

**National Association for Music Education and
Subsidiary**

**Consolidated Financial Statements and
Independent Auditor's Report**

June 30, 2015 and 2014

National Association for Music Education and Subsidiary

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Independent Auditor's Report

The Board of Directors
National Association for Music Education

We have audited the accompanying financial statements of National Association for Music Education (the "Association" or "NAfME") and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAFME and Subsidiary as of June 30, 2015, and the changes in their consolidated net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited National Association for Music Education's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 19, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Bethesda, Maryland
September 29, 2015

National Association for Music Education and Subsidiary

Consolidated Statement of Financial Position
June 30, 2015 (with comparative totals for 2014)

	2015						2014
	Unrestricted			Temporary restricted	Permanently restricted	Total	
Assets	Unrestricted	Board designated	Total unrestricted				
Current assets							
Cash and cash equivalents	\$ 359,758	\$ 86,883	\$ 446,641	\$ 31,167	\$ 135	\$ 477,943	\$ 233,919
Investments - short-term	-	4,128,437	4,128,437	9,000	75,000	4,212,437	4,311,823
Accounts receivable, net	251,433	1,624	253,057	-	-	253,057	182,245
Current portion of note receivable	-	-	-	-	-	-	1,682
Inventories, net	168,838	-	168,838	-	-	168,838	145,736
Prepaid expenses	172,428	-	172,428	-	-	172,428	105,900
Total current assets	952,457	4,216,944	5,169,401	\$ 40,167	75,135	5,284,703	4,981,305
Noncurrent assets							
Investments - long-term	-	339,178	339,178	-	-	339,178	339,178
Land, building and equipment, net	2,496,044	-	2,496,044	-	-	2,496,044	2,732,571
Total assets	\$ 3,448,501	\$ 4,556,122	\$ 8,004,623	\$ 40,167	\$ 75,135	\$ 8,119,925	\$ 8,053,054
Liabilities and Net Assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 900,143	\$ -	\$ 900,143	\$ -	\$ -	\$ 900,143	\$ 987,680
Deferred income	2,094,735	-	2,094,735	-	-	2,094,735	2,006,762
Total current liabilities	2,994,878	-	2,994,878	-	-	2,994,878	2,994,442
Commitments and contingencies	-	-	-	-	-	-	-
Net assets	453,623	4,556,122	5,009,745	40,167	75,135	5,125,047	5,058,612
Total liabilities and net assets	\$ 3,448,501	\$ 4,556,122	\$ 8,004,623	\$ 40,167	\$ 75,135	\$ 8,119,925	\$ 8,053,054

National Association for Music Education and Subsidiary

**Consolidated Statement of Activities
Year Ended June 30, 2015 (with comparative totals for 2014)**

	2015						2014
	Unrestricted		Total unrestricted	Temporarily restricted	Permanently restricted	Total	
	Unrestricted	Board designated					
Operating activities							
Revenue and support							
Membership dues and contributions	\$ 5,065,983	\$ -	\$ 5,065,983	\$ 160,465	\$ -	\$ 5,226,448	\$ 4,877,110
Contributions/donations	61,622	-	61,622	112,392	-	174,014	51,078
Sponsorships	72,846	-	72,846	-	-	72,846	40,736
Royalty income	203,504	-	203,504	-	-	203,504	149,303
Sale of inventories	516,958	-	516,958	-	-	516,958	539,976
Meetings and conventions	867,152	-	867,152	-	-	867,152	747,367
Grants and contracts	22,351	-	22,351	1,020	-	23,371	-
Advertising	394,846	-	394,846	-	-	394,846	511,917
Investment income	623	158,314	158,937	2,100	-	161,037	619,728
Publication revenue	191,156	-	191,156	-	-	191,156	183,559
Rent revenue	120,045	-	120,045	-	-	120,045	125,032
Miscellaneous income	191,977	-	191,977	10,268	-	202,245	166,896
Net assets released from restrictions	257,399	-	257,399	(257,399)	-	-	-
Net assets released from designation	189,726	(189,726)	-	-	-	-	-
Total revenue and support	8,156,188	(31,412)	8,124,776	28,846	-	8,153,622	8,012,702
Expenses							
Program services:							
Strategic relationship development	307,638	-	307,638	-	-	307,638	530,857
Capacity building	924,847	-	924,847	-	-	924,847	788,870
Professional development	43,569	-	43,569	-	-	43,569	46,181
Member and student experiences	1,697,474	-	1,697,474	-	-	1,697,474	1,826,206
Public policy	178,912	-	178,912	-	-	178,912	122,844
Brand management	353,231	-	353,231	-	-	353,231	403,105
Membership growth and development	245,510	-	245,510	-	-	245,510	286,962
Organizing	19,375	-	19,375	-	-	19,375	40,254
Business process	465,965	-	465,965	-	-	465,965	621,931
Publications	1,037,121	-	1,037,121	-	-	1,037,121	1,189,076
Governance	440,812	-	440,812	-	-	440,812	446,548
Give a note foundation	230,257	-	230,257	-	-	230,257	250,738
Consultancy	201,132	-	201,132	-	-	201,132	-
Total program services	6,145,843	-	6,145,843	-	-	6,145,843	6,553,572
Supporting services:							
Administration	1,531,237	38,365	1,569,602	-	-	1,569,602	1,749,619
Fundraising and development	11,227	-	11,227	-	-	11,227	32,685
Technology and research	360,515	-	360,515	-	-	360,515	370,609
Total supporting services	1,902,979	38,365	1,941,344	-	-	1,941,344	2,152,913
Total expenses	8,048,822	38,365	8,087,187	-	-	8,087,187	8,706,485
Changes in net assets before nonoperating activities	107,366	(69,777)	37,589	28,846	-	66,435	(693,783)
Provision for income tax	-	-	-	-	-	-	2,965
Changes in net assets	107,366	(69,777)	37,589	28,846	-	66,435	(696,748)
Net assets, beginning	346,257	4,625,899	4,972,156	11,321	75,135	5,058,612	5,755,360
Net assets, end of year	\$ 453,623	\$ 4,556,122	\$ 5,009,745	\$ 40,167	\$ 75,135	\$ 5,125,047	\$ 5,058,612

