

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008 AND 2007

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of W. O. Smith Nashville Community Music School, Inc. (the "Organization") as of June 30, 2008 and 2007, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W. O. Smith Nashville Community Music School, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
January 6, 2009

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 262,093	\$ 788,732
Contributions receivable - operating - Note 2	-	29,225
Prepaid expenses and donated office supplies - Note 9	10,637	25,454
Property and equipment, net of accumulated depreciation - Note 3	6,924,829	1,516,680
Capital campaign assets:		
Cash and cash equivalents	-	1,090,791
Contributions receivable, net - Note 2	760,965	1,338,232
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	<u>91,981</u>	<u>97,345</u>
TOTAL ASSETS	<u>\$ 8,050,505</u>	<u>\$ 4,886,459</u>
LIABILITIES		
Accounts payable	\$ 254,477	\$ 93,333
Note payable - Note 5	<u>960,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,214,477</u>	<u>93,333</u>
NET ASSETS		
Unrestricted:		
Undesignated	18,253	417,656
Designated for property and equipment	5,964,829	1,516,680
Designated for beneficial interest in agency endowment fund - Note 4	<u>91,981</u>	<u>97,345</u>
Total Unrestricted	6,075,063	2,031,681
Temporarily Restricted - Note 6	<u>760,965</u>	<u>2,761,445</u>
TOTAL NET ASSETS	<u>6,836,028</u>	<u>4,793,126</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,050,505</u>	<u>\$ 4,886,459</u>

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

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 127,689	\$ 2,141,694	\$ 2,269,383
Contributions - donated equipment and other - Note 9	-	-	-
State, local and foundation grants	96,806	-	96,806
Program fees	4,310	-	4,310
Fundraising events	96,486	-	96,486
Fundraising events - in-kind goods and services	17,275	-	17,275
Less: donor direct benefits	(10,649)	-	(10,649)
Contributed services of instructors - Note 1	241,530	-	241,530
Investment income	31,699	-	31,699
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	(3,114)	-	(3,114)
Loss on doubtful temporarily restricted contributions receivable	-	(85,000)	(85,000)
Loss on securities donated in settlement of contributions receivable - Note 2	-	(1,241)	(1,241)
Temporarily restricted net assets released from restriction	4,055,933	(4,055,933)	-
TOTAL SUPPORT AND REVENUE	4,657,965	(2,000,480)	2,657,485
EXPENSES			
Program services:			
Music programs	460,342	-	460,342
Management and general	86,636	-	86,636
Fundraising	39,882	-	39,882
Fundraising - capital campaign	27,723	-	27,723
TOTAL EXPENSES	614,583	-	614,583
CHANGE IN NET ASSETS	4,043,382	(2,000,480)	2,042,902
NET ASSETS - BEGINNING OF YEAR	2,031,681	2,761,445	4,793,126
NET ASSETS - END OF YEAR	\$ 6,075,063	\$ 760,965	\$ 6,836,028

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

2007

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 135,054	\$ 646,433	\$ 781,487
109,000	-	109,000
78,198	-	78,198
4,415	-	4,415
60,444	-	60,444
17,575	-	17,575
(7,525)	-	(7,525)
311,880	-	311,880
28,901	-	28,901
13,798	-	13,798
-	-	-
-	(7,529)	(7,529)
<u>327,569</u>	<u>(327,569)</u>	<u>-</u>
<u>1,079,309</u>	<u>311,335</u>	<u>1,390,644</u>
560,001	-	560,001
81,366	-	81,366
65,793	-	65,793
<u>32,240</u>	<u>-</u>	<u>32,240</u>
<u>739,400</u>	<u>-</u>	<u>739,400</u>
339,909	311,335	651,244
<u>1,691,772</u>	<u>2,450,110</u>	<u>4,141,882</u>
<u>\$ 2,031,681</u>	<u>\$ 2,761,445</u>	<u>\$ 4,793,126</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,042,902	\$ 651,244
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,394	18,890
Non-cash contribution of equipment and office supplies - Note 9	-	(42,500)
Change in value of beneficial interest in agency endowment fund held by Community Foundation of Middle Tennessee - Note 4	3,114	(13,798)
Loss on securities donated in settlement of contributions receivable - Note 2	1,241	7,529
(Increase) decrease in:		
Contributions receivable - operating	29,225	20,942
Prepaid expenses	14,817	326
Increase (decrease) in:		
Accounts payable	(6,875)	12,564
Contributions for capital campaign, net of discounts and other losses	(2,056,694)	(646,433)
TOTAL ADJUSTMENTS	(1,993,778)	(642,480)
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,124	8,764
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,180,755)	(230,870)
Distributions from agency endowment fund - Note 4	2,250	3,000
NET CASH USED IN INVESTING ACTIVITIES	(5,178,505)	(227,870)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under line of credit	960,000	-
Payment of prior year accounts payable for construction in progress	(80,769)	(17,293)
Collections on pledges for capital campaign	2,632,720	1,240,888
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,511,951	1,223,595
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,617,430)	1,004,489
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,879,523	875,034
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 262,093</u>	<u>\$ 1,879,523</u>
OTHER CASH DISCLOSURES:		
Cash paid for interest	<u>\$ 205</u>	<u>\$ -</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable for construction in progress	<u>\$ 248,788</u>	<u>\$ 80,769</u>

