

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010 AND 2009

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010 AND 2009

CONTENTS

PAGE

<u>INDEPENDENT AUDITORS' 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 - 15

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of W. O. Smith Nashville Community Music School, Inc. (the "Organization") as of June 30, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W. O. Smith Nashville Community Music School, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Nashville, Tennessee  
November 19, 2010

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 733,542	\$ 629,992
Contributions receivable - operating - Note 2	-	15,064
Prepaid expenses and donated office supplies	17,624	16,455
Property and equipment, net of accumulated depreciation - Note 3	6,622,745	6,785,852
Capital campaign assets:		
Contributions receivable, net - Note 2	76,998	154,069
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Notes 4 and 9	<u>78,878</u>	<u>70,526</u>
TOTAL ASSETS	<u>\$ 7,529,787</u>	<u>\$ 7,671,958</u>
LIABILITIES		
Accounts payable	\$ 4,603	\$ 336
Note payable - Note 5	<u>708,000</u>	<u>708,000</u>
TOTAL LIABILITIES	<u>712,603</u>	<u>708,336</u>
NET ASSETS		
Unrestricted:		
Undesignated	746,563	661,175
Designated for property and equipment, net of related debt	5,914,745	6,077,852
Designated for beneficial interest in agency endowment fund - Note 4	<u>78,878</u>	<u>70,526</u>
Total Unrestricted	6,740,186	6,809,553
Temporarily Restricted - Note 6	<u>76,998</u>	<u>154,069</u>
TOTAL NET ASSETS	<u>6,817,184</u>	<u>6,963,622</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,529,787</u>	<u>\$ 7,671,958</u>

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

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 217,208	\$ 24,274	\$ 241,482
Contributions - donated equipment	34,500	-	34,500
State, local and foundation grants	111,225	-	111,225
Program fees	5,657	-	5,657
Fundraising events	74,480	-	74,480
Fundraising events - in-kind goods and services	29,200	-	29,200
Less: donor direct benefits	(15,100)	-	(15,100)
Contributed services of instructors	440,510	-	440,510
Interest income	121	-	121
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	9,552	-	9,552
Loss on doubtful temporarily restricted contributions receivable	-	-	-
Other income:			
Rental income	45,780	-	45,780
Gain on sale of former facility - Note 3	-	-	-
Temporarily restricted net assets released from restriction	<u>101,345</u>	<u>(101,345)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,054,478</u>	 <u>(77,071)</u>	 <u>977,407</u>
 EXPENSES			
Program services:			
Music programs	896,066	-	896,066
Management and general	167,977	-	167,977
Fundraising	59,802	-	59,802
Fundraising - capital campaign	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL EXPENSES	 <u>1,123,845</u>	 <u>-</u>	 <u>1,123,845</u>
 CHANGE IN NET ASSETS	 (69,367)	 (77,071)	 (146,438)
 NET ASSETS - BEGINNING OF YEAR	 <u>6,809,553</u>	 <u>154,069</u>	 <u>6,963,622</u>
 NET ASSETS - END OF YEAR	 <u>\$ 6,740,186</u>	 <u>\$ 76,998</u>	 <u>\$ 6,817,184</u>

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

2009

<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
\$ 138,989	\$ 121,687	\$ 260,676
23,000	-	23,000
98,340	-	98,340
5,362	-	5,362
79,974	-	79,974
20,000	-	20,000
(11,000)	-	(11,000)
379,000	-	379,000
4,277	-	4,277
(18,455)	-	(18,455)
-	(65,000)	(65,000)
5,250	-	5,250
429,244	-	429,244
<u>663,583</u>	<u>(663,583)</u>	<u>-</u>
<u>1,817,564</u>	<u>(606,896)</u>	<u>1,210,668</u>
841,303	-	841,303
174,176	-	174,176
45,328	-	45,328
<u>22,267</u>	<u>-</u>	<u>22,267</u>
<u>1,083,074</u>	<u>-</u>	<u>1,083,074</u>
734,490	(606,896)	127,594
<u>6,075,063</u>	<u>760,965</u>	<u>6,836,028</u>
<u>\$ 6,809,553</u>	<u>\$ 154,069</u>	<u>\$ 6,963,622</u>

