

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016 AND 2015

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

NASHVILLE, TENNESSEE

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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, 2016 and 2015, 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, 2016 and 2015, 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
November 30, 2016

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 314,455	\$ 254,461
Contributions receivable - operating	21,044	7,509
Prepaid expenses and other	5,481	2,175
Property and equipment, net of accumulated depreciation	5,642,536	5,842,114
Donated artwork	6,900	5,900
Capital campaign assets:		
Contributions receivable, net	-	900
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>106,921</u>	<u>110,268</u>
TOTAL ASSETS	<u>\$ 6,097,337</u>	<u>\$ 6,223,327</u>
LIABILITIES		
Accounts payable	\$ 2,632	\$ 6,180
Deferred revenue	<u>11,639</u>	<u>8,825</u>
TOTAL LIABILITIES	<u>14,271</u>	<u>15,005</u>
NET ASSETS		
Unrestricted:		
Undesignated	286,362	253,027
Designated for property and equipment	5,642,536	5,842,114
Designated for beneficial interest in agency endowment fund	<u>106,921</u>	<u>110,268</u>
Total Unrestricted	6,035,819	6,205,409
Temporarily Restricted	<u>47,247</u>	<u>2,913</u>
TOTAL NET ASSETS	<u>6,083,066</u>	<u>6,208,322</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,097,337</u>	<u>\$ 6,223,327</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, 2016 AND 2015

	2016		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 269,303	\$ -	\$ 269,303
Contributed services of instructors	603,990	-	603,990
Contributions - donated supplies and equipment	30,061	-	30,061
State, local and foundation grants	188,180	66,700	254,880
Program fees	6,025	-	6,025
Fundraising events	103,685	-	103,685
Fundraising events - in-kind goods and services	16,150	-	16,150
Less: donor direct benefits	(50,025)	-	(50,025)
Interest income	173	-	173
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(1,347)	-	(1,347)
Other income:			
Rental income	54,015	-	54,015
Less: rental expenses	(7,220)	-	(7,220)
Miscellaneous income	-	-	-
Temporarily restricted net assets released from restriction	<u>22,366</u>	<u>(22,366)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,235,356</u>	<u>44,334</u>	<u>1,279,690</u>
EXPENSES			
Program services:			
Music programs	1,149,385	-	1,149,385
Management and general	203,359	-	203,359
Fundraising	<u>52,202</u>	<u>-</u>	<u>52,202</u>
TOTAL EXPENSES	<u>1,404,946</u>	<u>-</u>	<u>1,404,946</u>
CHANGE IN NET ASSETS	(169,590)	44,334	(125,256)
NET ASSETS - BEGINNING OF YEAR	<u>6,205,409</u>	<u>2,913</u>	<u>6,208,322</u>
NET ASSETS - END OF YEAR	<u>\$ 6,035,819</u>	<u>\$ 47,247</u>	<u>\$ 6,083,066</u>

See accompanying notes to the financial statements.

2015

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 275,744	\$ -	\$ 275,744
606,581	-	606,581
59,674	-	59,674
177,550	4,500	182,050
5,790	-	5,790
98,419	-	98,419
14,610	-	14,610
(47,656)	-	(47,656)
125	-	125
1,875	-	1,875
61,208	-	61,208
(9,270)	-	(9,270)
318	-	318
3,887	(3,887)	-
<u>1,248,855</u>	<u>613</u>	<u>1,249,468</u>
1,149,018	-	1,149,018
183,500	-	183,500
39,670	-	39,670
<u>1,372,188</u>	<u>-</u>	<u>1,372,188</u>
(123,333)	613	(122,720)
<u>6,328,742</u>	<u>2,300</u>	<u>6,331,042</u>
<u>\$ 6,205,409</u>	<u>\$ 2,913</u>	<u>\$ 6,208,322</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (125,256)	\$ (122,720)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	229,589	227,769
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	1,347	(1,875)
Noncash contribution of property and equipment	(15,002)	(19,950)
Noncash contribution of artwork	(1,000)	-
(Increase) decrease in:		
Contributions receivable - operating	(13,535)	(7,509)
Prepaid expenses and other	(3,306)	17,422
Increase (decrease) in:		
Accounts payable	(3,548)	1,242
Deferred revenue	<u>2,814</u>	<u>(1,535)</u>
TOTAL ADJUSTMENTS	<u>197,359</u>	<u>215,564</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>72,103</u>	<u>92,844</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,009)	(91,185)
Distributions from agency endowment fund	<u>2,000</u>	<u>3,000</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(13,009)</u>	<u>(88,185)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections on pledges for capital campaign	<u>900</u>	<u>1,400</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>900</u>	<u>1,400</u>
NET INCREASE IN CASH	59,994	6,059
CASH - BEGINNING OF YEAR	<u>254,461</u>	<u>248,402</u>
CASH - END OF YEAR	<u>\$ 314,455</u>	<u>\$ 254,461</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</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, 2016 AND 2015