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

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

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008					
	<u>Program Services</u>	<u>Management and</u>		<u>Direct Benefits</u>	<u>Fundraising -</u>	
	<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>To Donors -</u>	<u>Capital</u>	<u>Totals</u>
				<u>Fundraising Events</u>	<u>Campaign</u>	
Salaries	\$ 77,078	\$ 39,383	\$ 15,416	\$ -	\$ 24,436	\$ 156,313
Payroll taxes	5,887	3,008	1,177	-	1,866	11,938
Pension expense - Note 4	<u>3,712</u>	<u>1,897</u>	<u>742</u>	<u>-</u>	<u>1,177</u>	<u>7,528</u>
TOTAL PAYROLL AND RELATED EXPENSES	86,677	44,288	17,335	-	27,479	175,779
Contributed services of instructors - Note 1	241,530	-	-	-	-	241,530
Chorus programs	3,317	-	-	-	-	3,317
Cultural events	714	-	-	-	-	714
Donated gifts to program participants - Note 8	-	-	-	-	-	-
Dues and subscriptions	727	1,697	-	-	-	2,424
Gifts and flowers	558	558	-	-	-	1,116
Insurance	8,086	5,391	-	-	-	13,477
Internet website	3,495	388	-	-	-	3,883
Meals and entertainment	244	1,707	244	-	244	2,439
Miscellaneous	4,618	3,090	343	-	-	8,051
Musical supplies	2,895	-	-	-	-	2,895
Office and computer supplies	3,242	4,864	-	-	-	8,106
Postage and freight	1,283	1,033	517	-	-	2,833
Printing	-	1,854	1,854	-	-	3,708
Professional development	-	-	75	-	-	75
Professional services	-	12,215	-	-	-	12,215
Promotion and publicity	-	-	3,983	-	-	3,983
Repairs and maintenance	6,395	1,705	426	-	-	8,526
Scholarships	2,250	-	-	-	-	2,250
Security system	581	387	-	-	-	968
Summer music camp	28,533	-	-	-	-	28,533
Telephone	2,551	478	159	-	-	3,188
Utilities	4,052	2,702	-	-	-	6,754
Special events:						
Beverages, kitchen items, etc.	-	-	6,971	-	-	6,971
Donated goods and services	-	-	7,975	10,649	-	18,624
Groundbreaking event	-	-	-	-	-	-
Direct costs and expenses related to facility under renovation - Note 10	<u>41,479</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,479</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	443,227	82,357	39,882	10,649	27,723	603,838
Depreciation of property and equipment	<u>17,115</u>	<u>4,279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,394</u>
TOTAL FUNCTIONAL EXPENSES	460,342	86,636	39,882	10,649	27,723	625,232
Less expenses netted against revenues on the statement of activities - direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,649)</u>	<u>-</u>	<u>(10,649)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 460,342</u>	<u>\$ 86,636</u>	<u>\$ 39,882</u>	<u>\$ -</u>	<u>\$ 27,723</u>	<u>\$ 614,583</u>

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

2007

Program Services	Management and		Direct Benefits	Fundraising -	
Music Programs	General	Fundraising	To Donors -	Capital	Totals
			Fundraising Events	Campaign	
\$ 68,925	\$ 40,470	\$ 16,200	\$ -	\$ 27,255	\$ 152,850
5,273	3,096	1,239	-	2,085	11,693
<u>3,158</u>	<u>1,862</u>	<u>787</u>	<u>-</u>	<u>1,258</u>	<u>7,065</u>
77,356	45,428	18,226	-	30,598	171,608
311,880	-	-	-	-	311,880
1,641	-	-	-	-	1,641
524	-	-	-	-	524
62,000	-	-	-	-	62,000
705	1,646	-	-	-	2,351
492	492	-	-	-	984
6,665	4,443	-	-	-	11,108
4,056	451	-	-	-	4,507
142	992	142	-	142	1,418
1,426	1,284	423	-	-	3,133
6,472	-	-	-	-	6,472
1,418	2,128	-	-	-	3,546
2,172	1,277	638	-	-	4,087
-	4,553	4,553	-	-	9,106
-	-	81	-	-	81
-	10,034	-	-	1,500	11,534
-	-	25	-	-	25
6,518	1,737	435	-	-	8,690
1,500	-	-	-	-	1,500
569	379	-	-	-	948
26,163	-	-	-	-	26,163
2,421	454	150	-	-	3,025
3,436	2,290	-	-	-	5,726
-	-	6,825	-	-	6,825
-	-	10,050	7,525	-	17,575
-	-	24,245	-	-	24,245
<u>27,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,333</u>
544,889	77,588	65,793	7,525	32,240	728,035
<u>15,112</u>	<u>3,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,890</u>
560,001	81,366	65,793	7,525	32,240	746,925
<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,525)</u>	<u>-</u>	<u>(7,525)</u>
<u>\$ 560,001</u>	<u>\$ 81,366</u>	<u>\$ 65,793</u>	<u>\$ -</u>	<u>\$ 32,240</u>	<u>\$ 739,400</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Basis of presentation

The financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Resources are classified as unrestricted, temporarily restricted and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring 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, 2008 and 2007.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and support (continued)

Gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (3.49.% for 2008; 5.03% for 2007). Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on historical experience and management's estimates. Pledges determined to be uncollectible are charged off against the allowance in the period of determination. Increases in the allowance relating to temporarily restricted pledges are reported as a bad debt loss under support and revenue.

Cash and cash equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

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

Property, 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, equipment and furniture, and twenty to forty years for buildings and building improvements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency endowment fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activity, and distributions received from the fund are recorded as decreases in the beneficial interest. (See Note 4.)

Donated services

The Organization's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the estimated fair value of services received.

The Organization has an all volunteer faculty of music instructors. The services provided by these volunteers represent a material contribution to the Organization's operations and are valued at an average hourly rate for music lessons in the Nashville area.

Members of the Board of Directors have also provided substantial assistance to the Organization by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

Program and supporting services

The following program and supporting services are included in the accompanying financial statements:

Program services

Music programs - making quality music instruction available to talented, interested, deserving children from low income families at the nominal fee of 50 cents a lesson. The Organization also seeks to encourage student participation in the cultural life of the community through concert attendance and performance. Over three hundred fifty students, ages 7 to 18, representing academic schools from across Metropolitan Nashville and Davidson County and the Middle Tennessee area, participate in the Organization's programs. Instruction is provided by a one hundred member volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and supporting services (continued)

Supporting services

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

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

Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Use of estimates in the preparation of financial statements

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

Income taxes

The Organization qualifies as a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Temporarily restricted:		
Due in less than one year	\$ 580,851	\$ 752,701
One to five years	<u>284,850</u>	<u>656,790</u>
	865,701	1,409,491
Less: discounts to net present value	(14,488)	(38,034)
Less: allowance for doubtful accounts	<u>(90,248)</u>	<u>(4,000)</u>
Net contributions receivable	<u>\$ 760,965</u>	<u>\$ 1,367,457</u>

Pledges receivable are classified as follows as of June 30:

	<u>2008</u>	<u>2007</u>
Operating	\$ -	\$ 29,225
Capital campaign	<u>760,965</u>	<u>1,338,232</u>
	<u>\$ 760,965</u>	<u>\$ 1,367,457</u>

The Organization received certain marketable securities in settlement of previously recognized contribution receivables. The securities were sold and converted to cash on the day received. The difference between the cash sale proceeds and the contribution receivable was \$1,241 in 2008 and \$7,529 in 2007. Such amount has been recognized as a loss in the Statement of Activities in the year the loss occurred.

During the 2007 fiscal year, the Organization was notified that a \$150,000 donation to the Capital Campaign would be recommended by a donor to the Community Foundation of Middle Tennessee, Inc. (the "Foundation"), to be paid over a three-year period. The first \$100,000 (\$50,000 in 2008 and \$50,000 in 2007) of this gift was approved by the Foundation and recognized as support by the Organization. The Foundation has final authority over these donor recommendations, which are advisory only and, accordingly, the balance of the donation will not be recognized by the Organization until the period approved by the Foundation.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land and buildings	\$ 110,208	\$ 110,208
Building improvements	109,013	109,013
Vehicles	26,458	26,458
Musical equipment	56,884	56,884
Office equipment and furniture	44,258	49,031
Security system	1,175	1,175
Land and building - facility under renovation	905,032	905,032
Construction in progress and related costs	<u>5,999,155</u>	<u>571,557</u>
	7,252,183	1,829,358
Less: accumulated depreciation	<u>(327,354)</u>	<u>(312,678)</u>
	<u>\$ 6,924,829</u>	<u>\$ 1,516,680</u>

