

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION
AND SUBSIDIARY**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2021
(with comparative totals for 2020)**

***F.S. Taylor & Associates, P.C.
Certified Public Accountants
1420 N Street, N.W., Suite 100
Washington, D.C. 20005
(202) 898-0008***

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

TABLE OF CONTENTS

Independent Auditor's Report	1
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Functional Expenses.....	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

F. S. TAYLOR & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

1420 N Street, N.W., Suite 100 / Washington, D.C. 20005 / 202/898-0008 Fax 202/898-0208

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
National Association for Music Education

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the National Association for Music Education (NAfME) and Subsidiary (collectively referred to as, the Association), which comprise the consolidated statement of financial position as of June 30, 2021, 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 (collectively referred to as 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 from 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 financial position of the National Association for Music Education and Subsidiary as of June 30, 2021, and the changes in their 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

The consolidated financial statements of National Association for Music Education and Subsidiary, as of and for the year ended June 30, 2020, were audited by other auditors whose report dated February 18, 2021, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

F. S. Taylor & Associates, P.C.

February 10, 2022
Washington, DC

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 723,814	\$ 629,271
Cash and cash equivalents, restricted	116,071	116,212
Investments	7,514,096	8,340,656
Accounts receivable, net	124,753	116,245
Prepaid expenses and other assets	160,178	89,834
Property and equipment, net	<u>418,406</u>	<u>533,784</u>
Total assets	<u>\$ 9,057,318</u>	<u>\$ 9,826,002</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 677,998	\$ 899,522
Deferred revenue	1,477,975	1,867,823
Deferred rent	94,690	84,253
Deferred gain on sale of building	497,327	658,622
PPP loan	462,500	510,300
Margin Loan	<u>1,058,240</u>	<u>1,058,240</u>
Total liabilities	<u>3,210,490</u>	<u>5,078,760</u>
Net assets without donor restrictions:		
Undesignated (deficit)	(1,263,383)	(1,298,754)
Board designated	<u>7,015,409</u>	<u>5,951,054</u>
Total net assets without donor restrictions	<u>5,752,026</u>	<u>4,652,300</u>
Net assets with donor restrictions:	<u>94,802</u>	<u>94,942</u>
Total net assets	<u>5,846,828</u>	<u>4,747,242</u>
Total liabilities and net assets	<u>\$ 9,057,318</u>	<u>\$ 9,826,002</u>

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021 (with comparative totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Operating activities				
<u>Revenue and support</u>				
Membership dues	\$ 4,200,411	\$ -	\$ 4,200,411	\$ 4,747,701
Meetings and conventions	169,811		169,811	1,006,225
Merchandise sales	412,975		412,975	418,971
Royalty income	94,882		94,882	164,126
Miscellaneous income	161,296		161,296	195,387
Sponsorships	16,500		16,500	152,360
Advertising	165,414		165,414	139,138
Grants and contracts	75,014		75,014	125,583
Publication revenue	7,560		7,560	
Investment income, net	1,183,413	10	1,183,423	25,389
Contributions/donations	47,602		47,602	10,257
Paycheck Protection Program forgiveness	510,300		510,300	
Net assets released from restrictions	150	(150)		
Total revenue and support	7,045,328	(140)	7,045,188	6,985,137
<u>Expenses</u>				
Program services:				
Member and student experiences	1,055,043		1,055,043	1,945,825
Membership growth and development	758,627		758,627	844,453
Capacity building	525,208		525,208	693,186
Publications	413,433		413,433	506,196
Other programs	281,485		281,485	247,532
Governance	230,601		230,601	615,558
Strategic relationship development	165,650		165,650	194,839
Total program services	3,430,047	-	3,430,047	5,047,589
Supporting services:				
Administration	2,402,695		2,402,695	3,617,674
Fundraising and development	112,860		112,860	175,796
Total supporting services	2,515,555	-	2,515,555	3,793,470
Total expenses	5,945,602	-	5,945,602	8,841,059
Change in net assets	1,099,726	(140)	1,099,586	(1,855,922)
Net assets, beginning of year	4,652,300	94,942	4,747,242	6,603,164
Net assets, end of year	<u>\$ 5,752,026</u>	<u>\$ 94,802</u>	<u>\$ 5,846,828</u>	<u>\$ 4,747,242</u>