National Association for Music Education and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2015 (with comparative totals for 2014)

Expenses	Program services													Supporting services				Total - 2015	Total - 2014	
	Strategic Relationship Development	Capacity Building	Professional Development	Member and Student Experiences	Public Policy	Brand Management	Membership Growth and Development	Organizing	Business Process	Publications	Governance	Give a Note Foundation	Consultancy (SMG)	Total Program	Administration	Fundraising and Development	Technology and Research			Total Supporting Services
Salaries	\$ 148,616	\$ 386,078	\$ 25,510	\$ 298,758	\$ 75,468	\$ 142,128	\$ 82,746	\$ 9,214	\$ 176,169	\$ 135,847	\$ 96,041	\$ 37,550	\$ 27,068	\$ 1,641,193	\$ 818,402	\$ 5,050	\$ -	\$ 823,452	\$ 2,464,645	\$ 2,612,049
Employee benefits	37,843	98,470	6,496	76,076	19,215	36,192	21,071	2,347	44,859	34,594	24,456	9,562	6,893	418,074	208,398	1,286	-	209,684	627,758	617,403
Travel	24,659	131,979	-	597,464	6,595	426	3,910	4,440.00	74	278	272,604	11,694	4,808	1,058,931	33,756	129	67	33,952	1,092,833	1,095,751
Annual professional dues	3,795	307	-	390	-	3,248	220	59	75	496	-	77	-	8,667	2,869	-	400	3,269	11,936	9,604
Membership dues expenses	-	-	-	-	-	-	6,589	-	8,332	-	-	-	-	14,921	-	-	45,000	45,000	59,921	53,741
Meetings, conventions and conferences	3,569	68,573	1,568	200,561	720	1,425	3,201	-	-	-	3,243	6,201	-	289,061	855	-	-	855	289,916	496,506
Cost of goods sold	-	14,288	550	147,178	17,829	(4,483)	8,056	-	-	-	(7,013)	-	-	176,405	-	-	-	-	176,405	168,004
Professional services/consultants	26,498	6,335	-	17,138	8,000	75,545	-	-	-	37,707	4,658	1,224	78,248	255,353	100,107	-	177,640	277,747	533,100	503,831
Outside support	-	520	-	915	2,000	-	-	-	-	815	-	-	-	4,250	1,283	-	-	1,283	5,533	20,237
Production and printing	5,995	23,016	-	97,320	5,238	12,442	20,713	-	18,937	682,068	11	2,854	30,921	899,515	864	240	-	1,104	900,619	983,297
Membership promotion and retention	-	135	-	-	-	-	61,260	-	500	-	-	-	-	61,895	-	-	-	-	61,895	116,415
Promotion, printing and publicity	1,460	10,115	117	54,600	7,740	1,027	2,899	-	-	13,143	21	754	792	92,658	8,721	89	-	8,810	101,468	111,696
Postage and mailings	640	15,359	50	35,627	2,964	127	4,333	-	72,627	88,601	1,591	812	141	222,872	9,703	236	-	9,939	232,811	282,115
Telephone	-	-	-	-	-	1,542	-	-	-	-	-	-	-	1,542	-	-	-	-	1,542	-
State sales tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17
Bad debts	-	17	-	564	-	-	-	-	17,099	1,706	-	-	-	19,386	-	-	-	-	19,386	76,630
Management fees	-	30,045	99	53,205	6,000	32,379	-	-	63,907	-	1,553	14,250	42,516	243,954	90,104	2,381	38,354	130,839	374,793	305,039
Awards, scholarships, and grants	1,078	698	-	9,823	-	-	751	-	957	681	-	957	681	13,988	163	-	2,000	2,163	16,151	9,399
Overhead	53,475	138,912	9,179	107,855	27,153	51,233	29,771	3,315	63,386	48,879	35,677	13,510	9,745	592,090	294,377	1,816	97,054	393,247	985,337	885,187
Other	-	-	-	-	-	-	-	-	-	-	-	131,088	-	131,088	-	-	-	-	131,088	359,564
Total expenses	\$ 307,638	\$ 924,847	\$ 43,569	\$ 1,697,474	\$ 178,912	\$ 353,231	\$ 245,510	\$ 19,375	\$ 465,965	\$ 1,037,121	\$ 440,812	\$ 230,257	\$ 201,132	\$ 6,145,843	\$ 1,569,602	\$ 11,227	\$ 360,515	\$ 1,941,344	\$ 8,087,187	\$ 8,706,485

