

Audited Consolidated Financial Statements

**NATIONAL ASSOCIATION FOR MUSIC
EDUCATION AND SUBSIDIARY**

June 30, 2019

National Association for Music Education and Subsidiary

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Independent Auditor’s Report

To the Board of Directors
National Association for Music Education and Subsidiary

We have audited the accompanying consolidated financial statements of National Association for Music Education (NAfME) and Subsidiary (together referred as “the Association”), which comprise the consolidated statement of financial position as of June 30, 2019, 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 the 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 National Association for Music Education and Subsidiary as of June 30, 2019, 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.

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2021 L STREET, NW

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SUITE 400

.....
WASHINGTON, DC

20036

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TELEPHONE

202/293-2200

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FACSIMILE

202/293-2208

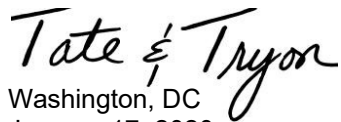
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Report on Summarized Comparative Information

We have previously audited National Association for Music Education and Subsidiary's 2018 consolidated financial statements, and our report dated October 12, 2018, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Adoption of Accounting Standards Update 2016-14

As described in Note A to the consolidated financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, NAFME adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity. There was no change in NAFME's previously reported change in net assets as a result of the adoption of the ASU. Our opinion is not modified with respect to this matter.



Washington, DC
January 17, 2020

National Association for Music Education and Subsidiary

Consolidated Statements of Financial Position

<i>June 30,</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 2,991,961	\$ 318,915
Investments	7,281,808	5,219,513
Accounts receivable - net	179,241	151,091
Inventory	75,345	122,535
Prepaid expenses	145,330	129,402
Property and equipment, net	424,748	2,134,091
Deferred compensation	49,984	37,644
Total assets	\$ 11,148,417	\$ 8,113,191
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 1,210,253	\$ 993,048
Deferred revenue	2,012,396	1,826,605
Deferred rent	73,681	-
Deferred gain on sale of building	819,917	-
Deferred compensation	49,984	37,644
Margin loan	379,022	685,506
Total liabilities	4,545,253	3,542,803
Net assets without donor restrictions		
Undesignated	482,562	(949,100)
Board designated	6,027,145	5,426,891
Total net assets without donor restrictions	6,509,707	4,477,791
Net assets with donor restrictions	93,457	92,597
Total net assets	6,603,164	4,570,388
Commitments and contingencies	-	-
Total liabilities and net assets	\$ 11,148,417	\$ 8,113,191

See notes to the consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statement of Activities Year Ended June 30, 2019 with Comparative Totals for 2018

	Net assets without donor restrictions	Net assets with donor restrictions	Total	
			2019	2018
Operating Activities				
Revenue and support				
Membership dues and contributions	\$ 5,372,045	\$ -	\$ 5,372,045	\$ 5,422,922
Gain on sale of building	2,612,596	-	2,612,596	-
Meetings and conventions	832,418	-	832,418	1,100,859
Sale of inventories	683,890	-	683,890	636,348
Investment income	453,611	1,860	455,471	615,291
Advertising	158,516	-	158,516	198,851
Publication revenue	150,308	-	150,308	193,424
Grants and contracts	115,821	-	115,821	109,243
Royalty income	149,304	-	149,304	149,603
Sponsorships	120,135	-	120,135	123,762
Contributions/donations	26,554	-	26,554	16,036
Miscellaneous income	6,888	-	6,888	125,135
Rent revenue	675	-	675	8,805
Net assets released from restrictions	1,000	(1,000)	-	-
Total revenue and support	10,683,761	860	10,684,621	8,700,279
Expenses				
Program services				
Member and student experiences	2,014,420	-	2,014,420	2,551,182
Capacity building	956,775	-	956,775	774,700
Publications	662,709	-	662,709	681,818
Governance	499,022	-	499,022	460,314
Business process	285,824	-	285,824	577,862
Strategic relationship development	147,495	-	147,495	153,801
Brand management	142,075	-	142,075	382,862
Professional development	141,854	-	141,854	129,778
Membership growth and development	139,526	-	139,526	140,528
Public policy	37,045	-	37,045	60,229
Give a Note Foundation	8,196	-	8,196	220,598
Consultancy	113	-	113	13,437
Organizing	-	-	-	38,002
Total program services	5,035,054	-	5,035,054	6,185,111
Supporting services				
Administration	2,119,190	-	2,119,190	2,152,067
Technology and research	1,273,528	-	1,273,528	202,239
Fundraising and development	224,073	-	224,073	172,540
Total supporting services	3,616,791	-	3,616,791	2,526,846
Total expenses	8,651,845	-	8,651,845	8,711,957
Change in net assets	2,031,916	860	2,032,776	(11,678)
Net assets, beginning	4,477,791	92,597	4,570,388	4,582,066
Net assets, end of year	\$ 6,509,707	\$ 93,457	\$ 6,603,164	\$ 4,570,388

