

COMMUNITY MUSIC SCHOOL, INC.

Financial Statements

June 30, 2023 and 2022

(With Independent Auditors' Report Thereon)

COMMUNITY MUSIC SCHOOL, INC.

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Independent Auditors' Report

The Board of Directors
Community Music School, Inc.:

Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Schools's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Batchelor, Jilley & Roberts, LLP

October 16, 2023

COMMUNITY MUSIC SCHOOL, INC.

Statements of Financial Position

June 30, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 484,878	440,734
Accounts receivable	43,396	84,818
Pledges receivable	<u>1,000</u>	<u>1,000</u>
Total current assets	<u>529,274</u>	<u>526,552</u>
Property and equipment:		
Office equipment	2,638	2,638
Musical instruments	<u>128,200</u>	<u>126,870</u>
	130,838	129,508
Less accumulated depreciation	<u>(109,943)</u>	<u>(107,490)</u>
Property and equipment, net	20,895	22,018
Pledges receivable	<u>4,000</u>	<u>2,894</u>
Total assets	<u>\$ 554,169</u>	<u>551,464</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	22,815	13,222
Accrued salaries	14,344	15,240
Refundable deposits	1,675	1,675
Payroll taxes withheld	<u>8,815</u>	<u>5,815</u>
Total current liabilities	<u>47,649</u>	<u>35,952</u>
Net assets:		
Without donor restrictions	325,924	362,698
Without donor restrictions - board designated	<u>150,000</u>	<u>65,716</u>
	475,924	428,414
With donor restrictions	<u>30,596</u>	<u>87,098</u>
Total net assets	<u>506,520</u>	<u>515,512</u>
Total liabilities and net assets	<u>\$ 554,169</u>	<u>551,464</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 9,566	-	9,566
City of Raleigh Arts Commission	58,054	-	58,054
Other grants and gifts:			
Individuals	145,703	-	145,703
Fundraising events	113,337	-	113,337
Corporations	43,256	-	43,256
Foundation and other private support	154,879	-	154,879
Other income	5,152	-	5,152
Net assets released from restrictions- restrictions satisfied by costs incurred and expiration of time			
	<u>56,502</u>	<u>(56,502)</u>	<u>-</u>
Total revenue and support	<u>586,449</u>	<u>(56,502)</u>	<u>529,947</u>
Expenses:			
Program services	383,242	-	383,242
Fundraising	107,966	-	107,966
General and administrative	47,731	-	47,731
Total expenses	<u>538,939</u>	<u>-</u>	<u>538,939</u>
Change in net assets	47,510	(56,502)	(8,992)
Net assets, beginning of year	<u>428,414</u>	<u>87,098</u>	<u>515,512</u>
Net assets, end of year	\$ <u>475,924</u>	<u>30,596</u>	<u>506,520</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Activities

Year ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support:			
Tuition	\$ 8,270	-	8,270
City of Raleigh Arts Commission	58,024	-	58,024
Other grants and gifts:			
Individuals	97,348	-	97,348
Fundraising events	135,411	-	135,411
Corporations	18,166	-	18,166
Foundation and other private support	151,477	80,100	231,577
Other income	355	-	355
Net assets released from restrictions-			
restrictions satisfied by costs incurred			
and expiration of time	<u>33,117</u>	<u>(33,117)</u>	<u>-</u>
Total revenue and support	<u>502,168</u>	<u>46,983</u>	<u>549,151</u>
Expenses:			
Program services	285,245	-	285,245
Fundraising	73,228	-	73,228
General and administrative	<u>44,609</u>	<u>-</u>	<u>44,609</u>
Total expenses	<u>403,082</u>	<u>-</u>	<u>403,082</u>
Change in net assets	99,086	46,983	146,069
Net assets, beginning of year	<u>329,328</u>	<u>40,115</u>	<u>369,443</u>
Net assets, end of year	\$ <u>428,414</u>	<u>87,098</u>	<u>515,512</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2023

	Program Services	Supporting Services		Total
		Fundraising	General and Administrative	
Wages	\$ 278,974	72,747	12,112	363,833
Payroll taxes	23,877	6,226	1,037	31,140
Instructor fees	450	-	-	450
Accounting	-	-	14,655	14,655
Other contracted services	29,081	5,206	2,446	36,733
Facility rental	24,238	-	-	24,238
Instrument maintenance	4,938	-	-	4,938
Scholarships	4,120	-	-	4,120
Music and supplies	1,522	-	-	1,522
Marketing	3,069	3,069	3,070	9,208
Special events	-	10,485	-	10,485
Permits and licenses	-	-	203	203
Travel	1,087	3,305	46	4,438
Bank fees	-	-	411	411
Miscellaneous	857	-	521	1,378
Office supplies	1,504	-	1,504	3,008
Printing and copying	1,416	1,416	1,416	4,248
Dues and memberships	2,623	5,012	4,576	12,211
Insurance	-	-	4,567	4,567
Staff development	2,333	-	1,167	3,500
Other fundraising expense	-	500	-	500
Depreciation	3,153	-	-	3,153
	\$ <u>383,242</u>	<u>107,966</u>	<u>47,731</u>	<u>538,939</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statement of Functional Expenses

