

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2021 AND 2020

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2021 AND 2020

CONTENTS

|   | <u>PAGE</u> |
|---|-------------|
| <u>INDEPENDENT AUDITOR'S REPORT</u> .....     | 1           |
| <br><u>FINANCIAL STATEMENTS</u>               |             |
| Statements of Financial Position .....        | 2           |
| Statement of Activities - 2021 .....          | 3           |
| Statement of Activities - 2020 .....          | 4           |
| Statements of Cash Flows .....                | 5           |
| Statement of Functional Expenses - 2021 ..... | 6           |
| Statement of Functional Expenses - 2020 ..... | 7           |
| Notes to Financial Statements .....           | 8 - 17      |

## 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, 2021 and 2020, 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, 2021 and 2020, 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.



Nashville, Tennessee  
December 6, 2021

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

|  | <u>2021</u>         | <u>2020</u>         |
|--|---------------------|---------------------|
| ASSETS   |                     |                     |
| Cash   | \$ 1,195,313        | \$ 1,041,561        |
| Contributions receivable   | 11,816              | 5,579               |
| Property and equipment, net of accumulated depreciation  | 4,827,524           | 5,009,951           |
| Donated artwork  | 6,900               | 6,900               |
| Beneficial interest in agency endowment fund held by the<br>Community Foundation of Middle Tennessee | <u>141,670</u>      | <u>119,246</u>      |
| TOTAL ASSETS   | <u>\$ 6,183,223</u> | <u>\$ 6,183,237</u> |
| LIABILITIES  |                     |                     |
| Accounts payable   | \$ 140              | \$ 1,872            |
| Deferred revenue   | 1,000               | 6,285               |
| Long term debt   | <u>-</u>            | <u>59,735</u>       |
| TOTAL LIABILITIES  | <u>1,140</u>        | <u>67,892</u>       |
| NET ASSETS   |                     |                     |
| Net assets without donor restrictions  | 5,980,066           | 5,913,328           |
| Net assets with donor restrictions   | <u>202,017</u>      | <u>202,017</u>      |
| TOTAL NET ASSETS   | <u>6,182,083</u>    | <u>6,115,345</u>    |
| TOTAL LIABILITIES AND NET ASSETS   | <u>\$ 6,183,223</u> | <u>\$ 6,183,237</u> |

See accompanying notes to the financial statements.

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

|   | <u>WITHOUT DONOR<br/>RESTRICTIONS</u> | <u>WITH DONOR<br/>RESTRICTIONS</u> | <u>TOTAL</u>        |
|---|---------------------------------------|------------------------------------|---------------------|
| SUPPORT AND REVENUE   |                                       |                                    |                     |
| Public support:   |                                       |                                    |                     |
| Contributions   | \$ 524,827                            | \$ -                               | \$ 524,827          |
| Contributed services of instructors   | 399,885                               | -                                  | 399,885             |
| Contributions - donated supplies and equipment  | 31,244                                | -                                  | 31,244              |
| State, local and foundation grants  | 129,402                               | -                                  | 129,402             |
| Fundraising events  | 594                                   | -                                  | 594                 |
| Interest income   | 118                                   | -                                  | 118                 |
| Change in value of beneficial interest in agency endowment fund<br>held by the Community Foundation of Middle Tennessee | 26,924                                | -                                  | 26,924              |
| Other income:   |                                       |                                    |                     |
| Forgiveness of Paycheck Protection Program loan   | 59,735                                | -                                  | 59,735              |
| TOTAL SUPPORT AND REVENUE   | <u>1,172,729</u>                      | <u>-</u>                           | <u>1,172,729</u>    |
| EXPENSES  |                                       |                                    |                     |
| Program services:   |                                       |                                    |                     |
| Music programs  | 929,675                               | -                                  | 929,675             |
| Management and general  | 143,448                               | -                                  | 143,448             |
| Fundraising   | 32,868                                | -                                  | 32,868              |
| TOTAL EXPENSES  | <u>1,105,991</u>                      | <u>-</u>                           | <u>1,105,991</u>    |
| CHANGE IN NET ASSETS  | 66,738                                | -                                  | 66,738              |
| NET ASSETS - BEGINNING OF YEAR  | <u>5,913,328</u>                      | <u>202,017</u>                     | <u>6,115,345</u>    |
| NET ASSETS - END OF YEAR  | <u>\$ 5,980,066</u>                   | <u>\$ 202,017</u>                  | <u>\$ 6,182,083</u> |

See accompanying notes to the financial statements.

