

COMMUNITY MUSIC SCHOOL, INC.

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

BACHELOR, TILLERY & ROBERTS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
POST OFFICE BOX 18068
RALEIGH, NORTH CAROLINA 27619

3605 GLENWOOD AVENUE, SUITE 350
RALEIGH, NORTH CAROLINA 27612
TELEPHONE (919) 787-8212
FACSIMILE (919) 783-6724

RONALD A. BACHELOR
ANN H. TILLERY
FRANKLIN T. ROBERTS
WM. JAMES BLACK, JR.
SCOTT E. CABANISS
MICHELLE W. LEMANSKI
JARED L. PILAND

Independent Auditors' Report

The Board of Trustees
Community Music School, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Community Music School, Inc. (the "School") (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows 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 from material misstatement, whether due to fraud or error.

Auditors' 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 of 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 auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 the School as of June 30, 2017 and 2016, 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.

Batchelor, Tillery & Roberts, LLP
September 28, 2017

COMMUNITY MUSIC SCHOOL, INC.

Table of Contents

	<u>Page No.</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements.....	8-11

COMMUNITY MUSIC SCHOOL, INC.

Statements of Financial Position

June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 100,730	30,791
Tuition receivable	-	103
Grants receivable	3,302	6,355
Sales tax receivable	494	752
Security deposits	21	-
Total current assets	<u>104,547</u>	<u>38,001</u>
Property and equipment:		
Office equipment	2,772	4,402
Musical instruments	<u>103,899</u>	<u>96,474</u>
	106,671	100,876
Less accumulated depreciation	<u>(77,581)</u>	<u>(67,447)</u>
Property and equipment, net	<u>29,090</u>	<u>33,429</u>
	<u>\$ 133,637</u>	<u>71,430</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	2,274	4,092
Accrued salaries	2,782	6,000
Deposits	1,225	1,256
Payroll taxes withheld	<u>3,378</u>	<u>4,008</u>
Total current liabilities	<u>9,659</u>	<u>15,356</u>
Net assets:		
Unrestricted	111,601	43,574
Unrestricted - board designated	<u>7,834</u>	<u>5,000</u>
	119,435	48,574
Temporarily restricted	<u>4,543</u>	<u>7,500</u>
Total net assets	<u>123,978</u>	<u>56,074</u>
	<u>\$ 133,637</u>	<u>71,430</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 3,945	-	3,945
City of Raleigh Arts Commission	29,858	-	29,858
Other grants and gifts:			
United Arts Council	13,400	-	13,400
Individuals	109,647	-	109,647
Fundraising events	22,450	-	22,450
Corporations	15,235	-	15,235
Foundation and other private support	49,080	-	49,080
In-kind donations	36,207	-	36,207
Other income	262	-	262
Gain on disposal of assets	356	-	356
Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time	<u>2,957</u>	<u>(2,957)</u>	<u>-</u>
Total revenue and support	<u>283,397</u>	<u>(2,957)</u>	<u>280,440</u>
Expenses:			
Program services	142,448	-	142,448
Fundraising	51,267	-	51,267
General and administrative	<u>18,821</u>	<u>-</u>	<u>18,821</u>
Total expenses	<u>212,536</u>	<u>-</u>	<u>212,536</u>
Change in net assets	70,861	(2,957)	67,904
Net assets, beginning of year	<u>48,574</u>	<u>7,500</u>	<u>56,074</u>
Net assets, end of year	\$ <u>119,435</u>	<u>4,543</u>	<u>123,978</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 4,655	-	4,655
City of Raleigh Arts Commission	38,133	-	38,133
Other grants and gifts:			
United Arts Council	10,595	-	10,595
Individuals	61,885	-	61,885
Fundraising events	500	-	500
Corporations	18,506	-	18,506
Foundation and other private support	29,990	-	29,990
In-kind donations	22,660	-	22,660
Other income	255	-	255
Loss on disposal of assets	(3,233)	-	(3,233)
Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time	-	-	-
Total revenue and support	<u>183,946</u>	<u>-</u>	<u>183,946</u>
Expenses:			
Program services	169,623	-	169,623
Fundraising	37,425	-	37,425
General and administrative	22,106	-	22,106
Total expenses	<u>229,154</u>	<u>-</u>	<u>229,154</u>
Change in net assets	(45,208)	-	(45,208)
Net assets, beginning of year	<u>93,782</u>	<u>7,500</u>	<u>101,282</u>
Net assets, end of year	<u>\$ 48,574</u>	<u>7,500</u>	<u>56,074</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Wages	\$ 46,796	9,024	4,001	59,821
Payroll taxes	3,979	821	364	5,164
Instructor fees	36,783	-	-	36,783
Accounting	-	-	6,475	6,475
Grants/outreach contractor	6,435	15,015	-	21,450
Facility rental	13,920	1,740	1,740	17,400
Instrument maintenance	339	-	-	339
Scholarships	3,170	-	-	3,170
Music and supplies	1,655	-	-	1,655
Computer software and supplies	7,200	10,800	-	18,000
Marketing	100	50	-	150
Development	140	-	-	140
Special events	5,583	10,374	-	15,957
Bad Debts	618	-	16	634
Bank fees	-	213	117	330
Interest	-	-	83	83
Miscellaneous	26	6	125	157
Telephone and internet	753	215	196	1,164
Office supplies	318	302	795	1,415
Postage	-	318	745	1,063
Printing and copying	295	1,331	118	1,744
Dues and memberships	252	1,058	856	2,166
Insurance	2,208	-	1,840	4,048
Staff development	-	-	983	983
Depreciation	11,878	-	367	12,245
	<u>\$ 142,448</u>	<u>51,267</u>	<u>18,821</u>	<u>212,536</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2016