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (146,438)	\$ 127,594
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	216,334	213,761
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - Note 4	(9,552)	18,455
Gain on sale of former facility - Note 3	-	(429,244)
Contributions for capital campaign, net of discounts and other losses	(24,274)	(56,687)
Noncash contribution of property and equipment	(34,500)	(23,000)
(Increase) decrease in:		
Contributions receivable - operating	15,064	(15,064)
Prepaid expenses and donated office supplies	(1,169)	(5,818)
Increase (decrease) in:		
Accounts payable	4,267	(5,353)
 TOTAL ADJUSTMENTS	 <u>166,170</u>	 <u>(302,950)</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>19,732</u>	 <u>(175,356)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(18,727)	(144,191)
Proceeds from sale of property - former facility - Note 3	-	521,651
Distributions from agency endowment fund - Note 4	1,200	3,000
 NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	 <u>(17,527)</u>	 <u>380,460</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on note payable	-	(252,000)
Payment of prior year accounts payable for construction in progress	-	(248,788)
Collections on pledges for capital campaign	101,345	663,583
 NET CASH PROVIDED BY FINANCING ACTIVITIES	 <u>101,345</u>	 <u>162,795</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 103,550	 367,899
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>629,992</u>	 <u>262,093</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u>\$ 733,542</u>	 <u>\$ 629,992</u>
 OTHER CASH DISCLOSURES:		
Cash paid for interest	<u>\$ 7,603</u>	<u>\$ 25,117</u>

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

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

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010				
	<u>Program Services</u>	<u>Management</u>		<u>Direct Benefits</u>	
	<u>Music Programs</u>	<u>and</u>	<u>Fundraising</u>	<u>To Donors -</u>	<u>Totals</u>
		<u>General</u>		<u>Fundraising Events</u>	
Salaries	\$ 119,577	\$ 56,371	\$ 24,791	\$ -	200,739
Payroll taxes	9,095	4,288	1,886	-	15,268
Pension expense - Note 7	<u>2,068</u>	<u>975</u>	<u>429</u>	<u>-</u>	<u>3,471</u>
 TOTAL PAYROLL AND RELATED EXPENSES	 130,740	 61,633	 27,105	 -	 219,478
Contributed services of instructors	440,510	-	-	-	440,510
Chorus programs	12,837	-	-	-	12,837
Cultural events	7,016	-	-	-	7,016
Dues and subscriptions	412	962	-	-	1,374
Gifts and flowers	495	495	-	-	990
Insurance	15,343	10,228	-	-	25,571
Interest	6,082	1,521	-	-	7,603
Internet website	1,094	122	-	-	1,216
Meals and entertainment	161	751	161	-	1,073
Miscellaneous	604	3,633	243	-	4,480
Musical supplies	5,753	-	-	-	5,753
Office and computer supplies	1,517	2,276	-	-	3,793
Postage and freight	1,737	802	401	-	2,939
Printing	1,876	858	858	-	3,593
Professional development	-	-	-	-	-
Professional services	-	15,039	-	-	15,039
Promotion and publicity	-	-	351	-	351
Property tax	-	-	-	-	-
Repairs and maintenance	30,200	8,053	2,013	-	40,266
Scholarships	3,000	-	-	-	3,000
Security system	1,757	1,172	-	-	2,929
Summer music camp	31,165	-	-	-	31,165
Telephone	6,887	1,291	430	-	8,609
Utilities	23,812	15,875	-	-	39,687
Special events:					
Beverages, kitchen items, etc.	-	-	14,139	-	14,139
Donated goods and services	-	-	14,100	15,100	29,200
Groundbreaking event	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	 722,998	 124,710	 59,802	 15,100	 922,611
Depreciation of property and equipment	<u>173,067</u>	<u>43,267</u>	<u>-</u>	<u>-</u>	<u>216,334</u>
TOTAL FUNCTIONAL EXPENSES	896,066	167,977	59,802	15,100	1,138,945
Less expenses netted against revenues on the statement of activities - direct benefits to donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,100)</u>	<u>(15,100)</u>
 TOTAL EXPENSES REPORTED UNDER PROGRAM SERVICES AND SUPPORTING SERVICES	 <u>\$ 896,066</u>	 <u>\$ 167,977</u>	 <u>\$ 59,802</u>	 <u>\$ -</u>	 <u>\$ 1,123,845</u>