See notes to the consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2019 with Comparative Totals for 2018

	Program Services												Supporting Services				Total		
	Member and Student Experiences	Capacity Building	Publications	Business Process	Governance	Brand Management	Give a Note Foundation	Strategic Relationship Development	Membership Growth and Development	Professional Development	Public Policy	Consultancy (SMG)	Total Program	Administration	Technology and Research	Fundraising and Development	Total Supporting Services	2019	2018
	Salaries	\$ 307,432	\$ 419,420	\$ 89,894	\$ 159,580	\$ 142,297	\$ 105,612	\$ 3,156	\$ 107,127	\$ 53,420	\$ 44,893	\$ 19,038	\$ 113	\$ 1,451,982	\$ 1,193,318	\$ 777,892	\$ 63,636	\$ 2,034,846	\$ 3,486,828
Travel	711,017	332,915	6,548		291,915		4,321	20,032	2,427	3,862	2,097		1,375,134	16,747	1,204	29,698	47,649	1,422,783	1,745,691
Professional services/consultants	14,658	54,053	25,641		45,191	8,250		2,000		51,550	9,990		211,333	713,732	30	78,679	792,441	1,003,774	1,063,345
Meetings and conferences	566,510	85,853			5,275			4,356	808	3,798	2,040		668,640	996		1,800	2,796	671,436	488,535
Production and printing	42,215	17,544	411,620	63,050	450				5,786	1,111			541,776	2,994	61		3,055	544,831	540,316
Other		450						50	1,597	200			2,297	6,240	419,042		425,282	427,579	66,922
Management fees	72,944	40	55	30,497	3,450	19,381		252		30,758			157,377	109,614	150	11,126	120,890	278,267	442,743
Postage and mailing	112,203	1,412	72,231	1,232	1,461	10	236	349	18,937	13			208,084	5,155	3,125	3,219	11,499	219,583	306,063
Employee benefits	20,395	23,658	6,029	10,858	8,630	7,486	483	8,054	3,169	4,423	1,403		94,588	63,037	26,024	4,041	93,102	187,690	572,121
Cost of goods sold	112,986	7,800	33,974										154,760			24,174	24,174	178,934	134,848
Membership dues expenses	32,813			8,390					47,824				89,027		45,000		45,000	134,027	91,637
Promotion, printing and publicity	11,024	393	16,419		353	355		8					28,552	122		584	706	29,258	57,746
Annual professional dues	185	13,160	298			199		4,580	99	298	2,477		21,296	3,819		2,571	6,390	27,686	9,782
Outside support				12,217									12,217	3,174		4,545	7,719	19,936	17,949
Awards, scholarships, and grants	9,894	77						687					10,658	242	1,000		1,242	11,900	10,831
Membership promotion and retention						782			5,459				6,241				-	6,241	10,892
Telephone										948			948				-	948	1,345
Bad debts	144												144				-	144	3,890
State sales tax													-				-	-	2,447
Total expenses	\$ 2,014,420	\$ 956,775	\$ 662,709	\$ 285,824	\$ 499,022	\$ 142,075	\$ 8,196	\$ 147,495	\$ 139,526	\$ 141,854	\$ 37,045	\$ 113	\$ 5,035,054	\$ 2,119,190	\$ 1,273,528	\$ 224,073	\$ 3,616,791	\$ 8,651,845	\$ 8,711,957