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021 (with comparative totals for 2020)

	2021												
	Program Services								Supporting Services				
	Member and Student Experiences	Membership Growth & Development	Capacity Building	Publications	Other Program	Governance	Strategic Relationship Development	Total Program Services	Administration	Fundraising and Development	Total Supporting Services	Total	2020 Total
Salaries and benefits	\$ 288,057	\$ 201,169	\$ 502,572	\$ 97,449	\$ 197,055	\$ 189,231	\$ 126,563	\$ 1,602,096	\$ 1,222,124	\$ 57,534	\$ 1,279,658	\$ 2,881,754	\$ 3,809,349
Professional services/consultants	14,645	399,488		11,550	27,460	30,305		483,448	975,023	37,609	1,012,632	1,496,080	2,241,818
Travel	1,148				91	10,970		12,209	180		180	12,389	1,078,557
Production and printing	11,165	20,864	1,784	251,858	1,627		275	287,573	593	635	1,228	288,801	444,088
Meetings, conventions and conferences	63,686		5,625	149	3,212		1,081	73,753	8,231		8,231	81,984	430,009
Management fees	1,674	35,000	12,575	50	33,844	95	5,200	88,438	168,730	14,816	183,546	271,984	378,820
Postage and mailing	4,309	32,781	112	52,127	182			89,511	1,523		1,523	91,034	202,136
Merchandise sales cost	127,069						30,072	157,141	1,688	2,181	3,869	161,010	190,267
Other	543,290	69,325	2,540	250	18,014		2,459	635,878	24,603	85	24,688	660,566	66,015
Total expenses	\$ 1,055,043	\$ 758,627	\$ 525,208	\$ 413,433	\$ 281,485	\$ 230,601	\$ 165,650	\$ 3,430,047	\$ 2,402,695	\$ 112,860	\$ 2,515,555	\$ 5,945,602	\$ 8,841,059

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,099,586	\$ (1,855,922)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt expense	11,060	12,073
Depreciation	121,291	62,151
Realized and unrealized (gains) and losses on investments	(1,087,632)	140,920
Deferred rent	10,437	8,903
Deferred gain on sale of building	(161,295)	(161,295)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(8,508)	50,923
Prepaid expenses and other assets	(70,344)	180,825
Increase (decrease) in:		
Accounts payable and accrued expenses	(221,524)	(360,715)
Deferred revenue	(389,848)	(142,904)
Net cash (used in) operating activities	<u>(696,777)</u>	<u>(2,065,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,913)	(171,187)
Net proceeds from investments	1,903,132	1,546,269
Net cash provided by (used in) investing activities	<u>1,897,219</u>	<u>1,375,082</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal receipts from (payments to) margin loan	(1,058,240)	679,218
Net proceeds (forgiveness) from PPP loan	(47,800)	510,300
Net cash provided by (used in) financing activities	<u>(1,106,040)</u>	<u>1,189,518</u>
Net increase (decrease) in cash and cash equivalents	94,402	499,559
Cash and cash equivalents, beginning of year	745,483	245,924
Cash and cash equivalents, end of the year	<u>\$ 839,885</u>	<u>\$ 745,483</u>
Cash and cash equivalents, end of year	\$ 723,814	\$ 629,271
Cash and cash equivalents (restricted), end of year	116,071	116,212
	<u>839,885</u>	<u>745,483</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	<u>\$ 5,749</u>	<u>\$ 1,400</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 8,715</u>	<u>\$ 39,495</u>

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of activities: The National Association for Music Education (NAfME), a nonprofit 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, and the use of the most effective techniques and resources in music instruction.

On January 16, 2014, Solutions Music Group, LLC (SMG), 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 during the years ended June 30, 2021 and 2020 but there were no plans for dissolution at the issuance date of these financial statements.

A summary of the Association's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of NAfME and the Solutions Music Group, LLC (collectively referred to as, the Association). Significant inter-entity accounts and transactions have been eliminated in consolidation.