In November, 1999, the Organization purchased certain real property to renovate and convert for its new music instructional facility. Construction at the new location began in May 2007 and was completed in June 2008. The Organization relocated to the new facility in July 2008. The previously occupied facility was sold in August 2008 for approximately \$520,000, resulting in a gain of approximately \$440,000. The proceeds from the sale of the property were applied to the outstanding note payable balance; the gain on the sale will be reported in the 2009 fiscal year.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 4 - AGENCY ENDOWMENT FUND

The Organization has a beneficial interest in the W. O. Smith Nashville Community Music School - Scholarship Fund, an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Foundation"). Earnings on this fund are used for college scholarships for music school students who wish to pursue a degree in music. The Organization has granted variance power to the Foundation, and the Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The fund is charged a .4% administrative fee by the Foundation annually. Upon request by the Organization, income from the Fund representing a 5% annual return may be distributed to the Organization or to another suggested beneficiary.

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2008 and 2007, follows:

	<u>2008</u>	<u>2007</u>
Balance - beginning of year	<u>\$ 97,345</u>	<u>\$ 86,547</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	535	15
Investment income (loss) - net	(3,048)	14,370
Administrative expenses	<u>(601)</u>	<u>(587)</u>
	(3,114)	13,798
Distributions to the Organization	<u>(2,250)</u>	<u>(3,000)</u>
Balance - end of year	<u>\$ 91,981</u>	<u>\$ 97,345</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 5 - NOTE PAYABLE

On August 29, 2007, the Organization entered into a maximum \$4 million construction loan agreement with a financial institution. As of June 30, 2008, the total amount drawn on the note was \$960,000. The agreement provides for payment of all outstanding principal and unpaid interest on March 28, 2013. Interest is due monthly and is charged at the LIBOR rate plus 80 basis points. The agreement requires the Organization to make principal payments annually on October 1 to reduce the outstanding balance to a maximum outstanding amount, as defined in the agreement. The anticipated amount that will be borrowed is less than the outstanding balance allowed in any such subsequent year. The note is secured by a deed of trust, capital campaign pledges and all other real and personal property of the Organization.

Substantially all draws on the note occurred near the end of the 2008 fiscal year, and there was no significant capitalized interest.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Development of human capital	\$ -	\$ 29,225
Donations for capital campaign	<u>760,965</u>	<u>2,732,220</u>
	<u>\$ 760,965</u>	<u>\$ 2,761,445</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 \$7,528 in 2008 and \$7,065 in 2007.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains deposit balances with a financial institution whose accounts are insured by the Federal Deposit Insurance Corporation up to \$100,000. Excess uninsured balances approximated \$155,000 at June 30, 2008. Subsequent to year end, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 per depositor to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009.

Contributions received from one donor totaling \$2,000,000 (before present value discount) comprised 88% of total contributions received for the year ended June 30, 2008 (\$500,000 from two donors comprised 59% of total contributions in 2007). The balance of contributions receivable, exclusive of present value discount, from three major donors at June 30, 2008, totaled \$500,000 (\$931,241 at June 30, 2007).

NOTE 9 - DONATED GOODS AND SERVICES

In April 2007, the *Today* show presented the Organization with non-cash gifts which had an estimated fair value of approximately \$106,000. The Agency recognized such gifts as follows: \$25,630 capitalized as musical, video and computer equipment; \$13,870 as prepaid office supplies; \$4,500 in other musical supplies; and \$62,000 in clothing, backpacks, wallets, and other items that were gifted to the program's participants. As of June 30, 2008, the Organization had approximately \$9,000 of prepaid office supplies available for use in subsequent years.

In addition, the Organization received donated musical equipment from other donors valued at approximately \$3,000 in 2007 (none in 2008).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008 AND 2007

NOTE 10 - DIRECT COSTS AND EXPENSES - RENOVATED FACILITY

Property is currently being renovated that will be the Organization's new music instructional facility (see Note 3). Direct costs and expenses related to the property that were incurred subsequent to completing the construction are as follows:

	<u>2008</u>	<u>2007</u>
Insurance	\$ 7,141	\$ 3,687
Property tax	16,860	16,860
Repairs and maintenance	-	1,080
Utilities	16,857	5,706
Other	<u>621</u>	<u>-</u>
Total	<u>\$ 41,479</u>	<u>\$ 27,333</u>

NOTE 11 - NEW PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, which is effective for fiscal years beginning after December 15, 2007. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including the decision whether to file in a particular jurisdiction. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS-157), *Fair Value Measurements*. FAS-157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS-157 are effective for fiscal years beginning after November 15, 2007.

In February, 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (FAS-159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. The fair value option established by FAS-159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in operations at each subsequent reporting date. FAS-159 is effective for fiscal years beginning after November 15, 2007.

The Organization is currently evaluating the impact, if any, of the adoption of these pronouncements on the financial statements.