National Association for Music Education and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2015 (with comparative totals for 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 66,435	\$ (696,748)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	19,386	76,630
Depreciation	248,727	245,072
Loss on disposition of fixed assets	8,221	-
Realized gain on investments	(249,285)	(233,146)
Unrealized loss (gain) on investments	197,085	(293,236)
Impairment on investments	-	75,000
Changes in assets (increase) decrease in:		
Accounts and notes receivable	(90,198)	76,013
Inventories	(23,102)	14,084
Prepaid expenses and other	(66,528)	4,718
Changes in liabilities increase (decrease) in:		
Accounts payable and accrued expenses	(87,537)	232,582
Deferred income	87,973	120,255
	<u>111,177</u>	<u>(378,776)</u>
Cash flows from investing activities		
Purchases of property and equipment	(20,421)	(125,991)
Proceeds from sales of investments	957,532	3,362,970
Purchase of investments	(805,946)	(3,093,929)
Proceeds from payment of loan advances	1,682	19,992
	<u>132,847</u>	<u>163,042</u>
Net cash provided by investing activities		
	<u>244,024</u>	<u>(215,734)</u>
Cash and cash equivalents, beginning of year	<u>233,919</u>	<u>449,653</u>
Cash and cash equivalents, end of year	<u>\$ 477,943</u>	<u>\$ 233,919</u>
Supplemental disclosure of cash flow information		
Income taxes paid	<u>\$ -</u>	<u>\$ 3,451</u>
Significant non-cash investing and financing activities		
Disposal of fully depreciated property and equipment	<u>\$ 220,463</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Note 1 - Organization and purpose

Nature of operations

The National Association for Music Education (the "Association" or "NAfME"), a non-profit corporation located in Reston, Virginia, was organized April 12, 1907 under the laws of the state of Iowa for the specific purpose of the advancement of music education.

NAfME serves as leader and spokesperson for music education in the United States. Its members are engaged in music teaching or other music education work at institutional levels from preschool through college and university. The goals of NAfME include:

- Comprehensive music programs in all schools.
- Involvement of people of all ages in learning music.
- High-quality preparation of teachers.
- Use of the most effective techniques and resources in music instruction.

NAfME has the following subsidiary:

Solutions Music Group, LLC

On January 16, 2014, Solutions Music Group, LLC ("SMG" or "Subsidiary"), an entity wholly owned by NAfME was formed as a limited liability company under the laws of the State of Virginia. SMG was formed to engage in the business of providing consulting services to individual schools, school districts or organizations to develop music curricula or provide other related arts education services in the form of consulting. SMG had no activity for the year ended June 30, 2014.

NAfME's significant programmatic areas include:

Governance

Governance covers the activities of the National Executive Board, its subdivisions, including but not limited to Councils, Societies, Committees and Task Forces as well as the National Officers' work in fulfilling their responsibilities for the management, oversight, policies and actions of the Association. Most work is normally carried out through meetings, conferences, events, and other deliberations. This also includes the operation of the National Assembly, the Division Executive Boards, the relationship with federated state associations, and individual members.

Public policy

NAfME serves as the national voice for music education, providing, and seeking support for music programs at the federal, state, and local levels by advocating on Capitol Hill to protect sequential, standards-based school music for our nation's students. NAfME works in a variety of coalitions, strengthening music education's public policy profile and increasing capacity for achieving the advocacy goals of our members. Most notably through the Music Education Policy Roundtable, a 30-member group coalition of music education

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

advocacy organizations, NAFME pushes its federal legislative agenda and promotes the cause to influential elected officials. Most importantly, NAFME provides assistance to music educators on the ground by supplementing their grassroots advocacy efforts with resources and support.

Membership growth and development

The NAFME membership program is involved in producing and mailing membership promotion materials, mailing membership notices to the Association's more than 135,000 members (including active, retired, pre-service music teachers and honor students), collection and tracking of national, state and student chapter dues, and maintaining all membership records and data. Other important functions include the distribution of membership information and management of services designed to be of benefit to members.

Music Educators Journal/Teaching Music - periodicals

Magazines published alternately each month, for a total of 10 times per year, dealing with all aspects of music and music education for the classroom, elementary through the university level. *Music Educators Journal* is a peer-reviewed publication and is published through Sage Publications. *Teaching Music* focuses on practical teaching information and news about the field and is published through In Tune publications.

Member and student experiences

NAFME meetings and conventions are produced to furnish in-service and pre-service professional development for music educators, to allow for the exchange of ideas among members and other teachers, and to facilitate the growth of knowledge of central issues to music education among professionals. The two principal association conventions are the NAFME National In-Service Conference and the Biennial Music Educators National Conference:

- NAFME National In-Service Conference is an annual event designed to provide members with opportunities for music education advocacy, intensive professional development and performances.
- The Biennial Music Educators National Conference is designed with a special focus on research in music education and music teacher education. This meeting is held in the spring of each even-numbered year.

The Association also sponsors or cosponsors other meetings designed to meet particular needs among the profession or to facilitate the business of the Association. These meetings, which may be held in one geographic location or may be mediated through online "webinars," include:

- Meetings of the NAFME National Assembly (officers from the Federated State Associations, the geographic divisions of the Association, and NAFME Societies and Councils).

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

- Meetings of the National Executive Board.
- Meetings and conventions held independently by the Federated State Associations, but to which NAFME sends Board Officers.
- Meetings and conventions held by the geographic divisions of the Association, hosted by a Federated State Association, and cosponsored by NAFME.
- Informational seminars on a variety of special topics (e.g., nonprofit tax requirements and budgeting, copyright issues, curriculum) for specific subgroups of the Association or specific groups served by the Association.