Basis of accounting: The Association prepares its consolidated financial statements on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The consolidated financial statement presentation follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities Topic of the FASB ASC, the Association is required to report information regarding its financial position and activities according to two classes to net assets, as follows:

Net assets without donor restriction: Net assets without donor restrictions include undesignated funds that are available for the support of the Association's activities and not subject to donor-imposed stipulations. Designated net assets consist of funds set aside for specific purposes by action of the Association. It shall be the goal of the Association to maintain reserves equaling 100% of the previous year's operating budget. Any provision in any budget specifying reserves at under 50% must be specifically approved by the National Education Board.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1-- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Net assets with donor restriction: Net assets restricted for time or purpose are subject to donor- imposed stipulations that may or will be met by the actions of the Association and/or passage of time. Net assets restricted in perpetuity are subject to donor-imposed stipulations that they be maintained permanently by the Association.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income tax status: NAFME is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as other than a private foundation. NAFME is subject to income taxes on unrelated business income, as defined by the IRC. SMG is a single member limited liability company and since it is a disregarded entity for income tax purposes, SMG has no activity to report.

Cash and cash equivalents: For purposes of reporting cash flows, the Association considers all demand deposits and highly liquid investments purchased with an original maturity of three months or less, that are not held by investment custodians, to be cash equivalents. Cash and cash equivalents are reported as either unrestricted or restricted cash or cash equivalent balances.

Cash and cash equivalents, restricted: Restricted cash and cash equivalents are held for specific purposes. The Association acts as fiscal agent and provides accounting functions for the Eastern Division Conference held by its state Musical Education Associations (MEA's). These states made an initial reserve fund of \$20,000 to the Association in order to cover any shortfall if the conference disbursements exceed the receipts. The restricted cash and cash equivalent consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment funds	\$ 96,071	\$ 96,212
Reserve fund - Eastern Division Conference	20,000	20,000
	<u>\$ 116,071</u>	<u>\$ 116,212</u>

Investments: Investments are stated at fair value. Gains and losses, including changes in fair value, are reported in the consolidated statement of activities as increase or decreases in net assets.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Concentrations of credit risk: The Association maintains its cash and cash equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured balances at June 30, 2021 and 2020 were approximately \$541,375 and \$345,502, respectively.

The Association also invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, the Association's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidated financial statements may not be reflective of the portfolio's value during subsequent periods.

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 possible that management's estimate of the allowance will change. Allowance for doubtful accounts totaled \$0 and \$4,516 at June 30, 2021 and 2020, respectively.

Property and equipment: Property and equipment are recorded at cost. 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.

Impairment policy: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. During the years ended June 30, 2021 and 2020, management did not consider the value of any property or equipment or intangible assets to be impaired.

Comparative financial information: The accompanying 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 (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2020, from which the summarized information was derived.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Revenue recognition: Membership dues are on an anniversary-date basis and uniform (July 1 – June 30) basis and include multiple distinct performance obligations, including various journal subscriptions and general member services, such as advocacy and education. Dues revenue is allocated among the performance obligations and is recognized when each of the performance obligations are satisfied, as follows: journal – upon publication; general member benefits – ratably over the membership period. Membership revenue related to future periods is recorded as deferred revenue in the accompanying consolidated statements of financial position. Meetings and convention revenue is recognized at the point in time when the related event takes place. Amounts related to these revenue streams are billed prior to the event. Payment is generally due in full prior to the commencement of the applicable event. Revenue from merchandise sales is recognized at the point in time upon shipment of the product.

Contributions are recognized in the statements of activities when donors make unconditional promises to give or when gifts of cash or other assets are received. Contributions are classified as support with donor restrictions or without donor restrictions depending upon the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor, or that have an implied time restriction, are reported as increases in net assets with donor restrictions. Within net assets with donor restrictions, amounts are reclassified to net assets without donor restrictions upon satisfaction of the donor's purpose restriction or when time restrictions expire. All contributions that are restricted by donor, for which restrictions are met within the same fiscal year, are classified as activities without donor restrictions.

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 including salaries and other direct 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.

Recent accounting pronouncement adopted: In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (an exchange transaction) or nonreciprocal (a contribution). ASU 2018-08 also provided guidance for distinguishing between conditional and unconditional contributions. The Association adopted the contributions received portion of the new standard on July 1, 2019 and contributions made portion on July 1, 2020. The Association determined all contributions are nonreciprocal transactions, and as such are properly accounted as contributions; therefore, there was no impact upon adoption of this standard.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1 -- NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Recent accounting pronouncement adopted (continued): In May 2014, the Financial Accounting Standards Board ("FASB") issued *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration an organization expects to receive in exchange for those goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Organizations that transition to this new standard may either retrospectively restate each prior reporting period or follow the modified retrospective method, which reflects the cumulative effect of initially applying the updates with an adjustment to net assets at the date of adoption.

