

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019 AND 2018

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 17, 2019

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 956,494	\$ 671,593
Contributions receivable	97,460	350,301
Prepaid expenses and other	1,566	1,839
Property and equipment, net of accumulated depreciation	5,158,000	5,335,152
Donated artwork	6,900	6,900
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>119,442</u>	<u>113,140</u>
TOTAL ASSETS	<u>\$ 6,339,862</u>	<u>\$ 6,478,925</u>
LIABILITIES		
Accounts payable	\$ 6,674	\$ 12,754
Deferred revenue	<u>10,850</u>	<u>17,805</u>
TOTAL LIABILITIES	<u>17,524</u>	<u>30,559</u>
NET ASSETS		
Net assets without donor restrictions	6,045,321	6,298,366
Net assets with donor restrictions	<u>277,017</u>	<u>150,000</u>
TOTAL NET ASSETS	<u>6,322,338</u>	<u>6,448,366</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,339,862</u>	<u>\$ 6,478,925</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, 2019 AND 2018

	2019		
	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 183,747	\$ 202,017	\$ 385,764
Contributed services of instructors	600,049	-	600,049
Contributions - donated supplies and equipment	24,173	-	24,173
State, local and foundation grants	152,327	-	152,327
Program fees	5,551	-	5,551
Fundraising events	117,292	-	117,292
Fundraising events - in-kind goods and services	11,871	-	11,871
Less: donor direct benefits	(55,993)	-	(55,993)
Interest income	758	-	758
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	5,902	-	5,902
Other income (loss):			
Rental income	57,826	-	57,826
Less: rental expenses	(6,520)	-	(6,520)
Loss on disposition of assets	-	-	-
Net assets released from restriction	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,171,983</u>	 <u>127,017</u>	 <u>1,299,000</u>
 EXPENSES			
Program services:			
Music programs	1,166,614	-	1,166,614
Management and general	217,752	-	217,752
Fundraising	<u>40,662</u>	<u>-</u>	<u>40,662</u>
 TOTAL EXPENSES	 <u>1,425,028</u>	 <u>-</u>	 <u>1,425,028</u>
 CHANGE IN NET ASSETS	 (253,045)	 127,017	 (126,028)
 NET ASSETS - BEGINNING OF YEAR	 <u>6,298,366</u>	 <u>150,000</u>	 <u>6,448,366</u>
 NET ASSETS - END OF YEAR	 <u>\$ 6,045,321</u>	 <u>\$ 277,017</u>	 <u>\$ 6,322,338</u>

See accompanying notes to the financial statements.

2018

<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
\$ 448,028	\$ -	\$ 448,028
598,406	-	598,406
141,809	-	141,809
197,700	150,000	347,700
5,637	-	5,637
109,372	-	109,372
15,262	-	15,262
(54,103)	-	(54,103)
319	-	319
8,148	-	8,148
66,070	-	66,070
(7,328)	-	(7,328)
(1,836)	-	(1,836)
8,925	(8,925)	-
<u>1,536,409</u>	<u>141,075</u>	<u>1,677,484</u>
1,229,335	-	1,229,335
212,122	-	212,122
<u>46,412</u>	<u>-</u>	<u>46,412</u>
<u>1,487,869</u>	<u>-</u>	<u>1,487,869</u>
48,540	141,075	189,615
<u>6,249,826</u>	<u>8,925</u>	<u>6,258,751</u>
<u>\$ 6,298,366</u>	<u>\$ 150,000</u>	<u>\$ 6,448,366</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (126,028)	\$ 189,615
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	228,737	236,356
Loss on disposition of assets	-	1,836
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(5,902)	(8,148)
Contribution to agency endowment fund held by the Community Foundation of Middle Tennessee	(400)	-
Noncash contribution of property and equipment	(9,364)	(78,175)
(Increase) decrease in:		
Contributions receivable	252,841	(175,301)
Prepaid expenses and other	273	3,007
Increase (decrease) in:		
Accounts payable	(6,080)	4,960
Deferred revenue	<u>(6,955)</u>	<u>1,315</u>
TOTAL ADJUSTMENTS	<u>453,150</u>	<u>(14,150)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>327,122</u>	<u>175,465</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(42,221)	(45,075)
Distributions from agency endowment fund	<u>-</u>	<u>9,600</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(42,221)</u>	<u>(35,475)</u>
NET INCREASE IN CASH	284,901	139,990
CASH - BEGINNING OF YEAR	<u>671,593</u>	<u>531,603</u>
CASH - END OF YEAR	<u><u>\$ 956,494</u></u>	<u><u>\$ 671,593</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, 2019 AND 2018