National Association for Music Education and Subsidiary

Consolidated Statements of Cash Flows

<i>Year Ended June 30,</i>	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 2,032,776	\$ (11,678)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	144	3,890
Depreciation	135,864	224,871
Gain on disposition of fixed assets	(2,326,870)	-
Net gain on investments	(183,183)	(570,756)
Changes in assets and liabilities		
Accounts receivable	(28,294)	(2,356)
Inventory	47,190	(16,098)
Prepaid expenses	(15,928)	210,337
Accounts payable and accrued expenses	217,205	126,121
Deferred revenue	185,791	(202,336)
Deferred rent	73,681	-
Deferred gain on sale of building	819,917	-
Total adjustments	(1,074,483)	(226,327)
Net cash provided by (used in) operating activities	958,293	(238,005)
Cash flows from investing activities		
Purchases of property and equipment	(411,912)	(249,328)
Proceeds from building sale	4,312,261	-
Proceeds from sales of investments	3,384,957	2,257,002
Purchases of investments	(5,264,069)	(2,480,590)
Net cash provided by (used in) investing activities	2,021,237	(472,916)
Cash flows from financing activities		
(Payments) principal receipts to margin loan	(306,484)	484,480
Net cash (used in) provided by financing activities	(306,484)	484,480
Net increase (decrease) in cash and cash equivalents	2,673,046	(226,441)
Cash and cash equivalents, beginning of year	318,915	545,356
Cash and cash equivalents, end of year	\$ 2,991,961	\$ 318,915

See notes to the consolidated financial statements.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: National Association for Music Education ("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, 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 Commonwealth 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 \$0 and \$1,902 of revenue and \$0 and \$19,130 of expense for the years ended June 30, 2019 and 2018, respectively.

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 NAfME. 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 affiliates, and individual members.

Public policy: NAfME serves as the national voice for music education by 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 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 NAfME's 135,000 plus 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 are published alternately each month, for a total of 8 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.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Member and student experiences: NAFME meetings and conventions are conducted 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 in 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.

NAFME also sponsors or cosponsors other meetings designed to meet particular needs among the profession or to facilitate the business of NAFME. 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 NAFME, and NAFME Societies and Councils).
- 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 NAFME, 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 NAFME or specific groups served by NAFME.

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.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 and resource centers.

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.

Principles of consolidation: The consolidated financial statements include the accounts of NAFME and the Solutions Music Group, LLC (together referred as "the Association"). Significant intra-entity accounts and transactions have been eliminated in consolidation.

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 Internal Revenue Code. SMG is a single member limited liability company and since it is a disregarded entity for income tax purposes, SMG's activities are reported on the tax return of its sole member, NAFME.

Basis of accounting: The consolidated financial statements have been prepared on the accrual basis of accounting. Revenues, other than contributions, are recognized when earned; expenses are recorded when the obligation is incurred. Contributions are recorded as increases in net assets with or without restrictions depending upon the existence and the nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets without donor restrictions are reclassified to net assets without restrictions and reported in the consolidated statements of activities as net assets released from restriction.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents: For purposes of reporting cash flows, NAFME considers all highly liquid investments purchased with an original maturity of three months or less, that are not included in the investment portfolio, to be cash equivalents.

Investments: Investments are stated at fair value. Gains and losses, including changes in fair value, are reported in the consolidated statement of activities as increases or decreases in net assets. Investment expenses are netted with investment income.

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 was \$52,764 and \$31,132 at June 30, 2019 and 2018.

Inventory: Inventory consists 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, 2019 and 2018 was \$16,271 and \$29,793, respectively.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and equipment and depreciation: 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.

Deferred revenue: Deferred revenue primarily consists of subscription fees and membership dues revenue received in advance of the period in which they are earned.

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

Without donor restriction: Net assets that are not subject to donor-imposed stipulations. Revenues from sources other than restricted contributions and related investment income are reported as increases in net assets without donor restriction. Designated net assets consist of funds set aside for specific purposes by action of NAFME. NAFME's policies set as a goal that NAFME maintain a reserve account equaling or exceeding 100% of the annual operating budget, which is to be used as designated by the board.

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 NAFME and/or passage of time. Net assets restricted in perpetuity are subject to donor-imposed stipulations that they be maintained permanently by NAFME. Generally, the investment income is held until appropriated for expenditure in the current year.

Revenue recognition: Revenues are reported as increases in net assets without donor restriction 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 net assets without donor restriction unless their use is restricted by explicit donor stipulations that are not met in the same reporting period or by operation of law.

