AND 2013

	2014				
	<u>Program Services</u>	<u>Management and</u>		<u>Direct Benefits</u>	
	<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>To Donors -</u> <u>Fundraising Events</u>	<u>Totals</u>
Salaries	\$ 131,964	\$ 61,809	\$ 26,734	\$ -	\$ 220,507
Payroll taxes	10,476	4,907	2,122	-	17,505
Fringe benefits	<u>14,064</u>	<u>6,587</u>	<u>2,849</u>	<u>-</u>	<u>23,500</u>
TOTAL PAYROLL AND RELATED EXPENSES	156,504	73,303	31,705	-	261,512
Contributed services of instructors	606,890	-	-	-	606,890
Chorus programs	1,287	-	-	-	1,287
Cultural events	2,350	-	-	-	2,350
Depreciation	179,559	44,890	-	-	224,449
Donated gifts to program participants	2,620	-	-	-	2,620
Dues and subscriptions	771	1,798	-	-	2,569
Gifts and flowers	121	-	-	-	121
Insurance	11,521	7,681	-	-	19,202
Interest	-	-	-	-	-
Internet website	227	28	28	-	283
Local transportation	3,291	-	-	-	3,291
Meals and entertainment	461	2,153	461	-	3,075
Miscellaneous	4,705	867	1,063	-	6,635
Musical supplies	3,167	-	-	-	3,167
Musical supplies - donated	7,488	-	-	-	7,488
Office and computer supplies	1,611	2,417	-	-	4,028
Postage and freight	1,508	728	364	-	2,600
Printing	3,508	1,169	1,169	-	5,846
Professional development	600	-	-	-	600
Professional services	-	15,790	-	-	15,790
Promotion and publicity	-	-	39	-	39
Repairs - instruments	5,446	-	-	-	5,446
Repairs and maintenance	35,835	9,556	2,389	-	47,780
Scholarships	1,500	-	-	-	1,500
Security system	1,611	1,074	-	-	2,685
Summer music camp	42,809	-	-	-	42,809
Telephone	7,245	1,358	453	-	9,056
Utilities	25,544	17,029	-	-	42,573
Volunteer background checks	2,989	-	-	-	2,989
Rental expenses	-	-	8,680	-	8,680
Special events:					
Beverages, kitchen items, etc.	-	-	2,078	35,495	37,573
Donated goods and services	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,101</u>	<u>22,101</u>
TOTAL FUNCTIONAL EXPENSES	1,111,168	179,841	48,429	57,596	1,397,034
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(57,596)	(57,596)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>-</u>	<u>(8,680)</u>	<u>-</u>	<u>(8,680)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 1,111,168</u>	<u>\$ 179,841</u>	<u>\$ 39,749</u>	<u>\$ -</u>	<u>\$ 1,330,758</u>

See accompanying notes to the financial statements.

2013

<u>Program Services</u>		Management and		Direct Benefits To Donors -	
<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>Fundraising Events</u>	<u>Totals</u>	
\$ 145,688	\$ 73,968	\$ 31,600	\$ -	\$ 251,256	
11,473	5,825	2,489	-	19,787	
<u>12,125</u>	<u>6,156</u>	<u>2,630</u>	<u>-</u>	<u>20,911</u>	
169,286	85,949	36,719	-	291,954	
596,323	-	-	-	596,323	
976	-	-	-	976	
379	-	-	-	379	
193,721	48,430	-	-	242,151	
17,555	-	-	-	17,555	
482	1,124	-	-	1,606	
1,082	-	-	-	1,082	
11,611	7,741	-	-	19,352	
1,892	473	-	-	2,365	
363	45	45	-	453	
6,049	-	-	-	6,049	
1,071	4,997	1,071	-	7,139	
885	1,283	1,382	-	3,550	
2,906	-	-	-	2,906	
12,576	-	-	-	12,576	
2,070	3,106	-	-	5,176	
1,775	610	305	-	2,690	
2,876	2,629	2,629	-	8,134	
2,283	7,905	-	-	10,188	
-	14,919	-	-	14,919	
-	-	499	-	499	
4,345	-	-	-	4,345	
37,663	10,044	2,511	-	50,218	
2,665	-	-	-	2,665	
1,808	1,206	-	-	3,014	
45,751	-	-	-	45,751	
7,520	1,410	470	-	9,400	
26,151	17,434	-	-	43,585	
4,615	-	-	-	4,615	
-	-	11,510	-	11,510	
-	-	28,141	-	28,141	
-	-	4,450	9,850	14,300	
1,156,679	209,305	89,732	9,850	1,465,566	
-	-	-	(9,850)	(9,850)	
-	-	(11,510)	-	(11,510)	
<u>\$ 1,156,679</u>	<u>\$ 209,305</u>	<u>\$ 78,222</u>	<u>\$ -</u>	<u>\$ 1,444,206</u>	

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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 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, 2014 and 2013.

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 2 - 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. 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. Management considers all receivables fully collectible as of June 30, 2014 and 2013.

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, 2014 AND 2013

NOTE 2 - 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 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

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 700 students (700 students in 2013), 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 215 member (230 member in 2013) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

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.

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 2011 are no longer open to examination.

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, 2014 AND 2013

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. Due to the nature of the underlying investments, method of allocation, and liquidation provisions of the fund, the beneficial interest in the agency endowment fund is classified within Level 3 of the valuation hierarchy.

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, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2014 and December 10, 2014, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Contributions receivable:		
Due in less than one year	\$ 2,300	\$ 13,110
One to five years	<u>-</u>	<u>-</u>
Net contributions receivable	<u>\$ 2,300</u>	<u>\$ 13,110</u>
	<u>2014</u>	<u>2013</u>
Operating	\$ -	\$ 5,300
Capital campaign	<u>2,300</u>	<u>7,810</u>
	<u>\$ 2,300</u>	<u>\$ 13,110</u>

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,598,961	6,588,976
Vehicles	50,948	50,948
Musical equipment	314,648	311,765
Office equipment and furniture	<u>143,882</u>	<u>180,102</u>
	7,427,918	7,451,270
Less: accumulated depreciation	<u>(1,469,170)</u>	<u>(1,314,915)</u>
	<u>\$ 5,958,748</u>	<u>\$ 6,136,355</u>

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

NOTE 5 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Balance - beginning of year	<u>\$ 97,684</u>	<u>\$ 87,758</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	985	1,450
Investment income (loss) - net	15,045	11,706
Administrative expenses	<u>(821)</u>	<u>(730)</u>
	15,209	12,426
Distributions to the Organization	<u>(1,500)</u>	<u>(2,500)</u>
Balance - end of year	<u>\$ 111,393</u>	<u>\$ 97,684</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Capital campaign contributions receivable	\$ 2,300	\$ 7,810
Purpose restricted foundation grants	<u>-</u>	<u>15,300</u>
	<u>\$ 2,300</u>	<u>\$ 23,110</u>

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 \$6,823 in 2014 and \$7,059 in 2013. In August 2014, the Organization discontinued the 403(b) defined contribution plan and established a new 401(k) defined contribution plan.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2014 AND 2013

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. At times, the Organization's cash balances exceed statutory limits.

Contributions received from three donors totaled approximately \$141,000 comprising 39% of total contributions and grants received for the year ended June 30, 2014 (\$166,000 from two donors comprised 29% of total contributions in 2013).

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>2014</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>\$ 111,393</u>	<u>\$ 111,393</u>
<u>2013</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>\$ 97,684</u>	<u>\$ 97,684</u>

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 5.