

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITOR'S REPORT</u> .....	1
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Statements of Functional Expenses .....	5
Notes to Financial Statements .....	6 - 14



## 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*KraftCPAs PLLC*

Nashville, Tennessee  
December 17, 2018

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 671,593	\$ 531,603
Contributions receivable	350,301	175,000
Prepaid expenses and other	1,839	4,846
Property and equipment, net of accumulated depreciation	5,335,152	5,450,094
Donated artwork	6,900	6,900
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	<u>113,140</u>	<u>114,592</u>
TOTAL ASSETS	<u>\$ 6,478,925</u>	<u>\$ 6,283,035</u>
LIABILITIES		
Accounts payable	\$ 12,754	\$ 7,794
Deferred revenue	<u>17,805</u>	<u>16,490</u>
TOTAL LIABILITIES	<u>30,559</u>	<u>24,284</u>
NET ASSETS		
Unrestricted:		
Undesignated	850,074	685,140
Designated for property and equipment	5,335,152	5,450,094
Designated for beneficial interest in agency endowment fund	<u>113,140</u>	<u>114,592</u>
Total Unrestricted	6,298,366	6,249,826
Temporarily Restricted	<u>150,000</u>	<u>8,925</u>
TOTAL NET ASSETS	<u>6,448,366</u>	<u>6,258,751</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,478,925</u>	<u>\$ 6,283,035</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, 2018 AND 2017

	2018		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 448,028	\$ -	\$ 448,028
Contributed services of instructors	598,406	-	598,406
Contributions - donated supplies and equipment	141,809	-	141,809
State, local and foundation grants	197,700	150,000	347,700
Program fees	5,637	-	5,637
Fundraising events	109,372	-	109,372
Fundraising events - in-kind goods and services	15,262	-	15,262
Less: donor direct benefits	(54,103)	-	(54,103)
Interest income	319	-	319
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	8,148	-	8,148
Other income (loss):			
Rental income	66,070	-	66,070
Less: rental expenses	(7,328)	-	(7,328)
Loss on disposition of assets	(1,836)	-	(1,836)
Temporarily restricted net assets released from restriction	<u>8,925</u>	<u>(8,925)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,536,409</u>	 <u>141,075</u>	 <u>1,677,484</u>
 EXPENSES			
Program services:			
Music programs	1,229,335	-	1,229,335
Management and general	212,122	-	212,122
Fundraising	<u>46,412</u>	<u>-</u>	<u>46,412</u>
 TOTAL EXPENSES	 <u>1,487,869</u>	 <u>-</u>	 <u>1,487,869</u>
 CHANGE IN NET ASSETS	 48,540	 141,075	 189,615
 NET ASSETS - BEGINNING OF YEAR	 <u>6,249,826</u>	 <u>8,925</u>	 <u>6,258,751</u>
 NET ASSETS - END OF YEAR	 <u>\$ 6,298,366</u>	 <u>\$ 150,000</u>	 <u>\$ 6,448,366</u>

See accompanying notes to the financial statements.

2017

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 607,662	\$ -	\$ 607,662
603,559	-	603,559
51,233	-	51,233
195,635	20,000	215,635
5,763	-	5,763
99,439	-	99,439
15,395	-	15,395
(50,352)	-	(50,352)
193	-	193
11,421	-	11,421
61,141	-	61,141
(7,590)	-	(7,590)
(2,587)	-	(2,587)
<u>58,322</u>	<u>(58,322)</u>	<u>-</u>
<u>1,649,234</u>	<u>(38,322)</u>	<u>1,610,912</u>
1,166,532	-	1,166,532
214,459	-	214,459
<u>54,236</u>	<u>-</u>	<u>54,236</u>
<u>1,435,227</u>	<u>-</u>	<u>1,435,227</u>
214,007	(38,322)	175,685
<u>6,035,819</u>	<u>47,247</u>	<u>6,083,066</u>
<u>\$ 6,249,826</u>	<u>\$ 8,925</u>	<u>\$ 6,258,751</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 189,615	\$ 175,685
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	236,356	232,480
Loss on disposition of assets	1,836	2,587
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(8,148)	(11,421)
Noncash contribution of property and equipment	(78,175)	(35,550)
(Increase) decrease in:		
Contributions receivable	(175,301)	(153,956)
Prepaid expenses and other	3,007	635
Increase (decrease) in:		
Accounts payable	4,960	5,162
Deferred revenue	<u>1,315</u>	<u>4,851</u>
TOTAL ADJUSTMENTS	<u>(14,150)</u>	<u>44,788</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>175,465</u>	<u>220,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(45,075)	(7,075)
Distributions from agency endowment fund	<u>9,600</u>	<u>3,750</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(35,475)</u>	<u>(3,325)</u>
NET INCREASE IN CASH	139,990	217,148
CASH - BEGINNING OF YEAR	<u>531,603</u>	<u>314,455</u>
CASH - END OF YEAR	<u>\$ 671,593</u>	<u>\$ 531,603</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, 2018 AND 2017