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 with or without donor restriction, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available without restriction unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted for specific purposes are reported as with donor restriction support that increases that net asset class. Non-cash and in-kind contributions are recorded as revenue at fair value of the items contributed.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. Certain costs including salaries and overhead 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 NAFME.

Advertising: Advertising costs are charged to activities when incurred. Advertising expense during the years ended June 30, 2019 and 2018 was \$11,742 and \$15,528, respectively, and is included in promotion, printing, and publicity in the consolidated statement of functional expenses.

New accounting standard: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). NAFME adopted the provisions of ASU 2016-14 during the year ended June 30, 2019. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added regarding liquidity. There was no change in NAFME's previously reported consolidated change in net assets as a result of the adoption of ASU 2016-14.

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. In particular, investment fees income totaling \$53,048 has been reclassified from administration expense on the consolidated statement of activities.

Subsequent events: Subsequent events have been evaluated through January 17, 2020, which is the date the consolidated financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: NAFME maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to NAFME.

Market risk: NAFME also invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, NAFME'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.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

C. INVESTMENTS

In accordance with U.S. generally accepted accounting principles, NAFME 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,:

2019	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Closed end mutual funds	\$ 4,764,663	\$ 4,764,663	\$ -	\$ -
Corporate bonds	1,440,561	-	1,440,561	
	6,205,224	\$ 4,764,663	\$ 1,440,561	\$ -
Investments, at cost				
Certificates of deposit	1,076,584			
	\$ 7,281,808			
2018	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Closed end mutual funds	\$ 4,307,817	\$ 4,307,817	\$ -	\$ -
Corporate bonds	821,696	-	821,696	
	5,129,513	\$ 4,307,817	\$ 821,696	\$ -
Investments, at cost				
Certificates of deposit	90,000			
	\$ 5,219,513			

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.

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

D. LIQUIDITY

NAfME 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, 2019:

Cash and cash equivalents	\$	2,991,961
Investments		7,281,808
Receivables		179,241
		10,453,010
Less amounts not available within one year		
Certificates of deposits with maturity greater than one year		(742,182)
Investments designated for margin loan		(379,022)
Net assets designated by the Board		(6,027,145)
Net assets with donor restrictions		(93,457)
		(7,241,806)
Financial assets available to meet cash needs for general expenditures within one year	\$	3,211,204

E. 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 were depreciated or amortized over estimated useful lives of ten to forty years.

Property and equipment consisted of the following at June 30,:

	2019	2018
Building and improvements	\$ -	\$ 2,323,736
Furniture and equipment	616,552	2,223,448
Land	-	1,069,089
Work-in-process	412,277	-
	1,028,829	5,616,273
Less accumulated depreciation	(604,081)	(3,482,182)
	\$ 424,748	\$ 2,134,091

During the year ended June 30, 2019, NAfME sold its' office building and land. The sales price of the building and land was \$5,525,000. NAfME's net gain on the sale of building and land totaled \$3,432,513. As part of the sale, NAfME entered into an operating lease for office space which is classified as a sale – leaseback transaction. As required by U.S. generally accepted accounting principles for a transaction of this type, 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. During the year ended June 30, 2019, \$67,207 of the deferred gain was recognized. As of June 30, 2019, the remaining deferred gain balance was \$819,917.

National Association for Music Education and Subsidiary

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F. MARGIN LOAN

During 2014, the Association entered into a margin loan agreement with the financial institution that holds its investments. Under the Board resolution, NAFME 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, 2019 and 2018, the fair market value of NAFME's investments held by the institution holding the margin loan agreement was \$7,191,808 and \$5,129,513, 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, 2019 and 2018, the outstanding loan balance, including accrued interest totaled \$379,022 and \$685,506, respectively.

G. ENDOWMENT NET ASSETS AND RELATED NET ASSETS WITH DONOR RESTRICTIONS

NAfME'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 accounting principles generally accepted in the United States of America, 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, 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 NAFME 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 NAFME
- (7) The investment policy of NAFME

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

Funds with deficiencies: From time to time, the fair value of assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires to retain as NAFME a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

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G. ENDOWMENT NET ASSETS AND RELATED NET ASSETS WITH DONOR RESTRICTION - CONTINUED

Return objectives and risk parameters: NAFME 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 NAFME 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. NAFME accepts a low level of risk in investment return.