The Association adopted this standard effective July 1, 2020, using the modified retrospective approach. The cumulative effect of applying the new standard was deemed immaterial by management. Therefore, no adjustments were made to the Association's financial condition, results of operations, or cash flows as a result of the adoption of ASU 2014-09.

Upcoming accounting pronouncements: In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the Association's year ending June 30, 2023. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Association anticipates adopting the new standard during the year ending June 30, 2023, and is currently evaluating the impact of the adoption of the new standard on the consolidated financial statements.

Reclassifications: Certain amounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on the previously reported change in net assets.

Subsequent events: Subsequent events have been evaluated through February 10, 2022, which is the date the consolidated financial statements were available to be issued.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 -- INVESTMENTS

In accordance with U.S. GAAP, the Association uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes.

Level 2: Includes inputs other than Level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data.

Level 3: Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, at June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments, at fair value:				
Mutual Funds - Equities				
US Large Cap Growth	\$ 1,566,254	\$ 1,566,254	\$ -	\$ -
US Large Cap Value	1,647,404	1,647,404		
Small/Mid Cap Growth	262,822	262,822		
Small/Mid Cap Value	325,140	325,140		
International Equity	59,799	59,799		
Equities Blend	389,532	389,532		
Mutual Funds - Fixed Income				
Short Term Bond	232,247	232,247		
Long Term Bond	142,566	142,566		
Intermediate Term Bond	108,147	108,147		
Fixed Income Blend	195,926	195,926		
Certificate of Deposits	1,002,787	1,002,787		
Corporate Bonds	890,882	-	890,883	
	<u>6,823,506</u>	<u>\$ 5,932,624</u>	<u>\$ 890,883</u>	<u>\$ -</u>
Investments, at cost:				
Cash	<u>690,590</u>			
	<u>\$ 7,514,096</u>			

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 2 -- INVESTMENTS - (CONTINUED)

The following is a summary of input levels used to determine fair values, measured on a recurring basis, at June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments, at fair value:				
Mutual Funds - Equities				
US Large Cap Growth	\$ 843,224	\$ 843,224	\$ -	\$ -
US Large Cap Core	1,572,064	1,572,064		
US Large Cap Value	1,005,605	1,005,605		
US Mid Cap Growth	115,793	115,793		
US Mid Cap Core	223,049	223,049		
US Mid Cap Value	117,695	117,695		
US Small Cap Growth	73,743	73,743		
US Small Cap Core	33,446	33,446		
US Small Cap Value	16,376	16,376		
Non-US developed	3,513	3,513		
Emerging markets	3,775	3,775		
Convertible and MLP's	181,008	181,008		
Mutual Funds - Fixed Income				
US Investment Grade Corporate	1,577,115	1,577,115		
Non-US Developed	1,038,176	1,038,176		
Corporate bonds	330,815	-	330,815	
	<u>7,135,397</u>	<u>\$ 6,804,582</u>	<u>\$ 330,815</u>	<u>\$ -</u>
Investments, at cost:				
Cash	<u>1,205,259</u>			
	<u>\$ 8,340,656</u>			

Investments valued using Level 1 inputs include closed end mutual funds, the fair values of which were based on quoted prices for identical assets in active markets.

Investments valued using Level 2 inputs include corporate bonds, the fair values of which were determined by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. Management believes the estimated fair value to be a reasonable approximation of the exit price for these investments.