	2018				
	Program Services - Music Programs	Management and General	Fundraising	Direct Benefits To Donors - Fundraising Events	Totals
Salaries	\$ 172,616	\$ 79,777	\$ 32,890	\$ -	\$ 285,283
Payroll taxes	13,528	6,252	2,578	-	22,358
Fringe benefits	<u>26,086</u>	<u>12,056</u>	<u>4,970</u>	<u>-</u>	<u>43,112</u>
<b>TOTAL PAYROLL AND RELATED EXPENSES</b>	212,230	98,085	40,438	-	350,753
Contributed services of instructors	598,406	-	-	-	598,406
Chorus programs	698	-	-	-	698
Cultural events	1,402	-	-	-	1,402
Depreciation	189,085	47,271	-	-	236,356
Dues and subscriptions	897	2,094	-	-	2,991
Gifts and flowers	1,869	-	-	-	1,869
Insurance	8,765	5,843	-	-	14,608
Internet website	1,420	178	177	-	1,775
Local transportation	1,807	-	-	-	1,807
Meals and entertainment	452	2,110	452	-	3,014
Miscellaneous	1,327	1,045	1,480	-	3,852
Musical supplies	5,202	-	-	-	5,202
Musical supplies - donated	63,634	-	-	-	63,634
Office and computer supplies	4,166	6,248	-	-	10,414
Postage and freight	1,974	140	140	-	2,254
Printing	3,017	1,190	1,190	-	5,397
Professional development	2,293	2,274	-	-	4,567
Professional services	-	18,405	-	-	18,405
Promotion and publicity	-	-	-	-	-
Repairs - instruments	3,351	-	-	-	3,351
Repairs and maintenance	34,310	9,149	2,287	-	45,746
Scholarships	10,170	-	-	-	10,170
Security system	1,887	1,258	-	-	3,145
Summer music camp	50,406	-	-	-	50,406
Telephone	3,967	743	248	-	4,958
Utilities	24,134	16,089	-	-	40,223
Volunteer background checks	2,466	-	-	-	2,466
Rental expenses	-	7,328	-	-	7,328
Special events:					
Beverages, kitchen items, etc.	-	-	-	38,841	38,841
Donated goods and services	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,262</u>	<u>15,262</u>
<b>TOTAL FUNCTIONAL EXPENSES</b>	1,229,335	219,450	46,412	54,103	1,549,300
Less expenses netted against revenues on the statement of activities - direct benefits to donors	-	-	-	(54,103)	(54,103)
Less expenses netted against revenues on the statement of activities - rental expenses	<u>-</u>	<u>(7,328)</u>	<u>-</u>	<u>-</u>	<u>(7,328)</u>
<b>TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES</b>	<u>\$ 1,229,335</u>	<u>\$ 212,122</u>	<u>\$ 46,412</u>	<u>\$ -</u>	<u>\$ 1,487,869</u>

See accompanying notes to the financial statements.