Scholarship and grant programs

NAfME administers scholarship programs that support and advance the mission to encourage the study and making of music by all; these include the Shannon Kelly Kane Fund and the Harley Scholarship Fund. The Shannon Kelly Kane Fund provides two \$1,000 scholarships annually and Harley Scholarship Fund provides one scholarship. Four grants are awarded annually as part of the NAFME Tri-M Music Honor Society Chapter of the Year program. Grants are to be used for musically enriching experience that benefits the school/chapter. Two \$1,000 grants are awarded to the Chapter of the Year in the Senior and Junior Division; Runner-Ups are awarded \$800 for Senior Division and \$400 for Junior Division. Criteria for selection are on the Tri-M website. NAFME also, from time to time, provides small grants for music education related research. These grants are distributed and monitored by the Society for Research in Music Education. In addition, NAFME entered into a partnership with Fox/Glee for the purpose of awarding a total of \$1,000,000 in grants to 73 schools across the USA. Grant awards ranged from \$10,000 to \$50,000. The funding for these grants was provided completely by Fox/Glee.

Miscellaneous programs

NAfME's other programs include: book publications, contests and competitions, resource development, cultural and community partnerships, electronic communications, information resources, Music in Our Schools Month ("MIOSM"), production and promotion, research publications and other periodicals, resource shops and the concert for MIOSM.

Tri-M

Tri-M is an international music honor society for middle school and high school students. Its focus is to encourage music educators to recognize and motivate musical and personal achievement in their students.

Note 2 - Summary of significant accounting policies and other matters

Basis of presentation

NAfME has significant control over the major decisions affecting SMG. Accordingly, SMG has been consolidated in accordance with accounting guidance for consolidation. The consolidated financial statements include the accounts and transactions of NAFME and SMG. All significant intercompany accounts and transactions have been eliminated in the consolidation process.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

These consolidated financial statements present net assets, revenue, expenses, gains and losses based on the existence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Revenues from sources other than contributions and investment income are reported as increases in unrestricted net assets. Designated net assets consist of unrestricted funds set aside for specific purposes by action of NAFME.
- Temporarily Restricted - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by the actions of the Association and/or passage of time.
- Permanently Restricted - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Association. Generally, the investment income is temporarily restricted until appropriated for expenditure.

The Association conforms to Statements of Financial Accounting Standards for the "Transfer of Assets to a Not-for-profit Organization or Charitable Trust That Raises or Holds Contributions for Others." This establishes standards for transactions in which an entity (the "donor") makes a contribution by transferring assets to a not-for-profit organization or charitable trust (the "recipient organization") who in accepting the assets from the donor agrees to use those assets on behalf, or transfer those assets to, another specified beneficiary. The standards require that the recipient organization recognize the fair value of the assets received from the donor. The Association accepts member dues from various members and agrees to transfer those assets to respective states.

Comparative financial information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's consolidated financial statements for the year ended June 30, 2014, from which the summarized information was derived. Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid investments, purchased with a maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Association maintains its cash, cash equivalents and investment balances in several accounts at multiple banks that are insured by the Federal Deposit Insurance Corporation ("FDIC") or the Security Investor Protection Corporation ("SIPC"). Certificates of deposit are

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Notes to Consolidated Financial Statements June 30, 2015 and 2014

placed with a bank's Certificate of Deposit Registry Service ("CDARS") and are fully insured by the FDIC. At times, these balances may exceed the federal insurance limits; however, the Association has not experienced any losses with respect to its bank balances in excess of government provided insurance. As of June 30, 2015, management believes that no significant concentration of credit risk exists with respect to these cash, cash equivalents and investment balances.

Investments

Investments with readily determinable fair values are reflected at fair market value. Income is recognized from interest and dividends as earned. The Association maintains separate investment accounts for its endowment and similar funds. Realized and unrealized gains and losses from securities in the investment accounts are allocated to the individual endowment's fund based on the relationship of the fair value of each endowment fund to the total fair value of the investment accounts, as adjusted for additions to or deductions from these accounts. Investments in certificates of deposits and private equity with no readily determinable fair value are reported at cost.

Investment income classified as operating revenue consist of interest and dividend income on investments and any gains approved by the board of directors for use in operations (Note 4). All other realized and unrealized gains or losses are classified as Board designated activity.

The Association reports its investments in a commodity fund at fair value as determined by the investment managers. This valuation is reviewed and approved by management on a yearly basis.

Alternative Investments - Investment in Entities

The non-discretionary portion of NAFME's managed investment portfolio includes alternative investments partnerships. NAFME's objective as part of its alternative investments strategy is to mitigate risk and enhance diversification of the overall investment portfolio. Management believes that in an attempt to gain enhanced diversification, focusing on absolute return, that these alternative investments will reduce their overall portfolio investment risk and volatility and offer potential for returns that are not correlated to the traditional markets of stock and bonds. NAFME has established an investment policy and procedures statement with a maximum allowable alternative investment exposure of 15% of their overall investment portfolio. The managed futures component of the alternative investments is expected to include trading in commodities such as energy, metals, crops, livestock, currencies and financial markets. During the year ended June 30, 2015, alternative investments was comprised of investment in entities, which includes one limited liability company and one corporation.

NAFME is an investor member in Acceptd, LLC ("Acceptd") and was a stockholder in Bandfind, Inc. ("Bandfind") prior to Bandfind's dissolution in April 2015. NAFME accounts for its 17% investment in Acceptd under the cost method of accounting and prior to Bandfind, Inc's dissolution, NAFME also accounted for its 10% investment in Bandfind, Inc. under the cost method of accounting. Under the cost method, the initial investment is

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Notes to Consolidated Financial Statements June 30, 2015 and 2014

recorded at cost and cash distributions are reported as income. Investment in entities is included in investments - long-term on the consolidated statements of financial position.