	2016				
	<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	\$ 150,396	\$ 68,853	\$ 29,232	\$ -	\$ 248,481
Payroll taxes	11,814	5,409	2,296	-	19,519
Fringe benefits	<u>18,701</u>	<u>8,561</u>	<u>3,635</u>	<u>-</u>	<u>30,897</u>
TOTAL PAYROLL AND RELATED EXPENSES	180,911	82,823	35,163	-	298,897
Contributed services of instructors	603,990	-	-	-	603,990
Chorus programs	1,018	-	-	-	1,018
Cultural events	18,863	-	-	-	18,863
Depreciation	183,671	45,918	-	-	229,589
Donated gifts to program participants	-	-	-	-	-
Dues and subscriptions	841	1,961	-	-	2,802
Gifts and flowers	1,855	-	-	-	1,855
Insurance	9,837	6,558	-	-	16,395
Internet website	1,338	167	167	-	1,672
Local transportation	932	-	-	-	932
Meals and entertainment	372	1,734	371	-	2,477
Miscellaneous	989	5,235	943	-	7,167
Musical supplies	4,343	-	-	-	4,343
Musical supplies - donated	14,059	-	-	-	14,059
Office and computer supplies	1,984	2,976	-	-	4,960
Postage and freight	1,468	588	294	-	2,350
Printing	3,237	1,079	1,079	-	5,395
Professional development	636	5,394	-	-	6,030
Professional services	-	22,116	-	-	22,116
Promotion and publicity	-	-	11,305	-	11,305
Repairs - instruments	3,221	-	-	-	3,221
Repairs and maintenance	39,573	10,553	2,638	-	52,764
Scholarships	2,430	-	-	-	2,430
Security system	1,924	1,282	-	-	3,206
Summer music camp	44,234	-	-	-	44,234
Telephone	3,870	725	242	-	4,837
Utilities	21,376	14,250	-	-	35,626
Volunteer background checks	2,413	-	-	-	2,413
Rental expenses	-	7,220	-	-	7,220
Special events:					
Beverages, kitchen items, etc.	-	-	-	33,875	33,875
Donated goods and services	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,150</u>	<u>16,150</u>
TOTAL FUNCTIONAL EXPENSES	1,149,385	210,579	52,202	50,025	1,462,191
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(50,025)	(50,025)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>(7,220)</u>	<u>-</u>	<u>-</u>	<u>(7,220)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 1,149,385</u>	<u>\$ 203,359</u>	<u>\$ 52,202</u>	<u>\$ -</u>	<u>\$ 1,404,946</u>

See accompanying notes to the financial statements.

2015

<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Direct Benefits To Donors - Fundraising Events</u>	<u>Totals</u>
<u>Music Programs</u>				
\$ 140,693	\$ 64,150	\$ 27,852	\$ -	\$ 232,695
11,157	5,087	2,209	-	18,453
17,197	7,841	3,404	-	28,442
169,047	77,078	33,465	-	279,590
606,581	-	-	-	606,581
1,371	-	-	-	1,371
1,120	-	-	-	1,120
182,215	45,554	-	-	227,769
8,997	-	-	-	8,997
539	1,259	-	-	1,798
1,583	-	-	-	1,583
11,688	7,792	-	-	19,480
1,156	145	145	-	1,446
1,008	-	-	-	1,008
468	2,183	468	-	3,119
3,060	2,302	913	-	6,275
18,433	-	-	-	18,433
16,532	-	-	-	16,532
1,634	2,452	-	-	4,086
1,396	656	328	-	2,380
3,500	1,519	1,519	-	6,538
977	484	-	-	1,461
-	15,006	-	-	15,006
-	-	250	-	250
2,487	-	-	-	2,487
34,430	9,182	2,295	-	45,907
-	-	-	-	-
1,757	1,172	-	-	2,929
48,398	-	-	-	48,398
4,597	862	287	-	5,746
23,780	15,854	-	-	39,634
2,264	-	-	-	2,264
-	9,270	-	-	9,270
-	-	-	33,046	33,046
-	-	-	14,610	14,610
1,149,018	192,770	39,670	47,656	1,429,114
-	-	-	(47,656)	(47,656)
-	(9,270)	-	-	(9,270)
<u>\$ 1,149,018</u>	<u>\$ 183,500</u>	<u>\$ 39,670</u>	<u>\$ -</u>	<u>\$ 1,372,188</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015.

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

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. At June 30, 2016 and 2015, all promises to give were due within one year; accordingly, no discount to present value was recorded.

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, 2016 and 2015.

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, 2016 AND 2015

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 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 500 students (700 students in 2015), 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 235-member (217-member in 2015) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

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.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance on revenue from contracts with customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customer. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued Accounting Standards Update ("ASU") 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the effect that the updated standard will have on the financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

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, 2016 and November 30, 2016, 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.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,613,059	6,610,023
Vehicles	50,948	50,948
Musical equipment	417,089	402,087
Office equipment and furniture	<u>168,489</u>	<u>156,516</u>
	7,569,064	7,539,053
Less: accumulated depreciation	<u>(1,926,528)</u>	<u>(1,696,939)</u>
	<u>\$ 5,642,536</u>	<u>\$ 5,842,114</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 4 - 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, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Balance - beginning of year	<u>\$ 110,268</u>	<u>\$ 111,393</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	990	910
Investment income - net	(1,599)	1,817
Administrative expenses	<u>(738)</u>	<u>(852)</u>
	(1,347)	1,875
Distributions to the Organization	<u>(2,000)</u>	<u>(3,000)</u>
Balance - end of year	<u>\$ 106,921</u>	<u>\$ 110,268</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Capital campaign contributions receivable	\$ -	\$ 900
Purpose-restricted foundation grants	<u>47,247</u>	<u>2,013</u>
	<u>\$ 47,247</u>	<u>\$ 2,913</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016 AND 2015

NOTE 6 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a Section 401(k) defined contribution plan (a Section 403(b) defined contribution plan until October 2015) 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 \$10,262 in 2016 and \$8,833 in 2015.

NOTE 7 - 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 three donors totaled approximately \$238,000 comprising 45% of total contributions and grants received for the year ended June 30, 2016 (\$117,150 from two donors comprised 24% of total contributions in 2015).

NOTE 8 - 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>2016</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>\$ 106,921</u>	<u>\$ -</u>	<u>\$ 106,921</u>
<u>2015</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>\$ 110,268</u>	<u>\$ -</u>	<u>\$ 110,268</u>