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

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

|   | <u>WITHOUT DONOR<br/>RESTRICTIONS</u> | <u>WITH DONOR<br/>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<br>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>                |
| <br>TOTAL SUPPORT AND REVENUE   | <br><u>1,152,760</u>                  | <br><u>(75,000)</u>                | <br><u>1,077,760</u>    |
| <br>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>           |
| <br>TOTAL EXPENSES  | <br><u>1,284,753</u>                  | <br><u>-</u>                       | <br><u>1,284,753</u>    |
| <br>CHANGE IN NET ASSETS  | <br>(131,993)                         | <br>(75,000)                       | <br>(206,993)           |
| <br>NET ASSETS - BEGINNING OF YEAR  | <br><u>6,045,321</u>                  | <br><u>277,017</u>                 | <br><u>6,322,338</u>    |
| <br>NET ASSETS - END OF YEAR  | <br><u>\$ 5,913,328</u>               | <br><u>\$ 202,017</u>              | <br><u>\$ 6,115,345</u> |

See accompanying notes to the financial statements.

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

|  | <u>2021</u>  | <u>2020</u>  |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |              |              |
| Change in net assets   | \$ 66,738    | \$ (206,993) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities:                          |              |              |
| Depreciation   | 230,718      | 222,916      |
| Forgiveness of Paycheck Protection Program loan  | (59,735)     | -            |
| Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | (26,924)     | (3,154)      |
| Contribution to agency endowment fund held by the Community Foundation of Middle Tennessee                           | -            | (400)        |
| Noncash contribution of property and equipment   | (5,650)      | (37,950)     |
| (Increase) decrease in:  |              |              |
| Contributions receivable   | (6,237)      | 91,881       |
| Prepaid expenses and other   | -            | 1,566        |
| Increase (decrease) in:  |              |              |
| Accounts payable   | (1,732)      | (4,802)      |
| Deferred revenue   | (5,285)      | (4,565)      |
| TOTAL ADJUSTMENTS  | 125,155      | 265,492      |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | 191,893      | 58,499       |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |              |              |
| Purchase of property and equipment   | (42,641)     | (36,917)     |
| Distributions from agency endowment fund   | 4,500        | 3,750        |
| NET CASH USED IN INVESTING ACTIVITIES  | (38,141)     | (33,167)     |
| CASH FLOWS FROM FINANCING ACTIVITIES   |              |              |
| Proceeds from Paycheck Protection Program loan   | -            | 59,735       |
| NET CASH PROVIDED BY FINANCING ACTIVITIES  | -            | 59,735       |
| NET INCREASE IN CASH   | 153,752      | 85,067       |
| CASH - BEGINNING OF YEAR   | 1,041,561    | 956,494      |
| CASH - END OF YEAR   | \$ 1,195,313 | \$ 1,041,561 |

See accompanying notes to the financial statements.

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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