Year ended June 30, 2022

	Program Services	Supporting Services		Total
		Fundraising	General and Administrative	
Wages	\$ 212,633	31,920	16,085	260,638
Payroll taxes	18,602	2,793	1,407	22,802
Instructor fees	1,270	-	-	1,270
Accounting	-	-	12,435	12,435
Other contracted service	2,760	4,300	-	7,060
Facility rental	17,820	-	-	17,820
Instrument maintenance	3,083	-	-	3,083
Music and supplies	1,780	-	-	1,780
Marketing	5,917	5,918	5,918	17,753
Special events	-	18,692	-	18,692
Other fundraising expense	-	1,829	-	1,829
Permits and licenses	-	-	200	200
Travel	-	-	854	854
Bank fees	-	-	102	102
Miscellaneous	69	-	211	280
Office supplies	949	1,500	1,500	3,949
Postage	-	610	610	1,220
Printing and copying	911	910	910	2,731
Dues and subscriptions	3,862	4,756	1,132	9,750
Insurance	1,218	-	3,245	4,463
Depreciation	14,371	-	-	14,371
	\$ <u>285,245</u>	<u>73,228</u>	<u>44,609</u>	<u>403,082</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Statements of Cash Flows

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ (8,992)	146,069
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,153	14,371
Changes in operating assets and liabilities:		
Accounts and pledges receivable	40,316	(63,575)
Accounts payable	9,593	2,856
Accrued salaries	(896)	5,209
Payroll taxes withheld	<u>3,000</u>	<u>1,968</u>
Net cash provided by operating activities	46,174	106,898
Cash flows from investing activities:		
Purchase of musical instruments	<u>(2,030)</u>	<u>-</u>
Net increase in cash and cash equivalents	44,144	106,898
Cash and cash equivalents, beginning of year	<u>440,734</u>	<u>333,836</u>
Cash and cash equivalents, end of year	\$ <u>484,878</u>	<u>440,734</u>

See accompanying notes to financial statements.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements

June 30, 2023 and 2022

(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 are recognized when earned and expenses are recognized when incurred.

Donor-restricted support is reported as an increase in net assets without donor restrictions or with donor restrictions, depending on the existence 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.

Contributions with donor-imposed restrictions that expire in the same time period as received are reported as an increase in net assets without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions.

A portion of the School's revenue is derived from cost-reimbursable grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the performance obligation is satisfied, which is when the School has incurred expenditures in compliance with specific grant provisions.

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.

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.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2023 and 2022

(1) Significant Accounting Policies, Continued

Pledges Receivable

Pledges receivable are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Management has determined that the discount on pledges to be received after one year is not material to the financial statements. Management provides for probable uncollectible amounts through an allowance for doubtful accounts based on its assessment of the status of individual accounts. Any accounts deemed uncollectible are written off through this valuation allowance during the year. The allowance for doubtful pledges was \$0 as of June 30, 2023 and 2022.

Functional Allocation of Expenses

Management estimates the costs of providing the various programs and other activities on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenditures not directly attributable to specific programs or supporting services are allocated to programs or supporting services by management based on what is considered to be the best available objective criteria, such as hours worked or relative benefit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 valuation of in-kind donated equipment and services.

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 \$2,000 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

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2023 and 2022

(1) Significant Accounting Policies, Continued

Fixed Assets, Continued

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.

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

(2) 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, 2023 and 2022, the cash balances in these financial institutions exceeded the insurance limit by \$0 and \$187,235, respectively.

(3) Leases

Beginning July 1, 2019, the School entered into an agreement to rent its current office space at \$1,350 per month on a month-to-month basis. On December 20, 2022, the School renewed this agreement at \$1,750 per month. The School rents storage space for instruments at \$165 per month on a month-to-month basis. Rental expense included in the statements of activities for 2023 and 2022 is \$24,238 and \$17,820, respectively. Accordingly, the School has elected to apply the short-term lease exemption to these facility leases, and recognizes the payments in expense as paid.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2023 and 2022

(4) 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. There were no such contributions in 2023 or 2022.

(5) Concentrations

The City of Raleigh Arts Commission ("CORAC") comprises approximately 11% of the School's revenues (excluding in-kind contributions) in 2023 and 10% in 2022. 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 11% of the School's actual expenses in 2023 and 14% in 2022.

(6) 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.

The School's financial assets as of June 30, 2023 consist of cash and accounts receivable, resulting in net financial assets of \$498,678, all of which are available to meet general expenditures within one year of the financial statement date.

	<u>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 484,878	440,734
Accounts receivable	43,396	84,818
Pledges receivable	5,000	3,894
Less amounts due in > 1 year	<u>(4,000)</u>	<u>(2,894)</u>
Total financial assets	529,274	526,552
Less donor restricted funds	<u>(30,596)</u>	<u>(87,098)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>498,678</u>	<u>439,454</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.

COMMUNITY MUSIC SCHOOL, INC.

Notes to Financial Statements, Continued

June 30, 2023 and 2022

(7) Net Assets With Donor Restrictions

Net assets with donor restrictions reported in the statements of financial position as of June 30, 2023 and 2022, consist of funds available for the support of program activities for periods after June 30, 2023 and 2022.

(8) Subsequent Events

The date to which events occurring after June 30, 2023, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is October 16, 2023, the date the financial statements were available to be issued.