

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 AND 2012

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
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JUNE 30, 2013 AND 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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 3, 2013

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 276,991	\$ 505,700
Contributions receivable - operating	5,300	5,050
Prepaid expenses and other	18,422	5,565
Property and equipment, net of accumulated depreciation	6,136,355	6,348,934
Donated artwork	5,000	-
Capital campaign assets:		
Contributions receivable, net	7,810	17,314
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>97,684</u>	<u>87,758</u>
TOTAL ASSETS	<u>\$ 6,547,562</u>	<u>\$ 6,970,321</u>
LIABILITIES		
Accounts payable	\$ 8,160	\$ 23,074
Deferred revenue	8,900	6,415
Note payable	<u>-</u>	<u>308,000</u>
TOTAL LIABILITIES	<u>17,060</u>	<u>337,489</u>
NET ASSETS		
Unrestricted:		
Undesignated	273,353	476,826
Designated for property and equipment, net of related debt	6,136,355	6,040,934
Designated for beneficial interest in agency endowment fund	<u>97,684</u>	<u>87,758</u>
Total Unrestricted	6,507,392	6,605,518
Temporarily Restricted	<u>23,110</u>	<u>27,314</u>
TOTAL NET ASSETS	<u>6,530,502</u>	<u>6,632,832</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,547,562</u>	<u>\$ 6,970,321</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, 2013 AND 2012

	2013		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 345,199	\$ 3,396	\$ 348,595
Contributed services of instructors	596,323	-	596,323
Contributions - donated supplies and equipment	39,411	-	39,411
State, local and foundation grants	123,450	65,300	188,750
Program fees	6,353	-	6,353
Fundraising events	102,845	-	102,845
Fundraising events - in-kind goods and services	14,300	-	14,300
Less: donor direct benefits	(9,850)	-	(9,850)
Interest income	41	-	41
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	12,426	-	12,426
Other income:			
Rental income	54,192	-	54,192
Less: rental expenses	(11,510)	-	(11,510)
Temporarily restricted net assets released from restriction	<u>72,900</u>	<u>(72,900)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,346,080</u>	<u>(4,204)</u>	<u>1,341,876</u>
EXPENSES			
Program services:			
Music programs	1,156,679	-	1,156,679
Management and general	209,305	-	209,305
Fundraising	<u>78,222</u>	<u>-</u>	<u>78,222</u>
TOTAL EXPENSES	<u>1,444,206</u>	<u>-</u>	<u>1,444,206</u>
CHANGE IN NET ASSETS	(98,126)	(4,204)	(102,330)
NET ASSETS - BEGINNING OF YEAR	<u>6,605,518</u>	<u>27,314</u>	<u>6,632,832</u>
NET ASSETS - END OF YEAR	<u>\$ 6,507,392</u>	<u>\$ 23,110</u>	<u>\$ 6,530,502</u>

See accompanying notes to the financial statements.

2012

UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$ 369,554	\$ 73,160	\$ 442,714
533,533	-	533,533
58,226	-	58,226
116,850	-	116,850
7,773	-	7,773
55,385	-	55,385
16,950	-	16,950
(12,500)	-	(12,500)
46	-	46
(1,405)	-	(1,405)
57,285	-	57,285
(10,320)	-	(10,320)
62,965	(62,965)	-
1,254,342	10,195	1,264,537
1,088,686	-	1,088,686
194,741	-	194,741
57,962	-	57,962
1,341,389	-	1,341,389
(87,047)	10,195	(76,852)
6,692,565	17,119	6,709,684
\$ 6,605,518	\$ 27,314	\$ 6,632,832