	2019				
	Program Services - Music Programs	Management and General	Fundraising	Direct Benefits To Donors - Fundraising Events	Totals
Salaries	\$ 156,461	\$ 68,546	\$ 26,540	\$ -	\$ 251,547
Payroll taxes	11,745	5,145	1,992	-	18,882
Fringe benefits	<u>26,511</u>	<u>11,614</u>	<u>4,497</u>	<u>-</u>	<u>42,622</u>
TOTAL PAYROLL AND RELATED EXPENSES	194,717	85,305	33,029	-	313,051
Contributed services of instructors	600,049	-	-	-	600,049
Chorus programs	1,285	-	-	-	1,285
Cultural events	1,837	-	-	-	1,837
Depreciation	182,990	45,747	-	-	228,737
Dues and subscriptions	1,289	3,009	-	-	4,298
Gifts and flowers	2,167	-	-	-	2,167
Insurance	8,743	5,828	-	-	14,571
Internet website	1,559	195	195	-	1,949
Local transportation	3,427	-	-	-	3,427
Meals and entertainment	1,626	7,587	1,626	-	10,839
Miscellaneous	1,662	16,119	1,387	-	19,168
Musical supplies	6,170	-	-	-	6,170
Musical supplies - donated	14,809	-	-	-	14,809
Office and computer supplies	2,225	3,338	-	-	5,563
Postage and freight	569	190	190	-	949
Printing	3,017	1,190	1,190	-	5,397
Professional development	457	2,587	-	-	3,044
Professional services	-	17,971	-	-	17,971
Promotion and publicity	-	-	269	-	269
Repairs - instruments	3,642	-	-	-	3,642
Repairs and maintenance	37,887	10,103	2,526	-	50,516
Scholarships	8,161	-	-	-	8,161
Security system	1,880	1,254	-	-	3,134
Summer music camp	54,843	-	-	-	54,843
Telephone	4,003	751	250	-	5,004
Utilities	24,866	16,578	-	-	41,444
Volunteer background checks	2,734	-	-	-	2,734
Rental expenses	-	6,520	-	-	6,520
Special events:					
Beverages, kitchen items, etc.	-	-	-	43,922	43,922
Donated goods and services	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,071</u>	<u>12,071</u>
TOTAL FUNCTIONAL EXPENSES	1,166,614	224,272	40,662	55,993	1,487,541
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(55,993)	(55,993)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>(6,520)</u>	<u>-</u>	<u>-</u>	<u>(6,520)</u>
TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	<u>\$ 1,166,614</u>	<u>\$ 217,752</u>	<u>\$ 40,662</u>	<u>\$ -</u>	<u>\$ 1,425,028</u>

See accompanying notes to the financial statements.

2018

Program Services - Music Programs	Management and General	Fundraising	Direct Benefits To Donors -		Totals
			Fundraising Events		
\$ 172,616	\$ 79,777	\$ 32,890	\$ -	\$	285,283
13,528	6,252	2,578	-		22,358
<u>26,086</u>	<u>12,056</u>	<u>4,970</u>	<u>-</u>		<u>43,112</u>
212,230	98,085	40,438	-		350,753
598,406	-	-	-		598,406
698	-	-	-		698
1,402	-	-	-		1,402
189,085	47,271	-	-		236,356
897	2,094	-	-		2,991
1,869	-	-	-		1,869
8,765	5,843	-	-		14,608
1,420	178	177	-		1,775
1,807	-	-	-		1,807
452	2,110	452	-		3,014
1,327	1,045	1,480	-		3,852
5,202	-	-	-		5,202
63,634	-	-	-		63,634
4,166	6,248	-	-		10,414
1,974	140	140	-		2,254
3,017	1,190	1,190	-		5,397
2,293	2,274	-	-		4,567
-	18,405	-	-		18,405
-	-	-	-		-
3,351	-	-	-		3,351
34,310	9,149	2,287	-		45,746
10,170	-	-	-		10,170
1,887	1,258	-	-		3,145
50,406	-	-	-		50,406
3,967	743	248	-		4,958
24,134	16,089	-	-		40,223
2,466	-	-	-		2,466
-	7,328	-	-		7,328
-	-	-	38,841		38,841
-	-	-	<u>15,262</u>		<u>15,262</u>
1,229,335	219,450	46,412	54,103		1,549,300
-	-	-	(54,103)		(54,103)
-	<u>(7,328)</u>	-	-		<u>(7,328)</u>
<u>\$ 1,229,335</u>	<u>\$ 212,122</u>	<u>\$ 46,412</u>	<u>\$ -</u>	<u>\$</u>	<u>1,487,869</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 with donor/grantor restrictions. When a restriction expires, net assets are reclassified from net assets with donor/grantor restrictions to net assets without donor/grantor restrictions in the Statements of Activities.