Strategies employed for achieving objectives: To satisfy its long-term rate of return objectives, NAFME relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized/unrealized) and current yield (interest/dividends). NAFME 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 NAFME to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

Spending policies: In order to support the operating activities of NAFME, 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, NAFME considered the long-term expected return on its endowment. Accordingly, over the long-term, NAFME 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, 2019:

	<u>With Donor Restrictions, Specified Purpose</u>	<u>With Donor Restrictions, Held in Perpetuity</u>	<u>Total</u>
Kane Scholarship Fund	\$ 7,043	\$ 65,395	\$ 72,438
Harley Scholarship Fund	11,279	9,740	21,019
	<u>\$ 18,322</u>	<u>\$ 75,135</u>	<u>\$ 93,457</u>

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

H. ENDOWMENT NET ASSETS - CONTINUED

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2018:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Kane Scholarship Fund	\$ 6,516	\$ 65,395	\$ 71,911
Harley Scholarship Fund	10,946	9,740	20,686
	\$ 17,462	\$ 75,135	\$ 92,597

Net assets with donor restrictions activity: Changes consisted of the following for the years ended June 30, 2019 and 2018:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Endowment net assets, June 30, 2017	\$ 16,449	\$ 75,135	\$ 91,584
Net investment return	2,013		2,013
Appropriations	(1,000)		(1,000)
Endowment net assets, June 30, 2018	17,462	75,135	92,597
Net investment return	1,860		1,860
Appropriations	(1,000)		(1,000)
Endowment net assets, June 30, 2019	\$ 18,322	\$ 75,135	\$ 93,457

National Association for Music Education and Subsidiary

Notes to the Consolidated Financial Statements

I. PENSION PLANS AND RETIREMENT BENEFITS

Defined contribution plan: NAFME has a defined contribution retirement plan covering all employees who work over one thousand hours in the plan year following one month of service. On an annual basis, NAFME contributes 7% of participants' eligible compensation to the defined contribution retirement plan. For the years ended June 30, 2019 and 2018, net amounts contributed after forfeitures were \$160,452 and \$163,918, respectively.

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

Deferred compensation plan: Effective May 1, 2017, NAFME established a deferred compensation plan under Section 457(b) of the Internal Revenue Code on behalf of a key executive. Investments held for deferred compensation, recorded at fair value using Level 1 inputs on a recurring basis, consisted of mutual funds totaling \$49,984 and \$37,644 at June 30, 2019 and 2018, respectively. Assets corresponding to the plan and related liabilities are included on the consolidated statements of financial position.

Accrued vacation and sick leave: Depending on length of service and other factors, NAFME's employees are entitled to paid vacation time. At June 30, 2019 and 2018, the accrual for vacation leave was \$267,265 and \$242,462, respectively, and is included in accounts payable and accrued expenses in the consolidated statement of financial position at June 30, 2019 and 2018. 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, 2019 and 2018, accrued sick leave was \$165,889 and \$162,726, respectively, and is included in accounts payable and accrued expenses in the consolidated statement of financial position at June 30, 2019 and 2018.

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J. COMMITMENTS AND CONTINGENCIES

Office lease: As discussed in Note E, NAFME has operating lease for office space that expires July 2025. The lease required a security deposit of \$15,267 at inception of the lease. The lease includes an abatement of the first 90 days 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 \$73,681 at June 30, 2019.

In addition, NAFME has various leases for an automobile and equipment which are classified as operating leases with lease terms expiring through October 1, 2020. The leases require monthly payments ranging from \$350 to \$3,452 over the term of the lease.

Total rent expense for all operating leases for the years ended June 30, 2019 and 2018 was \$101,624 and \$56,789, respectively.

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

Year Ending June 30,	
2020	\$ 175,287
2021	190,688
2022	193,909
2023	199,681
2024	205,647
2025	17,179
	<hr/>
	\$ 982,391

Hotel commitments: NAFME is committed under agreements for conference space and room rentals through the year 2022. In the event that NAFME cancels or reduces its contracted room nights, NAFME may be liable for cancellation fees.

Employment agreement: NAFME has an agreement with its Executive Director. Under the terms of the agreement, should NAFME terminate employment without cause, NAFME would be required to provide 180 days notice to the Executive Director.