|  | Program Services -<br>Music Programs | Management<br>and<br>General | Fundraising          | Totals                  |
|--|--------------------------------------|------------------------------|----------------------|-------------------------|
| Salaries   | \$ 179,041                           | \$ 37,286                    | \$ 22,285            | \$ 238,612              |
| Payroll taxes  | 13,697                               | 2,852                        | 1,705                | 18,254                  |
| Fringe benefits  | 36,540                               | 7,609                        | 4,548                | 48,697                  |
| <br>TOTAL PAYROLL AND<br>RELATED EXPENSES  | <br>229,278                          | <br>47,747                   | <br>28,538           | <br>305,563             |
| Contributed services of instructors  | 399,885                              | -                            | -                    | 399,885                 |
| Depreciation   | 184,574                              | 46,144                       | -                    | 230,718                 |
| Dues and subscriptions   | 957                                  | 2,233                        | -                    | 3,190                   |
| Gifts and flowers  | 223                                  | -                            | -                    | 223                     |
| Insurance  | 9,155                                | 6,103                        | -                    | 15,258                  |
| Internet website   | 3,314                                | 414                          | 414                  | 4,142                   |
| Local transportation   | 126                                  | -                            | -                    | 126                     |
| Meals and entertainment  | -                                    | 105                          | -                    | 105                     |
| Miscellaneous  | 704                                  | 1,395                        | 1,474                | 3,573                   |
| Musical supplies   | 5,903                                | -                            | -                    | 5,903                   |
| Musical supplies - donated   | 25,594                               | -                            | -                    | 25,594                  |
| Office and computer supplies   | 1,699                                | 2,548                        | -                    | 4,247                   |
| Postage  | 1,420                                | 98                           | 98                   | 1,616                   |
| Printing   | 2,939                                | 980                          | 980                  | 4,899                   |
| Professional development   | 700                                  | -                            | -                    | 700                     |
| Professional services  | -                                    | 18,310                       | -                    | 18,310                  |
| Promotion and publicity  | -                                    | -                            | 174                  | 174                     |
| Repairs - instruments  | 2,611                                | -                            | -                    | 2,611                   |
| Repairs and maintenance  | 13,910                               | 3,709                        | 927                  | 18,546                  |
| Scholarships   | 14,250                               | -                            | -                    | 14,250                  |
| Security system  | 1,880                                | 1,254                        | -                    | 3,134                   |
| Summer music camp  | 6,550                                | -                            | -                    | 6,550                   |
| Telephone  | 4,212                                | 790                          | 263                  | 5,265                   |
| Utilities  | 17,428                               | 11,618                       | -                    | 29,046                  |
| Volunteer background checks  | 2,363                                | -                            | -                    | 2,363                   |
| <br>TOTAL FUNCTIONAL EXPENSES  | <br>929,675                          | <br>143,448                  | <br>32,868           | <br>1,105,991           |
| <br>TOTAL EXPENSES REPORTED UNDER<br>PROGRAM SERVICES AND<br>SUPPORTING SERVICES | <br><u>\$ 929,675</u>                | <br><u>\$ 143,448</u>        | <br><u>\$ 32,868</u> | <br><u>\$ 1,105,991</u> |

See accompanying notes to the financial statements.



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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

|   | Program Services -<br>Music Programs | Management<br>and<br>General | Fundraising      | Direct Benefits<br>to Donors -<br>Fundraising Events | Totals              |
|---|--------------------------------------|------------------------------|------------------|--|---------------------|
| Salaries  | \$ 192,049                           | \$ 43,540                    | \$ 30,490        | \$ -   | \$ 266,079          |
| Payroll taxes   | 14,962                               | 3,392                        | 2,375            | -  | 20,729              |
| Fringe benefits   | 36,921                               | 8,370                        | 5,862            | -  | 51,153              |
| <b>TOTAL PAYROLL AND<br/>RELATED EXPENSES</b>   | 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   | 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  | -                                    | -                            | -                | 6,489  | 6,489               |
| <b>TOTAL FUNCTIONAL EXPENSES</b>  | 1,078,907                            | 166,444                      | 44,472           | 52,913   | 1,342,736           |
| Less expenses netted against revenues on the<br>statement of activities - direct benefits to donors | -                                    | -                            | -                | (52,913)   | (52,913)            |
| Less expenses netted against revenues on the<br>statement of activities - rental expenses           | -                                    | (5,070)                      | -                | -  | (5,070)             |
| <b>TOTAL EXPENSES REPORTED UNDER<br/>PROGRAM SERVICES AND<br/>SUPPORTING SERVICES</b>               | <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.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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, 2021 AND 2020

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 2021 and 2020, 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, 2021 and 2020.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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 2021 and 2020, 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 223-member (227-member in 2020) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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, 2021 AND 2020

