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AUDIT

THE NORTHAMPTON ACADEMY OF MUSIC, INC

Independent Auditor's Report

June 30, 2004

Kelly Rose PC
Certified Public Accountant

THE NORTHAMPTON ACADEMY OF MUSIC
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**KELLY ROSE PC
CERTIFIED PUBLIC ACCOUNTANT**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Northampton Academy of Music, Inc.
Northampton, Massachusetts 01060

I have audited the accompanying statement of financial position of The Northampton Academy of Music, Inc. as of June 30, 2004, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of The Northampton Academy of Music, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of The Academy of Music, Inc. for the year ended June 30, 2003 are presented for comparative purposes only and were audited by another auditor. The auditor's report was dated September 17, 2003 an unqualified opinion was express on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Northampton Academy of Music, Inc. as of June 30, 2004, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Kelly Rose PC
Kelly Rose PC
Certified Public Accountant
Northampton, Massachusetts
February 16, 2005

THE NORTHAMPTON ACADEMY OF MUSIC, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2004

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ASSETS	<u>2004</u>	<u>2003</u>
Cash	\$ 60,502	\$ 16,239
Accounts receivable	9,346	5,950
Prepaid expense	4,119	4,152
Property and equipment - net	<u>487,545</u>	<u>510,525</u>
Total Assets	<u>\$ 561,512</u>	<u>\$ 536,866</u>
LIABILITIES		
Accounts payable	\$ 115,715	\$ 68,581
Deferred revenue	3,816	-
Accrued payroll	2,519	3,687
Notes and loans payable	<u>49,857</u>	<u>56,157</u>
Total Liabilities	<u>171,907</u>	<u>128,425</u>
NET ASSETS		
Unrestricted	389,605	373,441
Temporarily restricted	<u>-</u>	<u>35,000</u>
Total Net Assets	389,605	408,441
Total Liabilities and Net Assets	<u>\$ 561,512</u>	<u>\$ 536,866</u>

See notes to financial statements.

THE NORTHAMPTON ACADEMY OF MUSIC, INC.
STATEMENT OF ACTIVITIES
June 30, 2004

UNRESTRICTED NET ASSETS

Support and Revenue	<u>2004</u>	<u>2003</u>
Donations and grants	\$ 37,164	\$ 32,527
Film admissions	302,055	292,425
Theater rentals - net	22,321	28,413
Concessions - net	48,775	46,616
On-screen advertising - net	7,381	-
Special events and other	<u>11,003</u>	<u>18,207</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	428,699	418,188
Net assets released from restrictions	35,000	-
Operating Expenses		
Compensation and related expenses	144,535	141,995
Film costs, transportation and booking	178,922	147,231
Advertising	32,752	22,274
Utilities	23,505	22,241
Depreciation	22,980	23,329
Insurance	11,592	10,696
Maintenance and repairs	13,467	7,904
Office expenses	1,994	1,071
Payroll services	3,163	2,908
Professional fees	900	900
Dues and subscriptions	815	721
Telephone	4,047	4,630
Interest	4,392	3,007
Miscellaneous	<u>4,471</u>	<u>3,809</u>
TOTAL OPERATING EXPENSES	<u>447,535</u>	<u>392,716</u>
INCREASE IN UNRESTRICTED NET ASSETS	16,164	25,472
Net assets released from restrictions	<u>(35,000)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(18,836)	25,472
NET ASSETS AT BEGINNING OF YEAR	<u>408,441</u>	<u>382,969</u>
NET ASSETS AT END OF YEAR	<u>\$ 389,605</u>	<u>\$ 408,441</u>

See notes to financial statements.

THE NORTHAMPTON ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

In 1982, Edward H. R. Lyman gifted the land and building, known as the academy of Music to the City of Northampton. In the "Deed of Gift" it is stated that the "premises shall be devoted and used exclusively for the delivery of lectures, the production of concerts and operas and the impressions and delineation of drama of the better character and such other kindred subjects." Although the property belongs to the City of Northampton, the "Deed of Gift" specifies that "the care and management of the Academy of Music is vested solely in a special committee, or Board of Trustees of five persons." The Deed specifies that the Mayor of the City of Northampton and the President of Smith College shall serve as ex-officio members of the Board of Trustees.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Northampton Academy of Music, Inc. have been prepared on the accrual basis of accounting and consequently, revenue is recognized when earned and expenses when incurred.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful lives.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

THE NORTHAMPTON ACADEMY OF MUSIC, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows by major classifications:

	<u>2004</u>	<u>2003</u>
Leasehold improvements	\$ 666,670	\$ 666,670
Furniture, fixtures and equipment	<u>163,398</u>	<u>163,398</u>
	830,068	830,068
Less: accumulated depreciation	<u>(342,523)</u>	<u>(319,543)</u>
	<u>\$ 487,545</u>	<u>\$ 510,525</u>

NOTED C – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted by the donor for production expenses. The Organization received a letter from the donor during the month of February of 2005. This letter stated that there wasn't any record of the donation being restricted in any way and could be used on operations, purchase of assets, or paying down on debt. The donation was reclassified to unrestricted net assets.

NOTE D – NOTES AND LOANS PAYABLE

The Organization's obligations under notes and loans payable, at June 30, 2004, consist of the following:

Notes payable to various individuals/organizations-	
Demand note payable without interest	9,857
Demand note with interest at 9%	25,000
Demand note with interest at 9%	<u>15,000</u>
	<u>\$ 49,857</u>

THE NORTHAMPTON ACADEMY OF MUSIC, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE E- BUILDING RENOVATION

The City of Northampton, owner of the Academy of Music building, contracted with the Commonwealth of Massachusetts in May, 2000, to oversee major structural building renovations. The maximum obligation under the grant is \$2,000,000. Major items included in those renovations are as follows: new slate roof, repointing of outside brick, upgrade to the fire suppressant system, repairs to stage grid and truss system, new heating system, replacement of windows and exit doors, upgrades to the dressing rooms and handicap accessibility modifications. The majority of the renovations were completed during the summer of 2004. The Organization will not record the revenue from the grant or the cost of the renovations since the City of Northampton retains title to the building.

NOTE F- RELATED PARTY TRANSACTION

A Trustee of the Organization is also an Officer of the insurance company that provides insurance to the Organization. Payments to the insurance company totaled \$4,764 during FY 2004.