

COMMUNITY MUSIC SCHOOL, INC.

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

COMMUNITY MUSIC SCHOOL, INC.

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Independent Auditors' Report

The Board of Trustees
Community Music School, Inc.:

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, 2018 and 2017, 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 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 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, 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.

Batchelor, Tillery & Roberts, LLP

September 30, 2018

COMMUNITY MUSIC SCHOOL, INC.

Statements of Financial Position

June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 128,158	100,730
Grants receivable	2,889	3,302
Sales tax receivable	146	494
Security deposits	21	21
Total current assets	<u>131,214</u>	<u>104,547</u>
Property and equipment:		
Office equipment	2,772	2,772
Musical instruments	101,626	103,899
	<u>104,398</u>	<u>106,671</u>
Less accumulated depreciation	<u>(84,600)</u>	<u>(77,581)</u>
Property and equipment, net	<u>19,798</u>	<u>29,090</u>
	<u>\$ 151,012</u>	<u>133,637</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	762	2,274
Accrued salaries	3,483	2,782
Refundable deposits	1,350	1,225
Payroll taxes withheld	1,382	3,378
Total current liabilities	<u>6,977</u>	<u>9,659</u>
Net assets:		
Unrestricted	111,682	111,601
Unrestricted - board designated	20,347	7,834
	<u>132,029</u>	<u>119,435</u>
Temporarily restricted	12,006	4,543
Total net assets	<u>144,035</u>	<u>123,978</u>
	<u>\$ 151,012</u>	<u>133,637</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 3,760	-	3,760
City of Raleigh Arts Commission	44,572	-	44,572
Other grants and gifts:			
United Arts Council	10,800	-	10,800
Individuals	39,325	11,701	51,026
Fundraising events	51,879	-	51,879
Corporations	7,529	-	7,529
Foundation and other private support	34,214	11,867	46,081
In-kind donations	23,834	-	23,834
Other income	637	-	637
Gain on disposal of assets	133	-	133
Net assets released from restrictions-			
restrictions satisfied by costs incurred			
and expiration of time	<u>16,105</u>	<u>(16,105)</u>	<u>-</u>
Total revenue and support	<u>232,788</u>	<u>7,463</u>	<u>240,251</u>
Expenses:			
Program services	140,839	-	140,839
Fundraising	44,814	-	44,814
General and administrative	34,541	-	34,541
Total expenses	<u>220,194</u>	<u>-</u>	<u>220,194</u>
Change in net assets	12,594	7,463	20,057
Net assets, beginning of year	<u>119,435</u>	<u>4,543</u>	<u>123,978</u>
Net assets, end of year	\$ <u>132,029</u>	<u>12,006</u>	<u>144,035</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 Functional Expenses

Year ended June 30, 2018

	<u>Program Services</u>	<u>Fundraising</u>	<u>General and Administrative</u>	<u>Total</u>
Wages	\$ 39,724	4,966	1,413	46,103
Payroll taxes	3,039	380	108	3,527
Instructor fees	42,378	-	-	42,378
Accounting	-	-	5,600	5,600
Consultants	5,012	8,993	19,146	33,151
Facility rental	13,920	1,740	1,740	17,400
Instrument maintenance	2,562	-	-	2,562
Scholarships	4,790	-	-	4,790
Music and supplies	2,811	-	-	2,811
Marketing	10	-	-	10
Special events	-	12,359	-	12,359
Bad debts	140	-	180	320
Permits and licenses	-	75	200	275
Travel	5	519	37	561
Sales tax	89	30	434	553
Bank fees	-	252	-	252
Miscellaneous	-	158	615	773
Telephone and internet	955	266	215	1,436
Office supplies	171	420	765	1,356
Postage	-	718	473	1,191
Printing and copying	-	2,754	104	2,858
Dues and subscriptions	50	-	2,412	2,462
Insurance	2,275	384	756	3,415
Staff development	25	-	-	25
Donated equipment	3,794	-	25	3,819
Donated services	8,215	10,800	-	19,015
Depreciation	10,874	-	318	11,192
	<u>\$ 140,839</u>	<u>44,814</u>	<u>34,541</u>	<u>220,194</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2017

	<u>Program</u> <u>Services</u>	<u>Fundraising</u>	<u>General and</u> <u>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.