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue

Program fees are recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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 2019 and 2018, no discount is recorded as it is insignificant. Conditional promises to give are not included as support until such time as the conditions are substantially met. Contributions receivable included a testamentary bequest of \$182,000 at June 30, 2018.

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, 2019 and 2018.

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, 2019 AND 2018

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.

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 2019 and 2018, 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 207-member (213-member in 2018) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

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, postage, copying, supplies and web development, 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers (Topic 606)*, 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 customers. The updated standard will replace most existing revenue recognition guidance in 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 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.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As the Organization is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018. The adoption of ASU 2018-08 is not expected to have a material impact on the Organization's financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

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, 2019 and December 17, 2019, 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 - 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>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash	\$ 956,494	\$ 671,593
Contributions receivable	<u>97,460</u>	<u>350,301</u>
Total financial assets	1,053,954	1,021,894
Less amounts not available to be used within one year:		
Restricted by the donor with time or purpose restrictions	<u>202,017</u>	<u>75,000</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 851,937</u>	<u>\$ 946,894</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable:		
Due in less than one year	\$ 97,460	\$ 275,301
One to five years	<u>-</u>	<u>75,000</u>
Net contributions receivable	<u>\$ 97,460</u>	<u>\$ 350,301</u>

NOTE 5 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,649,485	6,636,434
Vehicles	50,948	50,948
Musical equipment	527,711	495,191
Office equipment and furniture	<u>178,708</u>	<u>172,694</u>
	7,726,331	7,674,746
Less: accumulated depreciation	<u>(2,568,331)</u>	<u>(2,339,594)</u>
	<u>\$ 5,158,000</u>	<u>\$ 5,335,152</u>

NOTE 6 - AGENCY ENDOWMENT FUND

The Organization established and holds a beneficial interest in the W.O. Smith Nashville Community Music School - Scholarship Fund, an agency endowment fund held by the Foundation. Earnings on this fund are used for college scholarships for music school students who wish to pursue a degree in music.

The Organization has granted variance power to the Foundation, and the Foundation has the ultimate authority and control over the fund and the income derived therefrom. The fund is charged a .4% administrative fee by the Foundation annually. Upon request by the Organization, income from the fund representing a 5% annual return may be distributed to the Organization or to another suggested beneficiary.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 6 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Balance - beginning of year	<u>\$ 113,140</u>	<u>\$ 114,592</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	400	435
Investment income - net	6,629	8,478
Administrative expenses	<u>(727)</u>	<u>(765)</u>
	6,302	8,148
Distributions to the Organization	<u>-</u>	<u>(9,600)</u>
Balance - end of year	<u>\$ 119,442</u>	<u>\$ 113,140</u>

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2019</u>	<u>2018</u>
Purpose-restricted contributions for special projects	\$ 202,017	\$ -
Time-restricted foundation grants	<u>75,000</u>	<u>150,000</u>
	<u>\$ 277,017</u>	<u>\$ 150,000</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 \$9,962 in 2019 and \$11,082 in 2018.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

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 \$238,840 comprising 42% of total contributions and grants received for the year ended June 30, 2019 (\$450,000 from two donors comprised 48% of total contributions in 2018).

Contributions receivable from two donors totaled approximately \$97,000 at June 30, 2019 (\$332,000 from two donors at June 30, 2018).

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>2019</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>\$ 119,442</u>	<u>\$ -</u>	<u>\$ 119,442</u>
<u>2018</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>\$ 113,140</u>	<u>\$ -</u>	<u>\$ 113,140</u>