The Association's maximum exposure to loss is estimated to be the entire balance of its investment in entities, which includes its estimated future funding commitments. The Association has no obligations to fund liabilities of Acceptd beyond its investment, including loans and advances. The Association may be subject to additional losses to the extent it provides any voluntary subordinated financial support to Acceptd in the future.

The Association regularly assesses its investment in entities for impairment if it believes that it may not recover the carrying amount of the investment or if the investee is unable to sustain an earnings capacity that would justify the carrying amount of the investment. The Association is based on the amount that it expects to recover from the investment should it be sold or should the investee liquidate, taking into account the Association's claim on the investee's book value. A recordation of an impairment loss has no effect on the actual fair market value of the underlying property or performance of the overall investment. If the investment in entities is considered to be permanently impaired, the Association would reduce its investment balance in entities and include such reduction in investment income on the consolidated statement of activities. During the year ended June 30, 2014, impairment loss of \$75,000 was recorded to the Bandfind, Inc. investment, which reduced the investment balance to \$0. As of June 30, 2015, no impairment loss has been recorded in connection with the Associations investment in Acceptd.

Financial risk

The Association invests in a professionally managed portfolio that contains U.S. equity securities, mutual funds, fixed income securities, alternative investments and certificates of deposits. Such investments are exposed to various risks such as interest rate market volatility and credit risks. Due to the level of risk associated with such investments and the level of uncertainty related to the changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balance and the amounts reported in the consolidated financial statements.

Inventories

Inventories consist of specialty items and publications, and are valued at the lower of cost or market. Cost is determined on a first-in, first-out basis net of obsolescence. Allowance for obsolete inventory at June 30, 2015 and 2014 was \$26,963 and \$24,675, respectively.

The Association contracts with a third party to publish, market, sell and distribute the Association's book publications. The Association receives an agreed upon royalty percentage of all revenues received on book and publication sales.

Accounts receivable

Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. Receivables are charged to allowance when deemed uncollectible. It is reasonably possibly that management's estimate of the allowance will

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

change. Allowance for doubtful accounts at June 30, 2015 and 2014 was \$39,220 and \$83,337, respectively.

Fair value of financial instruments

The Association has adopted the Fair Value Measurement topic of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC" or "Codification").

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Cash and cash equivalents: Cash and cash equivalents, are carried at cost, which approximates fair value.

Investments: For securities held for investments purposes, fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Inventories: Fair value is based on lower of cost or market.

Property and equipment and depreciation

Property and equipment are recorded at cost. Expenditures for maintenance and repairs are charged to expenses as incurred while major renewals and betterments are capitalized. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related cost and accumulated depreciation. The resulting gain and losses are reflected in the consolidated statement of activities. Depreciation is computed on a straight-line basis over the estimated useful lives of each asset. The Association capitalizes all property and equipment purchased with a cost of \$500 or more. Depreciation expense for the years ended June 30, 2015 and 2014 was \$248,727 and \$245,072, respectively, and is included in overhead expenses on the consolidated statement of functional expenses.

Impairment of long-lived assets

The Association reviews its long-lived assets for impairment whenever events and changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of an asset, an impairment loss is recognized for the difference. No impairment loss was recognized for the years ended June 30, 2015 and 2014.

Revenue recognition

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations that are not met in the same reporting period or by operation of law.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Membership revenue

Membership dues and subscription fees are recognized as revenue over the period of membership. Membership revenue related to future periods is recorded as deferred revenue in the accompanying consolidated statement of financial position.

Contributions

Contributions received are recorded as permanently restricted, temporary restricted or unrestricted revenue, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted for specific purposes are reported as temporarily restricted support that increases those net asset classes.

Non-cash and in-kind contributions are recorded as revenue at fair value of the items contributed.

There were no promises to give, non-cash contributions or in-kind contributions received during the years ended June 30, 2015 and 2014.

Rental income

Rental income is recognized as rent becomes due from tenants related to property owned by NAFME. Rental payments received in advance are deferred until earned. All leases between the Association and the tenants of the property are operating leases.

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Direct costs associated with identifiable expenses are charged to program and supporting services. Accordingly, certain costs have been allocated among the departments, programs and supporting services benefited. Administration expenses include those expenses that are not directly identifiable with any other specific function, but that provide for the overall support and direction of the Association.

Income taxes

The Association is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code ("IRC"). The Association is subject to income taxes on unrelated business income, as defined by the Internal Revenue Service ("IRS"). The Association is required to file and does file tax returns with the IRS and other taxing authorities. SMG is a single member limited liability company and since it is a disregarded entity for income tax purposes, SMG files its tax return along with its sole member, NAFME.

Federal and state income tax expense for the years ended June 30, 2015 and 2014 was \$0 and \$2,965, respectively, in connection with advertising income. Income tax returns filed by the Association are subject to examination by the Internal Revenue Service for a period of three years. While no tax returns are currently being examined by the Internal Revenue Service, tax years since 2011 remain open.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

The Association adopted the accounting standard on accounting for uncertainty in income taxes ("FASB ASC Topic 740-10"), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Association's tax positions and concluded that the Association has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance.