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, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This guidance is effective for fiscal years beginning after June 15, 2021. The adoption of ASU 2020-07 is not expected to have a significant impact on the Organization’s financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2021 and December 6, 2021, 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, 2021 AND 2020

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>2021</u>         | <u>2020</u>       |
|--|---------------------|-------------------|
| Financial assets at year end:  |                     |                   |
| Cash   | \$ 1,195,313        | \$ 1,041,561      |
| Contributions receivable   | <u>11,816</u>       | <u>5,579</u>      |
| Total financial assets   | 1,207,129           | 1,047,140         |
| Less amounts not available to be used within one year:                     |                     |                   |
| Restricted by the donor with time or purpose restrictions                  | <u>202,017</u>      | <u>202,017</u>    |
| Financial assets available to meet general expenditures over the next year | <u>\$ 1,005,112</u> | <u>\$ 845,123</u> |

NOTE 4 - PROPERTY AND EQUIPMENT

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

|                                | <u>2021</u>         | <u>2020</u>         |
|--------------------------------|---------------------|---------------------|
| Land and improvements          | \$ 319,479          | \$ 319,479          |
| Buildings                      | 6,676,831           | 6,649,485           |
| Vehicles                       | 50,948              | 50,948              |
| Musical equipment              | 607,723             | 598,129             |
| Office equipment and furniture | <u>194,508</u>      | <u>183,157</u>      |
|                                | 7,849,489           | 7,801,198           |
| Less: accumulated depreciation | <u>(3,021,965)</u>  | <u>(2,791,247)</u>  |
|                                | <u>\$ 4,827,524</u> | <u>\$ 5,009,951</u> |



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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, 2021 and 2020 follows:

|  | <u>2021</u>              | <u>2020</u>              |
|--|--------------------------|--------------------------|
| Balance - beginning of year                                      | <u>\$ 119,246</u>        | <u>\$ 119,442</u>        |
| Change in value of beneficial interest in agency endowment fund: |                          |                          |
| Contributions to the fund  | -                        | 400                      |
| Investment income - net  | 27,721                   | 3,930                    |
| Administrative expenses  | <u>(797)</u>             | <u>(776)</u>             |
|  | 26,924                   | 3,554                    |
| Distributions to the Organization                                | <u>(4,500)</u>           | <u>(3,750)</u>           |
| Balance - end of year  | <u><u>\$ 141,670</u></u> | <u><u>\$ 119,246</u></u> |

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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. 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 bore interest at a fixed rate of 1%. In March 2021, the Organization received notification of full forgiveness of the loan of \$59,735 along with related interest. The Organization has recognized \$59,735 as other income for the year ended June 30, 2021.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

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

|   | <u>2021</u>       | <u>2020</u>       |
|---|-------------------|-------------------|
| Purpose-restricted contributions for special projects | <u>\$ 202,017</u> | <u>\$ 202,017</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 both 2021 and 2020.

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 \$322,000 comprising 47% of total cash contributions and grants received for the year ended June 30, 2021 (\$187,000 from two donors comprised 42% of total cash contributions and grants received for the year ended June 30, 2020).

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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>2021</u>                                     | <u>Level 1<br/>Inputs</u> | <u>Level 2<br/>Inputs</u> | <u>Level 3<br/>Inputs</u> | <u>Total<br/>Value</u> |
|---|---------------------------|---------------------------|---------------------------|------------------------|
| Beneficial interest in<br>agency endowment fund | <u>\$ -</u>               | <u>\$ 141,670</u>         | <u>\$ -</u>               | <u>\$ 141,670</u>      |
| <u>2020</u>                                     | <u>Level 1<br/>Inputs</u> | <u>Level 2<br/>Inputs</u> | <u>Level 3<br/>Inputs</u> | <u>Total<br/>Value</u> |
| Beneficial interest in<br>agency endowment fund | <u>\$ -</u>               | <u>\$ 119,246</u>         | <u>\$ -</u>               | <u>\$ 119,246</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.