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Wages	\$ 45,301	9,348	4,145	58,794
Payroll taxes	3,007	621	275	3,903
Instructor fees	38,580	-	-	38,580
Accounting	-	-	5,400	5,400
Consultant	30,000	14,200	3,500	47,700
Facility rental	15,080	464	1,856	17,400
Instrument maintenance	4,870	-	-	4,870
Scholarships	3,748	-	-	3,748
Music and supplies	4,129	-	83	4,212
Computer software and supplies	6,889	900	64	7,853
Marketing	790	50	-	840
Development	-	413	-	413
Special events	-	8,470	63	8,533
Bank fees	-	-	338	338
Miscellaneous	89	546	1,301	1,936
Telephone and internet	960	137	68	1,165
Office supplies	280	57	639	976
Postage	221	422	139	782
Printing and copying	212	1,797	204	2,213
Dues and memberships	1,017	-	783	1,800
Insurance	2,260	-	2,184	4,444
Staff development	199	-	693	892
Depreciation	11,991	-	371	12,362
	<u>\$ 169,623</u>	<u>37,425</u>	<u>22,106</u>	<u>229,154</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statements of Cash Flows

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 67,904	(45,208)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Instrument donations	(8,050)	(18,120)
(Gain) loss on disposal of assets	(356)	3,233
Depreciation	12,245	12,362
Changes in operating assets and liabilities:		
Tuition receivable	103	515
Grants receivable	3,053	(132)
Sales tax receivable	258	(26)
Security deposits	(21)	-
Accounts payable	(1,818)	4,092
Accrued salaries	(3,218)	6,000
Deposits	(31)	275
Payroll taxes withheld	(630)	2,595
Net cash provided by (used in) operating activities	<u>69,439</u>	<u>(34,414)</u>
Cash flows from investing activities:		
Proceeds from sale of assets	500	2,591
Purchases of property and equipment	<u>-</u>	<u>(1,488)</u>
Net cash provided by investing activities	<u>500</u>	<u>1,103</u>
Net increase (decrease) in cash and cash equivalents	69,939	(33,311)
Cash and cash equivalents, beginning of year	<u>30,791</u>	<u>64,102</u>
Cash and cash equivalents, end of year	\$ <u>100,730</u>	<u>30,791</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

Nature of Organization

Community Music School, Inc. (the "School") is a not-for-profit organization incorporated in the State of North Carolina on February 1, 1994. The School's mission is to make quality music instruction and performance opportunities available to interested, deserving children from low-income families in the Raleigh, North Carolina area. The School carries out this purpose by providing regular, weekly music instruction at a nominal charge to eligible students, and by providing the students with musical instruments when necessary. The School's revenues are derived principally from grants and gifts from the City of Raleigh, the North Carolina Arts Council, The United Arts Council of Raleigh and Wake County, and from foundations, corporations, and the general public.