Statements of Cash Flows

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 20,057	67,904
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Instrument donations	(1,000)	(8,050)
Gain on disposal of assets	(133)	(356)
Depreciation	11,192	12,245
Changes in operating assets and liabilities:		
Tuition receivable	-	103
Grants receivable	413	3,053
Sales tax receivable	348	258
Security deposits	-	(21)
Accounts payable	(1,512)	(1,818)
Accrued salaries	701	(3,218)
Deposits	125	(31)
Payroll taxes withheld	<u>(1,996)</u>	<u>(630)</u>
Net cash provided by operating activities	<u>28,195</u>	<u>69,439</u>
Cash flows from investing activities:		
Proceeds from sale of assets	160	500
Purchases of property and equipment	<u>(927)</u>	<u>-</u>
Net cash (used in) provided by investing activities	<u>(767)</u>	<u>500</u>
Net increase in cash and cash equivalents	27,428	69,939
Cash and cash equivalents, beginning of year	<u>100,730</u>	<u>30,791</u>
Cash and cash equivalents, end of year	\$ <u>128,158</u>	<u>100,730</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements

June 30, 2018 and 2017

(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 enrich and inspire all children through music education. 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 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, whereby, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to Generally Accepted Accounting Principles.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates and assumptions are used for, but not limited to, uncollectible accounts receivable and contributions, depreciable lives of fixed assets, cost allocations among functional expenses, and value for in-kind donated equipment and services.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements

June 30, 2018 and 2017

(1) Significant Accounting Policies, Continued

Fixed Assets

Fixed assets are recorded at cost or, if donated, at the approximate fair market value at the date of donation. Fixed assets are capitalized on the books if each individual item is \$800 or more in value. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The following are the estimated useful lives of the respective assets:

<u>Description</u>	<u>Estimated Useful Lives</u>
Furniture and fixtures	5 years
Musical instruments	4 years
Computers and equipment	3 years

Expenditures for repairs and maintenance to fixed assets are charged to expense as incurred. The cost of major renewals and betterments to fixed assets are capitalized and depreciated or amortized over their estimated useful lives. Upon disposition of fixed assets, the respective assets and accumulated depreciation and amortization are relieved, and any related gain or loss is reflected in the statements of activities.

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.

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 capitalized fixed assets are reflected as contributions in the accompanying statements at their estimated values with an offsetting charge to expense.

COMMUNITY MUSIC SCHOOL, INC.

Statements of Cash Flows

June 30, 2018 and 2017

(1) Significant Accounting Policies, Continued

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.

Selected Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which is effective for the financial statements for the year ending June 30, 2019. This ASU aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity.

The ASU changes the net asset classification to two classes of net assets rather than the currently required three classes, requires presentation of expenses both by nature and function, requires investment return be reported net of investment expenses, requires the placed-in-service approach for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowments.

The Financial Accounting Standards Board has issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, Not-for Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 will be effective for the Club beginning July 1, 2019.

Management is in the process of assessing the impact of these new accounting standards.

(2) Accounts Receivable

Accounts receivable include tuition and sales tax receivables and are stated at unpaid balances. The School provides for losses on receivables using the direct write-off method. It is the School's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

(3) Concentrations of Credit Risk Arising from Cash Deposits

The School maintains its cash and investments 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, 2018 and 2017, the cash balances in these financial institutions did not exceed the insurance limit.

COMMUNITY MUSIC SCHOOL, INC.

Statements of Cash Flows

June 30, 2018 and 2017

(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 2018 and 2017 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 2018 and 2017 totaled \$4,650 (only \$1,000 of which were capitalized) and \$13,633 (only \$8,050 of which were capitalized), respectively. Other in-kind contributions received during 2018 and 2017 totaled \$19,184 and \$22,574, respectively.

(6) Concentrations

The City of Raleigh Arts Commission ("CORAC") comprises approximately 21% of the School's revenues (excluding in-kind contributions) in 2018 and 12% in 2017. 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 20% of the School's actual expenses in 2018 and 14% in 2017.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets reported in the statements of financial position as of June 30, 2018 and 2017, consist of funds available for the support of program activities for periods after June 30, 2018 and 2017.

(8) Subsequent Events

The date to which events occurring after June 30, 2018, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 30, 2018, the date the financial statements were available to be issued.