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (102,330)	\$ (76,852)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	242,151	234,377
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(12,426)	1,405
Contributions for capital campaign, net of discounts and other losses	(3,396)	(195)
Noncash contribution of property and equipment	(4,280)	(21,750)
Noncash contribution of artwork	(5,000)	-
(Increase) decrease in:		
Contributions receivable - operating	(250)	(5,050)
Prepaid expenses and other	(12,857)	(3,307)
Increase (decrease) in:		
Accounts payable	(14,914)	19,711
Deferred revenue	<u>2,485</u>	<u>6,415</u>
TOTAL ADJUSTMENTS	<u>191,513</u>	<u>231,606</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>89,183</u>	<u>154,754</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,292)	(80,140)
Distributions from agency endowment fund	<u>2,500</u>	<u>2,500</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(22,792)</u>	<u>(77,640)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	(308,000)	-
Collections on pledges for capital campaign	<u>12,900</u>	<u>-</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(295,100)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(228,709)	77,114
CASH - BEGINNING OF YEAR	<u>505,700</u>	<u>428,586</u>
CASH - END OF YEAR	<u>\$ 276,991</u>	<u>\$ 505,700</u>
OTHER CASH DISCLOSURES:		
Cash paid for interest	<u>\$ 2,365</u>	<u>\$ 3,419</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, 2013 AND 2012

	2013				
	<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	\$ 145,688	\$ 73,968	\$ 31,600	\$ -	\$ 251,256
Payroll taxes	11,473	5,825	2,489	-	19,787
Fringe benefits	<u>12,125</u>	<u>6,156</u>	<u>2,630</u>	<u>-</u>	<u>20,911</u>
TOTAL PAYROLL AND RELATED EXPENSES	169,286	85,949	36,719	-	291,954
Contributed services of instructors	596,323	-	-	-	596,323
Chorus programs	976	-	-	-	976
Cultural events	379	-	-	-	379
Depreciation	193,721	48,430	-	-	242,151
Donated gifts to program participants	17,555	-	-	-	17,555
Dues and subscriptions	482	1,124	-	-	1,606
Gifts and flowers	1,082	-	-	-	1,082
Insurance	11,611	7,741	-	-	19,352
Interest	1,892	473	-	-	2,365
Internet website	363	45	45	-	453
Local transportation	6,049	-	-	-	6,049
Meals and entertainment	1,071	4,997	1,071	-	7,139
Miscellaneous	885	1,283	1,382	-	3,550
Musical supplies	2,906	-	-	-	2,906
Musical supplies - donated	12,576	-	-	-	12,576
Office and computer supplies	2,070	3,106	-	-	5,176
Postage and freight	1,775	610	305	-	2,690
Printing	2,876	2,629	2,629	-	8,134
Professional development	2,283	7,905	-	-	10,188
Professional services	-	14,919	-	-	14,919
Promotion and publicity	-	-	499	-	499
Repairs - instruments	4,345	-	-	-	4,345
Repairs and maintenance	37,663	10,044	2,511	-	50,218
Scholarships	2,665	-	-	-	2,665
Security system	1,808	1,206	-	-	3,014
Summer music camp	45,751	-	-	-	45,751
Telephone	7,520	1,410	470	-	9,400
Utilities	26,151	17,434	-	-	43,585
Volunteer background checks	4,615	-	-	-	4,615
Rental expenses	-	-	11,510	-	11,510
Special events:					
Beverages, kitchen items, etc.	-	-	28,141	-	28,141
Donated goods and services	<u>-</u>	<u>-</u>	<u>4,450</u>	<u>9,850</u>	<u>14,300</u>
TOTAL FUNCTIONAL EXPENSES	1,156,679	209,305	89,732	9,850	1,465,566
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(9,850)	(9,850)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>-</u>	<u>(11,510)</u>	<u>-</u>	<u>(11,510)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 1,156,679</u>	<u>\$ 209,305</u>	<u>\$ 78,222</u>	<u>\$ -</u>	<u>\$ 1,444,206</u>

See accompanying notes to the financial statements.