Basis of Accounting

The School's financial statements are prepared using the accrual basis of accounting.

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Donor-restricted support is reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Permanently restricted net assets are not available for consumption, but the School is permitted to use the income derived therefrom.

Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, cash and cash equivalents include cash on hand and in banks, and all liquid investments with an original maturity of three months or less.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 changes in net assets during the reporting period. Actual results could differ from those estimates.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2017 and 2016

(1) Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquisitions are recorded at cost at date of acquisition or fair market value at date of gift, and are adjusted for impairments of value. Depreciation is recorded over the estimated useful lives using the straight-line method of depreciation. Upon disposition, the costs and related accumulated depreciation accounts are relieved and any related gain or loss is included in the statements of activities. Expenditures for repairs and maintenance are charged to expense as incurred.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated on a pro-rata basis among the programs and supporting services benefited.

Income Taxes

The School is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

Donated Services and Goods

The School receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, program activities, and special events. No amounts have been recognized in the statements of activities because the criteria for recognition, as defined below, have not been satisfied.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations, are recorded at their fair values, as provided by the donor, in the period received.

Donated goods other than property and equipment are reflected as contributions in the accompanying statements at their estimated values with an offsetting charge to expense.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2017 and 2016

(2) Accounts Receivable

Accounts receivable include tuition and sales tax receivables and are stated at estimated net realizable value. The School establishes an allowance for doubtful receivables in amounts equal to the estimated collection losses that will be incurred.

(3) Concentrations of Credit Risk Arising from Cash Deposits

The School maintains cash balances and investments in certificates of deposit at financial institutions located in Raleigh, North Carolina. Aggregate balances up to \$250,000 are insured by the Federal Deposit Insurance Corporation. As of June 30, 2017 and 2016, the cash balances in these financial institutions did not exceed the insurance limit.

(4) Leases

On July 23, 2010, the School leased office and studio space for a twelve-month term at \$1,450 per month payable in advance on the fifth day of each month. At the end of twelve months, the School continued to rent this same space on a month-to-month basis.

Rental expense included in the statements of activities for 2017 and 2016 is \$17,400.

(5) In-Kind Contributions

The School occasionally receives materials, services, office equipment, and musical instruments without charge. These items are used in the School's program activities and support services. The fair market value of contributed materials, services, and equipment is reported as revenue and as property and equipment or expense in the period received. Contributed instruments recorded in the financial statements for 2017 and 2016 totaled \$13,633 (only \$8,050 of which were capitalized) and \$18,120, respectively. Other in-kind contributions received during 2017 and 2016 totaled \$22,574 and \$4,540, respectively.

(6) Concentrations

The City of Raleigh Arts Commission ("CORAC") comprises approximately 12% of the School's revenues (excluding in-kind contributions) in 2017 and 24% in 2016. Although there is no guarantee of continued funding, the School has historically been supported by CORAC. CORAC's funding policies are such that no applicant will be granted an amount in excess of 25% of its budgeted expenses, and grant recipients will be required to return CORAC funds received to the extent that they exceed 25% of the recipient's actual expenses at year-end. CORAC funds comprise approximately 14% of the School's actual expenses in 2017 and 17% in 2016.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2017 and 2016

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets reported in the statements of financial position for the years ended June 30, 2017 and 2016, consist of funds available for the support of program activities for periods after June 30, 2017 and 2016.

(8) Subsequent Events

The date to which events occurring after June 30, 2017, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 28, 2017, the date the financial statements were available to be issued.