2017

Program Services - Music Programs	Management and General	Direct Benefits To Donors -		
		Fundraising	Fundraising Events	Totals
\$ 167,376	\$ 76,890	\$ 32,150	\$ -	\$ 276,416
13,156	6,043	2,527	-	21,726
<u>22,582</u>	<u>10,374</u>	<u>4,337</u>	<u>-</u>	<u>37,293</u>
203,114	93,307	39,014	-	335,435
603,559	-	-	-	603,559
1,763	-	-	-	1,763
3,864	-	-	-	3,864
185,984	46,496	-	-	232,480
879	2,051	-	-	2,930
2,310	-	-	-	2,310
9,394	6,262	-	-	15,656
1,819	227	227	-	2,273
1,117	-	-	-	1,117
401	1,873	401	-	2,675
1,675	826	1,349	-	3,850
10,953	-	-	-	10,953
15,683	-	-	-	15,683
2,161	3,241	-	-	5,402
1,909	276	276	-	2,461
3,017	1,254	1,254	-	5,525
543	4,789	-	-	5,332
-	27,662	-	-	27,662
-	-	9,117	-	9,117
3,496	-	-	-	3,496
34,951	9,320	2,330	-	46,601
3,000	-	-	-	3,000
1,850	1,233	-	-	3,083
42,364	-	-	-	42,364
4,286	804	268	-	5,358
22,257	14,838	-	-	37,095
4,183	-	-	-	4,183
-	7,590	-	-	7,590
-	-	-	34,957	34,957
-	-	-	<u>15,395</u>	<u>15,395</u>
1,166,532	222,049	54,236	50,352	1,493,169
-	-	-	(50,352)	(50,352)
-	<u>(7,590)</u>	-	-	<u>(7,590)</u>
<u>\$ 1,166,532</u>	<u>\$ 214,459</u>	<u>\$ 54,236</u>	<u>\$ -</u>	<u>\$ 1,435,227</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017.

Cash

Cash consists principally of checking accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018 AND 2017

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. For 2018 and 2017, 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 and \$175,000 at June 30, 2018 and 2017, respectively.

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, 2018 and 2017.

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, 2018 AND 2017

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 2018 and 2017, 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 213-member (228-member in 2017) volunteer faculty of area musicians from many different disciplines.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018 AND 2017

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.

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, 2018 AND 2017

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 Accounting Standards Update ("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 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 2016, the FASB issued ASU 2016-14 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, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2018 and December 17, 2018, 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 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Contributions receivable:		
Due in less than one year	\$ 275,301	\$ 175,000
One to five years	<u>75,000</u>	<u>-</u>
Net contributions receivable	<u>\$ 350,301</u>	<u>\$ 175,000</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018 AND 2017

NOTE 4 - PROPERTY AND EQUIPMENT

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

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,636,434	6,620,134
Vehicles	50,948	50,948
Musical equipment	495,191	406,411
Office equipment and furniture	<u>172,694</u>	<u>166,308</u>
	7,674,746	7,563,280
Less: accumulated depreciation	<u>(2,339,594)</u>	<u>(2,113,186)</u>
	<u>\$ 5,335,152</u>	<u>\$ 5,450,094</u>

NOTE 5 - AGENCY ENDOWMENT FUND

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

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



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018 AND 2017

NOTE 5 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Balance - beginning of year	<u>\$ 114,592</u>	<u>\$ 106,921</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	435	435
Investment income - net	8,478	11,833
Administrative expenses	<u>(765)</u>	<u>(847)</u>
	8,148	11,421
Distributions to the Organization	<u>(9,600)</u>	<u>(3,750)</u>
Balance - end of year	<u>\$ 113,140</u>	<u>\$ 114,592</u>

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Time and purpose-restricted foundation grants	<u>\$ 150,000</u>	<u>\$ 8,925</u>

NOTE 7 - 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 \$11,082 in 2018 and \$9,555 in 2017.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018 AND 2017

NOTE 8 - 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 \$450,000 comprising 48% of total contributions and grants received for the year ended June 30, 2018 (\$475,000 from three donors comprised 50% of total contributions in 2017).

Contributions receivable from two donors totaled approximately \$332,000 at June 30, 2018 (\$175,000 from one donor at June 30, 2017).

NOTE 9 - 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>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>
<u>2017</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>\$ 114,592</u>	<u>\$ -</u>	<u>\$ 114,592</u>