Investments recorded at cost include cash. Investments at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 3 -- LIQUIDITY

The Association invests cash balances in excess of immediate liquidity needs in accordance with its investment policy. The following provides a summary of financial assets available for general expenditures at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 723,814	\$ 629,271
Cash and cash equivalents, restricted	116,071	116,212
Investments	7,514,096	8,340,656
Receivables	<u>124,753</u>	<u>116,245</u>
	8,478,734	9,202,384
Less amounts not available within one year:		
Investments designated for margin loan		(1,058,240)
Cash and cash equivalents, restricted	(21,269)	(21,270)
Net assets with donor restrictions	<u>(94,802)</u>	<u>(94,942)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 8,362,663</u>	<u>\$ 8,027,932</u>

NOTE 4 -- PROPERTY AND EQUIPMENT

Acquisitions of property and equipment equal to or greater than \$500 are capitalized at cost. Furniture and equipment are depreciated using the straight-line method over an estimated useful life of the assets, ranging from three to seven years, while building and improvements are depreciated or amortized over estimated useful lives of ten to 40 years. Property and equipment consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 1,205,929	\$ 1,184,565
Work-in-process		15,451
	<u>1,205,929</u>	<u>1,200,016</u>
Less accumulated depreciation	<u>(787,523)</u>	<u>(666,232)</u>
	<u>\$ 418,406</u>	<u>\$ 533,784</u>

During the year ended June 30, 2019, the Association sold its office building and land. The sales price of the building and land was \$5,525,000. The Association's net gain on the sale of building and land totaled \$3,432,513. As part of the sale, the Association entered into an operating lease for office space which is classified as a sale – leaseback transaction. In conformity with U.S. GAAP, the gain on the sale in excess of the present value of the future minimum lease payments, which totaled \$2,612,596, has been recognized during the year ended June 30, 2019. The remaining portion of the gain, which totaled \$887,124, is being deferred and will be recognized over the lease term. For the years ended June 30, 2021 and 2020, a gain of \$161,296 was recognized.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 5 -- MARGIN LOAN AND LINE OF CREDIT

During 2014, the Association entered into a margin loan agreement with the financial institution that holds its investments. Under the Board resolution, the Association can borrow up to \$1,500,000 of investments. The investments held by the financial institution served as the collateral for the margin loan. At June 30, 2021 and 2020, the fair market value of the Association's investments held by the institution holding the margin loan agreement was \$7,514,096 and \$8,340,656, respectively.

The margin loan is payable on demand and accrues interest on the daily balance at the financial institutions base lending rate which is dependent on the average daily debit balance. At June 30, 2021 and 2020, the outstanding loan balance, including accrued interest totaled \$0 and \$1,058,240, respectively.

During fiscal year 2021, the Association's Board voted to pay off the margin loan and moved away from the margin loan to a lower rate line of credit. On March 1, 2021, the Association entered into a line of credit with a bank for \$2,000,000, with an interest rate of LIBOR daily floating rate plus 1.75% rate, secured by securities or other investment property owned by the Association as described in the Pledge Agreement required by the bank. The Association was obligated to pay monthly interest only payments, with the balance due February 28, 2022. The outstanding balance as of June 30, 2021 was \$0.

NOTE 6 -- PPP LOAN

In March 2021, the Association received a \$462,500 loan through the Paycheck Protection Program (PPP) under the Economic Security Act (CARES ACT). The Association has elected to account for the loan as a financial liability until the time at which forgiveness is received. The loan bears interest at a fix rate of 1.0% and will be payable in equal payments of principal and interest over a period of five years. Under the terms of the agreement, monthly payments will continue until either the lending institution receives communication of loan forgiveness from the Small Business Administration (SBA) or March 2023, whichever is earlier. The loan is not secured by any property of the Association. In January 2022, the Association received notification of the forgiveness of this loan. As such, contribution revenue will be recorded by the Association during the year ended June 30, 2022.

In April 2020, the Association received a \$510,300 loan through the Paycheck Protection Program (PPP) under the Economic Security Act (CARES Act). The Association has elected to account for the loan as a financial liability until the time at which forgiveness is received. The loan bears interest at a fixed rate of 1.0% and will be payable in equal payments of principal and interest over a period of five years. Under the terms of the agreement, monthly payments will continue until either the lending institution receives communication of loan forgiveness from the Small Business Administration (SBA) or April 21, 2022, whichever is earlier. The loan is not secured by any property of the Association. In November 2020, the Association received notification of the forgiveness of this loan. As such, contribution revenue was recorded by the Association during the year ended June 30, 2021.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 -- ENDOWMENT NET ASSETS AND RELATED NET ASSETS WITH DONOR RESTRICTIONS

The Association's net assets held in perpetuity consisted of the Kane Scholarship Fund and the Harley Scholarship Fund, both of which are endowment funds. Investment income from these endowment funds is restricted for donor specified purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence 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, the Association's 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 the 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.