Advertising

Advertising costs are charged to activities when incurred. Advertising expense during the years ended June 30, 2015 and 2014 was \$92,060 and \$111,696, respectively, and is included in promotion, printing, and publicity on the consolidated statement of functional expenses.

Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectible receivables and inventory obsolescence.

Reclassification

Certain reclassifications have been made to the 2014 balances to conform to the 2015 presentation.

National Association for Music Education and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2015 and 2014**

Note 3 - Cash and cash equivalents

Cash and cash equivalents consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted:		
Operating		
Checking accounts and petty cash	\$ 387,374	\$ 181,343
Money Market accounts	7,674	2,691
Cash equivalents held in investment accounts	<u>51,593</u>	<u>47,429</u>
	<u>446,641</u>	<u>231,463</u>
Temporarily and Permanently restricted:		
SMG	28,546	-
Harley Scholarship Fund	2,621	2,321
Kane Scholarship Fund	<u>135</u>	<u>135</u>
	<u>31,302</u>	<u>2,456</u>
Total cash and cash equivalents	<u><u>\$ 477,943</u></u>	<u><u>\$ 233,919</u></u>

Note 4 - Investments

Investments consist of the following as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Certificates of deposits (at cost)	\$ 84,000	\$ 84,000
Mutual funds	4,016,468	3,949,274
Corporate bonds	111,969	278,549
Alternative investments (at cost)	<u>339,178</u>	<u>339,178</u>
Total investments	<u><u>\$ 4,551,615</u></u>	<u><u>\$ 4,651,001</u></u>

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

The following summarizes the investment return and its classification in the consolidated statement of activities for the years ended June 30, 2015 and 2014:

Investment income

	2015			2014
	Operating	designated	Total	
Investment income	\$ 2,723	\$ 106,114	\$ 108,837	\$ 168,346
Realized gains	-	249,285	249,285	233,146
Unrealized (losses) gains	-	(197,085)	(197,085)	293,236
Impairment loss on investment	-	-	-	(75,000)
Total	\$ 2,723	\$ 158,314	\$ 161,037	\$ 619,728

Alternative Investments - Investment in Entities

The Association entered into a senior secured convertible promissory note agreement with Acceptd LLC in the total amount of \$250,000. The note bore interest at 7.5% compounded annually and was set to mature on June 8, 2017, at which time all unpaid interest and principal was due and payable. In March 2013, the Association elected to convert all outstanding principal of \$250,000 and accrued interest of \$14,178 into shares of Series A preferred stock. In addition to the note conversion, the Association purchased additional shares of Series A preferred stock for \$75,000 resulting in a total investment of \$339,178. As June 30, 2015 and 2014, the investment balance in Acceptd is \$339,178.

On August 19, 2013, the Association acquired its interest in Bandfind, Inc. through the purchase of 50 shares of outstanding capital stock, for an investment of \$75,000. As a result of management's assessment of the value of the investment in Bandfind under applicable accounting guidelines, the Association reduced its investment in Bandfind for the year ended June 30, 2014 by \$75,000. Such loss is included as a reduction of investment income in the accompanying consolidated statements of activities. At June 30, 2014, the investment balance in Bandfind was \$0.

Note 5 - Fair Value Measurement

The Association has adopted the Fair Value Measurements topic of the Codification. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Association uses when measuring fair value:

1. Level 1 inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access;

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

2. Level 2 inputs - quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
3. Level 3 inputs - unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the fair value measurement will fall within the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents the assets measured at fair value of assets at June 30, 2015 and 2014 have been categorized in the tables below based upon the fair value hierarchy described below:

Description	Fair value measurements as of June 30, 2015 using			Balance at June 30, 2015
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Mutual Funds:				
Closed end mutual funds	\$ 4,016,468	\$ -	\$ -	\$ 4,016,468
Fixed Income securities:				
Corporate bonds	111,969	-	-	111,969
Total fixed income securities	<u>\$ 4,128,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,128,437</u>

Description	Fair value measurements as of June 30, 2014 using			Balance at June 30, 2014
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Mutual Funds:				
Closed end mutual funds	\$ 3,949,274	\$ -	\$ -	\$ 3,949,274
Fixed Income securities:				
Corporate bonds	278,549	-	-	278,549
Total fixed income securities	<u>\$ 4,227,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,227,823</u>

Note 6 - Board designated and restricted net assets

Board designated

The Association policies set as a goal that NAFME maintain a reserve account equaling or exceeding 100% of the annual operating budget, and is to be used as designated by the board.

National Association for Music Education and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2015 and 2014**

Activity in board designated net assets during the years ended June 30, 2015 and 2014, respectively, consist of the following:

	<u>2015</u>	<u>2014</u>
Board designated net assets		
beginning of the year	\$ 4,625,899	\$ 4,654,350
Investment income	158,314	617,462
Release from designation		
Management fees	(38,365)	(38,082)
Total technology expenses	<u>(189,726)</u>	<u>(607,831)</u>
Total released from designation	<u>(228,091)</u>	<u>(645,913)</u>
Board designated net assets end of year	<u><u>\$ 4,556,122</u></u>	<u><u>\$ 4,625,899</u></u>

Temporarily restricted

Net assets were released from restriction by satisfying the program restrictions. During the current year, the Association set temporarily restricted funds from members in order to fund technology expenses, research expenses and purchases related to their operations. Temporary restricted net assets consist of the following at June 30, 2015:

