

COMMUNITY MUSIC SCHOOL, INC.

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

COMMUNITY MUSIC SCHOOL, INC.

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Independent Auditors' Report

The Board of Directors
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, 2019 and 2018, 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 the 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New Accounting Standard

As discussed in note 1, the School adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.


September 23, 2019

COMMUNITY MUSIC SCHOOL, INC.

Statements of Financial Position

June 30, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 146,711	128,158
Accounts receivable	14,839	2,889
Sales tax receivable	-	146
Security deposits	-	21
Total current assets	<u>161,550</u>	<u>131,214</u>
Property and equipment:		
Office equipment	2,638	2,772
Musical instruments	<u>72,788</u>	<u>101,626</u>
	75,426	104,398
Less accumulated depreciation	<u>(68,001)</u>	<u>(84,600)</u>
Property and equipment, net	<u>7,425</u>	<u>19,798</u>
Total assets	\$ <u>168,975</u>	<u>151,012</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	-	762
Accrued salaries	9,708	3,483
Refundable deposits	1,775	1,350
Payroll taxes withheld	<u>3,983</u>	<u>1,382</u>
Total current liabilities	<u>15,466</u>	<u>6,977</u>
Net assets:		
Without donor restrictions	104,328	111,682
Without donor restrictions - board designated	<u>31,004</u>	<u>20,347</u>
	135,332	132,029
With donor restrictions	<u>18,177</u>	<u>12,006</u>
Total net assets	<u>153,509</u>	<u>144,035</u>
Total liabilities and net assets	\$ <u>168,975</u>	<u>151,012</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 4,893	-	4,893
City of Raleigh Arts Commission	37,669	-	37,669
Other grants and gifts:			
Individuals	65,955	13,685	79,640
Fundraising events	31,860	-	31,860
Corporations	18,030	1,477	19,507
Foundation and other private support	97,025	19,200	116,225
In-kind donations	10,689	-	10,689
Other income	884	-	884
Loss on disposal of assets	(3,823)	-	(3,823)
Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time	<u>28,191</u>	<u>(28,191)</u>	<u>-</u>
Total revenue and support	<u>291,373</u>	<u>6,171</u>	<u>297,544</u>
Expenses:			
Program services	188,705	-	188,705
Fundraising	63,306	-	63,306
General and administrative	<u>36,059</u>	<u>-</u>	<u>36,059</u>
Total expenses	<u>288,070</u>	<u>-</u>	<u>288,070</u>
Change in net assets	3,303	6,171	9,474
Net assets, beginning of year	<u>132,029</u>	<u>12,006</u>	<u>144,035</u>
Net assets, end of year	\$ <u><u>135,332</u></u>	<u><u>18,177</u></u>	<u><u>153,509</u></u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</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	<u>34,541</u>	<u>-</u>	<u>34,541</u>
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 Functional Expenses

Year ended June 30, 2019

	Program Services	Supporting Services		Total
		Fundraising	Management and General	
Wages	\$ 84,988	17,297	19,746	122,031
Payroll taxes	6,635	1,109	1,591	9,335
Instructor fees	45,273	-	-	45,273
Accounting	3,520	1,155	825	5,500
Other contracted services	-	28,067	4,953	33,020
Facility rental	18,247	2,246	2,246	22,739
Instrument maintenance	1,718	-	-	1,718
Scholarships	1,580	-	-	1,580
Music and supplies	1,185	-	-	1,185
Marketing	-	578	25	603
Special events	-	5,466	-	5,466
Bad debts	-	-	38	38
Permits and licenses	-	200	5	205
Travel	9	8	8	25
Sales tax	1	75	204	280
Bank fees	257	125	(4)	378
Miscellaneous	765	284	422	1,471
Telephone and internet	815	233	117	1,165
Office supplies	274	458	1,235	1,967
Postage	3	872	539	1,414
Printing and copying	152	1,846	13	2,011
Dues and memberships	1,655	1,263	1,959	4,877
Insurance	2,566	136	914	3,616
Staff development	657	638	639	1,934
Donated instruments	8,275	-	-	8,275
Donated services	1,164	1,250	-	2,414
Depreciation	8,966	-	584	9,550
	\$ <u>188,705</u>	<u>63,306</u>	<u>36,059</u>	<u>288,070</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2018