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



2009

<u>Program Services</u>	<u>Management and</u>		<u>Direct Benefits</u>	<u>Fundraising -</u>	
<u>Music Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>To Donors -</u>	<u>Capital</u>	<u>Totals</u>
			<u>Fundraising Events</u>	<u>Campaign</u>	
\$ 102,289	\$ 50,257	\$ 17,030	\$ -	\$ 4,031	\$ 173,607
7,825	3,845	1,303	-	308	13,281
<u>4,313</u>	<u>2,119</u>	<u>718</u>	<u>-</u>	<u>170</u>	<u>7,320</u>
114,427	56,221	19,051	-	4,509	194,208
379,000	-	-	-	-	379,000
3,389	-	-	-	-	3,389
-	-	-	-	-	-
578	1,348	-	-	-	1,926
30	30	-	-	-	60
14,689	9,793	-	-	-	24,482
20,094	5,023	-	-	-	25,117
1,102	122	-	-	-	1,224
208	1,453	208	-	208	2,077
1,795	1,885	243	-	-	3,923
5,045	-	-	-	-	5,045
5,218	7,827	-	-	-	13,045
1,630	1,469	735	-	-	3,834
2,157	1,783	1,783	-	-	5,723
-	197	-	-	-	197
-	19,920	-	-	-	19,920
-	-	579	-	-	579
29,519	7,872	1,968	-	-	39,359
24,178	6,447	1,612	-	-	32,237
3,000	-	-	-	-	3,000
1,993	1,328	-	-	-	3,321
27,659	-	-	-	-	27,659
6,510	1,221	407	-	-	8,138
28,073	7,486	1,872	-	-	37,431
-	-	7,870	-	-	7,870
-	-	9,000	11,000	-	20,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,550</u>	<u>17,550</u>
670,294	131,425	45,328	11,000	22,267	880,314
<u>171,009</u>	<u>42,752</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>213,761</u>
841,303	174,176	45,328	11,000	22,267	1,094,074
<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>-</u>	<u>(11,000)</u>
<u>\$ 841,303</u>	<u>\$ 174,176</u>	<u>\$ 45,328</u>	<u>\$ -</u>	<u>\$ 22,267</u>	<u>\$ 1,083,074</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

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

Basis of Presentation

The 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.

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, 2010 and 2009.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. This statement modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretative releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give (Continued)

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

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents consist principally of checking accounts.

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 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 600 students (500 students in 2009), 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 160 member volunteer faculty of area musicians from many different disciplines.

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. Fundraising expenses related to the capital campaign are reported separately.

Allocation of Functional Expenses

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with 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, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

On July 1, 2009, the Organization adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. The adoption of this guidance did not have a material effect on the Organization's financial position and change in net assets.

As of June 30, 2010 and 2009, the Organization did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the years the ended.

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. Tax returns for years prior to fiscal year 2006 are closed.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 Community Foundation of Middle Tennessee (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. Due to the nature of the underlying investments and method of allocation of the fund, the beneficial interest in the agency endowment fund is classified within Level 3 of the valuation hierarchy.