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 for use in 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 7 -- ENDOWMENT NET ASSETS AND RELATED NET ASSETS WITH DONOR RESTRICTIONS
– (CONTINUED)

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.

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. There were no such deficiencies as of June 30, 2021 and 2020.

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.

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2021:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Kane Scholarship Fund	\$ 8,210	\$ 65,395	\$ 73,605
Harley Scholarship Fund	11,457	9,740	21,197
	<u>\$ 19,667</u>	<u>\$ 75,135</u>	<u>\$ 94,802</u>

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2020:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Kane Scholarship Fund	\$ 8,280	\$ 65,395	\$ 73,675
Harley Scholarship Fund	11,527	9,740	21,267
	<u>\$ 19,807</u>	<u>\$ 75,135</u>	<u>\$ 94,942</u>

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 7 -- ENDOWMENT NET ASSETS AND RELATED NET ASSETS WITH DONOR RESTRICTIONS
-- (CONTINUED)

Net assets with donor restrictions activity: Changes consisted of the following for the years ended June 30, 2021 and 2020:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Endowment Net Assets, June 30, 2019	\$ 18,322	\$ 75,135	\$ 93,457
Net Investment return	1,635		1,635
Appropriations	(150)		(150)
Endowment Net Assets, June 30, 2020	19,807	75,135	94,942
Net Investment return	10		10
Appropriations	(150)		(150)
Endowment Net Assets, June 30, 2021	<u>\$ 19,667</u>	<u>\$ 75,135</u>	<u>\$ 94,802</u>

NOTE 8 -- RETIREMENT PLANS

Defined contribution plan: The Association has a defined contribution retirement plan covering all employees who work over one thousand hours in the plan year following one month of service. During fiscal year 2021, the Association changed the participant's eligible compensation to the defined contribution retirement plan from 7% to 3.5%. Participants are fully vested in the Association's contributions after three years of service. For the years ended June 30, 2021 and 2020, net amounts contributed after forfeitures were \$69,972 and \$177,385, respectively.

403(b) plan: 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 IRC. Participants are immediately vested in their own contributions. The Association does not make matching contributions to the 403(b) plan.

NOTE 9 -- COMMITMENTS AND CONTINGENCIES

Office lease: As discussed in Note 4, the Association has an operating lease for office space that expires July 2024. The lease required a security deposit of \$15,267 at inception of the lease. The lease includes an abatement of the first 6 months' rent which has been reported as deferred rent and is being amortized on a basis to achieve straight-line rent expense over the life of the lease. The deferred rent liability totaled \$94,690 and \$82,583 at June 30, 2021 and 2020, respectively.

Total rent expense for all operating leases for the years ended June 30, 2021 and 2020, was \$180,058 and \$179,124, respectively.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 9 -- COMMITMENTS AND CONTINGENCIES – (CONTINUED)

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

Years ending June 30:	
2022	\$ 220,378
2023	202,656
2024	206,146
2025	17,179
	<u>\$ 646,359</u>

Hotel commitments: The Association is committed under agreements for conference space and room rentals through the year 2023. In the event that the Association cancels or reduces its contracted room nights, the Association may be liable for cancellation fees.

NOTE 10 -- AFFILIATE TRANSACTIONS

The Association has an affiliate relationship with 18 State Music Education Associations (MEAs). One representative of these states serves on the Association's National Executive Board. Only 12 of the representatives have voting rights. The Association acts as fiscal agent and provides accounting functions for the Eastern Division Conference held by MEAs. The profit of the conference goes to the Association and was \$31,596 and \$0 at June 30, 2021 and 2020, respectively.

NOTE 11 -- COVID-19

On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a Public Health Emergency of International Concern and, on March 11, 2020, declared it to be a pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Association. Quarantines, labor shortages, or other disruptions to the Association's operations may adversely impact the Association's future revenues, ability to provide its program services and operating results.

The financial markets experienced a high degree of volatility as a result of the pandemic. The investment balances presented in the accompanying consolidated financial statements do not include subsequent increases or decreases in fair value due to fluctuations in the financial markets.

As a result of the pandemic, the Association cancelled four in-person events during fiscal year 2021. These events were held virtually. The Association increased their online virtual platform presence, reduced staffing and experienced a decline in revenue as a result of the pandemic.