	Program Services	Supporting Services		Total
		Fundraising	Management and General	
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.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,474	20,057
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Instrument donations	-	(1,000)
Loss (gain) on disposal of assets	3,823	(133)
Depreciation	9,550	11,192
Changes in operating assets and liabilities:		
Accounts receivable	(11,950)	413
Sales tax receivable	146	348
Security deposits	21	-
Accounts payable	(762)	(1,512)
Accrued salaries	6,225	701
Deposits	425	125
Payroll taxes withheld	<u>2,601</u>	<u>(1,996)</u>
Net cash provided by operating activities	<u>19,553</u>	<u>28,195</u>
Cash flows from investing activities:		
Proceeds from sale of assets	-	160
Purchases of property and equipment	<u>(1,000)</u>	<u>(927)</u>
Net cash used in investing activities	<u>(1,000)</u>	<u>(767)</u>
Net increase in cash and cash equivalents	18,553	27,428
Cash and cash equivalents, beginning of year	<u>128,158</u>	<u>100,730</u>
Cash and cash equivalents, end of year	\$ <u>146,711</u>	<u>128,158</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(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 and from nonprofits, foundations, corporations, and the general public.

Basis of Accounting and Revenue Recognition

The School's policy is to prepare its financial statements on the accrual basis of accounting. Revenues and support are reported as an increase in net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions represent funds available for the support of program activities for periods after June 30, 2019 and 2018.

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.

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 among the programs and supporting services benefited.

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 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, Continued

June 30, 2019 and 2018

(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.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, the School adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the description of the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. In addition, a statement of functional expenses is now presented, and information regarding liquidity and availability of resources is presented in the notes to the financial statements.

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.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(1) Significant Accounting Policies, Continued

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.

Selected Recent Accounting Pronouncements

The Financial Accounting Standards Board has issued ASU 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will be effective for the School beginning July 1, 2019.

The FASB has also 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 Organization 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, 2019 and 2018, the cash balances in these financial institutions did not exceed the insurance limit.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(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 until January 15, 2019, when a new twenty-one month lease for the same space was signed increasing the rent to \$2,370 per month.

The School moved to a new space on July 1, 2019, for which a lease has not yet been signed. Monthly rent is \$1,350 on a month-to-month basis.

On May 1, 2019, the School rented storage space for instruments at \$80 per month on a month-to-month basis.

Rental expense included in the statements of activities for 2019 and 2018 is \$22,739 and \$17,400, respectively.

(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 2019 and 2018 totaled \$8,275 (none of which were capitalized) and \$4,650 (only \$1,000 of which were capitalized), respectively. Other in-kind contributions received during 2019 and 2018 totaled \$2,414 and \$19,184, respectively.

(6) Concentrations

The City of Raleigh Arts Commission ("CORAC") comprises approximately 13% of the School's revenues (excluding in-kind contributions) in 2019 and 21% in 2018. 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 13% of the School's actual expenses in 2019 and 20% in 2018.

(7) Information Regarding Liquidity and Availability

The School regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the School considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(7) Information Regarding Liquidity and Availability, Continued

The School's financial assets as of June 30, 2019 consist of cash and accounts receivable, resulting in net financial assets of \$143,373, all of which are available to meet general expenditures within one year of the financial statement date.

	<u>2019</u>
Financial assets at year end:	
Cash and cash equivalents	\$ 146,711
Accounts receivable	<u>14,839</u>
Total financial assets	161,550
Less donor restricted funds	<u>(18,177)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 143,373</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

(8) Subsequent Events

The date to which events occurring after June 30, 2019, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is September 23, 2019, the date the financial statements were available to be issued.