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.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2010 and November 19, 2010, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Temporarily restricted:		
Due in less than one year	\$ 81,230	\$ 154,279
One to five years	<u>65,280</u>	<u>83,640</u>
	146,510	237,919
Less: discounts to net present value	(4,512)	(3,786)
Less: allowance for doubtful accounts	<u>(65,000)</u>	<u>(65,000)</u>
Net contributions receivable	<u>\$ 76,998</u>	<u>\$ 169,133</u>

Contributions receivable are classified as follows as of June 30:

	<u>2010</u>	<u>2009</u>
Operating	\$ -	\$ 15,064
Capital campaign	<u>76,998</u>	<u>154,069</u>
	<u>\$ 76,998</u>	<u>\$ 169,133</u>

Substantially all of the contributions receivable are from related parties (board members and members of management) of the Organization.



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 3 - PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 319,479	\$ 319,479
Buildings	6,581,308	6,568,108
Vehicles	46,458	26,458
Musical equipment	121,328	105,747
Office equipment and furniture	<u>170,507</u>	<u>166,061</u>
	7,239,080	7,185,853
Less: accumulated depreciation	<u>(616,335)</u>	<u>(400,001)</u>
	<u>\$ 6,622,745</u>	<u>\$ 6,785,852</u>

In November, 1999, the Organization purchased certain real property to renovate and convert for its new music instructional facility. Construction at the new location began in May 2007 and was completed in June 2008. The Organization relocated to the new facility in July 2008. The previously occupied facility was sold in August 2008 for \$521,651, resulting in a gain of \$429,244 recognized in the 2009 fiscal year.

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 Community Foundation of Middle Tennessee (the "Foundation"). Earnings on this fund are used for college scholarships for music school students who wish to pursue a degree in music.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - AGENCY ENDOWMENT FUND (CONTINUED)

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	<u>\$ 70,526</u>	<u>\$ 91,981</u>
Change in value of beneficial interest in agency endowment fund:		
Contributions to the fund	1,100	450
Investment income (loss) - net	8,969	(18,412)
Administrative expenses	<u>(517)</u>	<u>(493)</u>
	9,552	(18,455)
Distributions to the Organization	<u>(1,200)</u>	<u>(3,000)</u>
Balance - end of year	<u>\$ 78,878</u>	<u>\$ 70,526</u>

NOTE 5 - NOTE PAYABLE

On August 29, 2007, the Organization entered into a maximum \$4 million construction loan agreement with a financial institution. As of June 30, 2010 and 2009, the total outstanding balance of the note was \$708,000. The agreement provides for payment of all outstanding principal and unpaid interest on March 28, 2013. Interest is due monthly and is charged at the LIBOR rate plus 80 basis points. The agreement requires the Organization to make principal payments annually on October 1 to reduce the outstanding balance to a maximum outstanding amount, as defined in the agreement. The outstanding balance at June 30, 2010 and 2009 is less than the maximum outstanding balance allowed in any subsequent year until maturity. The note is secured by a deed of trust, capital campaign pledges and all other real and personal property of the Organization.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist entirely of contributions receivable on the capital campaign at June 30, 2010 and 2009.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Organization sponsors a Section 403(b) defined contribution plan for the benefit of eligible employees. The plan provides for the Organization to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by the Organization to the plan amounted to \$3,471 in 2010 and \$7,320 in 2009.

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. The Organization's cash balances exceeded the FDIC coverage by approximately \$305,000 at June 30, 2010.

Contributions received from two donors totaling \$85,093 (before present value discount) comprised 38% of total contributions received for the year ended June 30, 2010 (\$143,238 from two donors comprised 55% of total contributions in 2009). The balance of contributions receivable, exclusive of present value discount, from three major donors at June 30, 2010, totaled \$95,000 (\$155,000 at June 30, 2009).

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>2010</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>\$ -</u>	<u>\$ 78,878</u>	<u>\$ 78,878</u>
<u>2009</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>\$ -</u>	<u>\$ 70,526</u>	<u>\$ 70,526</u>

A reconciliation of changes in the amounts reported for the asset valued using Level 3 inputs is included in Note 4.