	<u>2014</u>	<u>Additions</u>	<u>Investment gains (losses)</u>	<u>Released from restrictions</u>	<u>2015</u>
Harley scholarship fund	\$ 9,242	\$ -	\$ 450	\$ -	\$ 9,692
Kane scholarship fund	2,079	3,532	1,650	(2,000)	5,261
SMG all in program	-	108,860	-	(83,646)	25,214
Technology fund	-	167,603	-	(167,603)	-
Research fund	-	4,150	-	(4,150)	-
	<u>-</u>	<u>4,150</u>	<u>-</u>	<u>(4,150)</u>	<u>-</u>
Total	<u><u>\$ 11,321</u></u>	<u><u>\$ 284,145</u></u>	<u><u>\$ 2,100</u></u>	<u><u>\$ (257,399)</u></u>	<u><u>\$ 40,167</u></u>

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Permanently restricted

Permanently restricted net assets consist of the principal portion of the Association's donor restricted endowment funds in which the donor has stipulated that the principal be maintained intact. Unless otherwise stated by the donor, the investment income portion of the donor restricted endowment funds is classified as temporarily restricted net assets to be used for specific purposes. Permanently restricted net assets as of June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Endowments:		
Kane scholarship fund	\$ 65,395	\$ 65,395
Harley scholarship fund	<u>9,740</u>	<u>9,740</u>
Total	<u>\$ 75,135</u>	<u>\$ 75,135</u>

Permanently restricted net assets consist of funds to support various music related scholarships and grants.

Note 7 - Endowments

The Association's endowment consists of two individual funds established for a variety of purposes. These endowments include donor-restricted endowment funds and a fund designated by the Association to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Association to function as an endowment, are classified based on the existence of donor imposed restrictions.

Interpretation of relevant law

The Virginia General Assembly issued the Virginia Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Unless there are explicit donor instructions, this law gives the Boards of non-profit organizations the flexibility to determine appropriate use of endowment principal and related investment income. In accordance with UPMIFA, NAFME Board should consider the following factors in determining a prudent use of investment income and endowment principal:

1. The duration and preservation of the fund
2. The purposes of Association and the donor restriction endowment fund
3. General economic conditions
4. The possible effect of inflation or deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Association
7. The investment policy of the Association

The Board of the Association continually reviews its policy regarding the use of endowment funds, and makes necessary modifications to the Investment Policy.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

The changes in endowment net assets for the year ended June 30, 2015 and the endowment net assets at June 30, 2015 were as follows:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets at June 30, 2014	\$ 11,321	\$ 75,135	\$ 86,456
Investment net income	2,100	-	2,100
Contributions	3,532	-	3,532
Releases from restrictions	(2,000)	-	(2,000)
Endowment net assets at June 30, 2015	<u>\$ 14,953</u>	<u>\$ 75,135</u>	<u>\$ 90,088</u>

As of June 30, 2015 and 2014, amounts classified as permanently restricted net assets are permanently restricted either by explicit donor stipulations or by UPMIFA, and amounts classified as temporarily restricted net assets are subject to purpose restrictions and net earnings from permanently restricted funds.

Funds with deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2015 and 2014.

Return objectives and risk parameters

The Association has adopted investment and spending policies for donor-restricted endowment assets that attempt to generate a series of cash withdrawals that grow with inflation to programs supported by its endowment while seeking to maintain the purchasing power of the donor restricted endowment assets. Donor-restricted endowment assets include those assets of donor restricted funds that the Association must hold in perpetuity or for donor-specified period(s). Under this policy, as approved by the Board, the endowment assets are invested in accordance with sound investment practices emphasizing long-term investment fundamentals. It is recognized that short-term market fluctuations may cause variations in account performance. The Association accepts a low level of risk in investment return.

Strategies employed for achieving objectives

To satisfy its long-term rate of return objectives, the Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized/unrealized) and current yield (interest/dividends). The Association targets a diversified asset allocation in order to satisfy its cash withdrawal and long-term rate-of-return objectives.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Spending policies

In order to support the operating activities of the Association, the investment policy approves appropriation of the endowment funds income for the donor designated purpose in the year(s) when sufficient accumulated investment income is realized to make a meaningful scholarship or grant. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, over the long-term, the Association expects the current spending policy to allow its endowment to grow, consistent with its objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

Note 8 - Land, building and equipment

The following is a summary of land, building and equipment as of June 30, 2015 and 2014:

<u>Asset Category</u>	<u>Estimated life</u>	<u>2015</u>	<u>2014</u>
Land		\$ 1,069,089	\$ 1,069,089
Building and improvements	10 - 40 years	2,323,736	2,323,736
Furniture and equipment	3 - 7 years	1,917,375	2,117,417
		5,310,200	5,510,242
Accumulated depreciation		<u>(2,814,156)</u>	<u>(2,777,671)</u>
Property and equipment, net		<u>\$ 2,496,044</u>	<u>\$ 2,732,571</u>

Note 9 - Pension plans and retirement benefits

The Association has a defined contribution retirement plan covering all employees who work over 1,000 hours in the plan year following one month of service. On an annual basis, the Association contributes 7% of participants' eligible compensation to the defined contribution retirement. For the years ended June 30, 2015 and 2014, net amounts contributed after forfeitures were \$166,062 and \$168,733, respectively.

The Association sponsors a 403(b) plan for eligible employees. Employees are eligible to participate in the plan upon their date of hire. Participants may contribute a portion of their eligible compensation to the plan, subject to limits approved by the Internal Revenue Service. Participants are immediately vested in their own contributions. The Association does not make matching contributions to the 403(b) plan.