2012

Program Services		Management and		Direct Benefits					
Music Programs		General		To Donors -					
				Fundraising	Fundraising Events				
				Totals					
\$	144,289	\$	69,939	\$	30,249	\$	-	\$	244,477
	11,307		5,481		2,371		-		19,159
	12,838		6,223		2,692		-		21,753
	168,434		81,643		35,312		-		285,389
	533,533		-		-		-		533,533
	2,177		-		-		-		2,177
	1,097		-		-		-		1,097
	187,502		46,875		-		-		234,377
	9,814		-		-		-		9,814
	490		1,143		-		-		1,633
	1,986		-		-		-		1,986
	11,834		7,889		-		-		19,723
	2,735		684		-		-		3,419
	539		68		68		-		675
	2,536		-		-		-		2,536
	1,103		5,147		1,103		-		7,353
	966		1,996		1,002		-		3,964
	10,975		-		-		-		10,975
	21,262		-		-		-		21,262
	2,186		3,278		-		-		5,464
	2,905		895		448		-		4,248
	2,806		2,618		2,618		-		8,042
	-		3,238		-		-		3,238
	-		14,760		-		-		14,760
	-		-		450		-		450
	2,715		-		-		-		2,715
	29,770		7,939		1,985		-		39,694
	-		-		-		-		-
	1,757		1,172		-		-		2,929
	53,026		-		-		-		53,026
	6,654		1,248		416		-		8,318
	21,221		14,148		-		-		35,369
	8,663		-		-		-		8,663
	-		-		10,320		-		10,320
	-		-		10,110		-		10,110
	-		-		4,450		12,500		16,950
	1,088,686		194,741		68,282		12,500		1,364,209
	-		-		-		(12,500)		(12,500)
	-		-		(10,320)		-		(10,320)
\$	1,088,686	\$	194,741	\$	57,962	\$	-	\$	1,341,389

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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, 2013 and 2012.

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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.

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, 2013 AND 2012

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 (800 students in 2012), 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 230 member (230 member in 2012) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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 2010 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, 2013 AND 2012

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, 2013 AND 2012

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, 2013 and December 3, 2013, 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>2013</u>	<u>2012</u>
Contributions receivable:		
Due in less than one year	\$ 13,110	\$ 55,880
One to five years	<u>-</u>	<u>30,880</u>
	13,110	86,760
Less: discounts to net present value	-	(3,396)
Less: allowance for doubtful accounts	<u>-</u>	<u>(61,000)</u>
Net contributions receivable	<u>\$ 13,110</u>	<u>\$ 22,364</u>
	<u>2013</u>	<u>2012</u>
Operating	\$ 5,300	\$ 5,050
Capital campaign	<u>7,810</u>	<u>17,314</u>
	<u>\$ 13,110</u>	<u>\$ 22,364</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, 2013 AND 2012

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,588,976	6,584,809
Vehicles	50,948	50,948
Musical equipment	311,765	292,776
Office equipment and furniture	<u>180,102</u>	<u>173,686</u>
	7,451,270	7,421,698
Less: accumulated depreciation	<u>(1,314,915)</u>	<u>(1,072,764)</u>
	<u>\$ 6,136,355</u>	<u>\$ 6,348,934</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, 2013 AND 2012

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, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Balance - beginning of year	<u>\$ 87,758</u>	<u>\$ 91,663</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	1,450	830
Investment income (loss) - net	11,706	(1,526)
Administrative expenses	<u>(730)</u>	<u>(709)</u>
	12,426	(1,405)
Distributions to the Organization	<u>(2,500)</u>	<u>(2,500)</u>
Balance - end of year	<u>\$ 97,684</u>	<u>\$ 87,758</u>

NOTE 6 - NOTE PAYABLE

On August 29, 2007, the Organization entered into a maximum \$4 million construction loan agreement with a financial institution. Interest was due monthly and charged at the LIBOR rate plus 80 basis points. The agreement required 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 agreement required payment of all outstanding principal and unpaid interest on March 28, 2013, at which time it was paid in full. As of June 30, 2012, the total outstanding balance of the note was \$308,000. The note was secured by a deed of trust, capital campaign pledges and all other real and personal property of the Organization.

In April 2013, the Organization entered into a new line of credit arrangement with a bank allowing for maximum borrowings of \$100,000 and bearing interest at the bank's prime rate minus 1.5%, through April 2014. No amounts were outstanding under the line of credit at June 30, 2013.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2013</u>	<u>2012</u>
Capital campaign contributions receivable	\$ 7,810	\$ 17,314
Purpose restricted foundation grants	<u>15,300</u>	<u>10,000</u>
	<u>\$ 23,110</u>	<u>\$ 27,314</u>

NOTE 8 - 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 \$7,059 in 2013 and \$9,525 in 2012.

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.

Contributions received from one donor totaled approximately \$106,000 comprising 30% of total contributions received for the year ended June 30, 2013 (\$50,000 from one donor comprised 11% of total contributions in 2012).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013 AND 2012

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>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>

<u>2012</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>\$ 87,758</u>	<u>\$ 87,758</u>

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