Accrued vacation and sick leave

Depending on length of service and other factors, the Association's employees are entitled to paid vacation time. At June 30, 2015 and 2014, the accrued vacation leave was \$293,584 and \$299,713, respectively, and is included in accounts payable and accrued expenses in the consolidated statement of financial position at June 30, 2015 and 2014.

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

Effective July 1, 2009, employees in good standing are entitled to be paid sick leave upon employment termination, depending on meeting certain age and years of service requirements. At June 30, 2015 and 2014, accrued sick leave was \$119,053 and \$134,903, respectively, and is included in accounts payable and accrued expenses in the consolidated statement of financial position at June 30, 2015 and 2014.

Note 10 - Operating leases

The Association has various leases for automobiles and equipment which are classified as operating leases with lease terms expiring through February 15, 2019. The leases require monthly payments ranging from \$329 to \$3,712 over the term of the lease. Total rent expense for all operating leases for the years ended June 30, 2015 and 2014 was \$115,210 and \$118,157, respectively, and is included in overhead expenses on the consolidated statement of functional expenses.

Future minimum lease payments under the non-cancelable operating leases as follows:

June 30, 2016	\$	74,463
2017		33,182
2018		<u>15,217</u>
Total	\$	<u>122,862</u>

Note 11 - Lease commitments

NAfME leases office and storage space to National Art Education Association and Metronome Software LLC under operating agreements with lease terms expiring through July 31, 2015. The leases require monthly payments ranging from \$350 to \$5,649 over the lease term. No security deposits were received for these leases. Additionally, NAfME rents parking spaces to Access Bank on a month-to-month basis and can be terminated by either party at any time. For the years ended June 30, 2015 and 2014, total rent revenue was \$120,045 and \$125,032, respectively.

Future minimum rentals pursuant to the lease agreements and month-to-month rental arrangements are as follows:

June 30, 2016	\$	29,326
2017		8,100
2018		8,100
2019		8,100
2020		<u>8,100</u>
Total	\$	<u>61,726</u>

Note 12 - Note receivable

Effective June 25, 2010, the Association made available an interest-free line of credit to a member of the Federated State Association of Music Educators National Conference up to

National Association for Music Education and Subsidiary

Notes to Consolidated Financial Statements June 30, 2015 and 2014

a total amount of \$75,000. The term of the agreement is for two years expiring July 30, 2015 and may be extended upon the written agreement of both parties. As of June 30, 2015 and 2014, the balance drawn and receivable was \$0 and \$1,682, respectively. As of June 30, 2015, the receivable was repaid in full.

Note 13 - Related parties

Give a Note Foundation

The Give a Note Foundation (the "Foundation") is a related party of NAFME. The Foundation was formed by the leadership of the Association as a separate corporation and filed their 1023 with the IRS. The Foundation's primary purpose is to support the work of NAFME by providing a source of funding to encourage the study of music education; encourage public and private financial support for the advancement of music education; support research activities aimed at educating people about the benefits of music; and providing grant support for activities that strengthen music education. Although economic interest exists between NAFME and the Foundation, the Foundation maintains a board that is independent from that of NAFME. As of and for the year ended June 30, 2015, the statement of financial position and the statement of activities for the Foundation consist of the following:

Give a Note Foundation

Statements of Financial Position June 30, 2015

Assets

Current assets	
Cash	\$ 97,002
Contribution receivable, net	2,567
Pledge receivable, net	50,000
Investments	42,603
Prepaid expenses	2,415
	<hr/>
Total assets	\$ 194,587
	<hr/> <hr/>

Liabilities and Net Assets

Net assets	
Unrestricted	\$ 144,587
Temporarily restricted	50,000
	<hr/>
Total liabilities and net assets	\$ 194,587
	<hr/> <hr/>

National Association for Music Education and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2015 and 2014**

**Statements of Activities
Year Ended June 30, 2015**

Revenue	
Contributions and donations	\$ 130,774
In-kind goods and services	131,088
Sales	13,050
Interest income	122
	<hr/>
Total revenue	275,034
	<hr/>
Expenses	
Program expenses	139,336
Management and general	74,150
Fundraising	35,106
	<hr/>
Total operating expenses	248,592
	<hr/>
Change in net assets before other changes	26,442
	<hr/>
Other changes	
Unrealized gain on investments	2,989
	<hr/>
Total other changes	2,989
	<hr/>
Change in net assets	29,431
	<hr/>
Net assets, beginning of year	165,156
	<hr/>
Net assets, end of year	\$ 194,587
	<hr/> <hr/>

Cost sharing agreement

On April 23, 2012 and on June 30, 2015, NAFME entered into cost sharing agreements with the Foundation, whereby the Foundation may share use of certain office equipment, facilities and staff service. According to the terms of the agreements, the Foundation shall reimburse NAFME, for such costs, on a monthly basis, except for the first two years of each respective agreement, whereby NAFME has agreed to forgive all related costs incurred by the Foundation. For the years ended June 30, 2015 and 2014, total donated costs were \$131,088 and \$141,218, respectively.

Note 14 - Subsequent events

Events that occur after the consolidated statement of financial position date but before the consolidated financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about

National Association for Music Education and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2015 and 2014**

conditions that existed at the consolidated statement of financial position date are recognized in the accompanying consolidated financial statements. Subsequent events which provide evidence about conditions that existed after the consolidated statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Association through September 29, 2015 (the date the consolidated financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.