

National Association for Music Education and Subsidiary

Consolidated Financial Report
June 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
National Association for Music Education

Report on the 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, 2020, 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 Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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, 2020, 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.

Other Matter

The financial statements of National Association for Music Education and Subsidiary, as of and for the year ended June 30, 2019, were audited by other auditors whose report dated January 17, 2020, expressed an unmodified opinion on those statements.

RSM US LLP

Washington, D.C.
February 18, 2021

National Association for Music Education and Subsidiary

**Consolidated Statements of Financial Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Cash and cash equivalents	\$ 574,672	\$ 245,924
Investments	8,340,656	10,027,845
Accounts receivable, net	116,245	179,241
Prepaid expenses and other assets	89,834	270,659
Property and equipment, net	533,784	424,748
Total assets	\$ 9,655,191	\$ 11,148,417
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 728,711	\$ 1,260,237
Deferred revenue	1,869,492	2,012,396
Deferred rent	82,584	73,681
Deferred gain on sale of building	658,622	819,917
PPP loan	510,300	-
Margin loan	1,058,240	379,022
Total liabilities	4,907,949	4,545,253
Commitments and contingencies		
Net assets without donor restrictions:		
Undesignated (deficit)	(1,298,754)	482,562
Board designated	5,951,054	6,027,145
Total net assets without donor restrictions	4,652,300	6,509,707
Net assets with donor restrictions	94,942	93,457
Total net assets	4,747,242	6,603,164
Total liabilities and net assets	\$ 9,655,191	\$ 11,148,417

See notes to consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2020 and 2019

	2020			2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Operating activities:						
Revenue and support:						
Membership dues	\$ 4,688,486	\$ -	\$ 4,688,486	\$ 5,372,045	\$ -	\$ 5,372,045
Meetings and conventions	1,006,225	-	1,006,225	832,418	-	832,418
Merchandise sales	418,971	-	418,971	683,890	-	683,890
Royalty income	164,126	-	164,126	149,304	-	149,304
Miscellaneous income	195,387	-	195,387	7,563	-	7,563
Sponsorships	152,360	-	152,360	120,135	-	120,135
Advertising	139,138	-	139,138	158,516	-	158,516
Grants and contracts	125,583	-	125,583	115,821	-	115,821
Publication revenue	59,215	-	59,215	150,308	-	150,308
Investment income	23,754	1,635	25,389	453,611	1,860	455,471
Contributions/donations	10,257	-	10,257	26,554	-	26,554
Gain on sale of building	-	-	-	2,612,596	-	2,612,596
Net assets released from restrictions	150	(150)	-	1,000	(1,000)	-
Total revenue and support	6,983,652	1,485	6,985,137	10,683,761	860	10,684,621
Expenses:						
Program services:						
Member and student experiences	1,945,825	-	1,945,825	2,014,420	-	2,014,420
Capacity building	693,186	-	693,186	993,820	-	993,820
Governance	615,558	-	615,558	499,022	-	499,022
Business process	568,546	-	568,546	285,824	-	285,824
Publications	506,196	-	506,196	661,678	-	661,678
Membership growth and development	275,907	-	275,907	139,526	-	139,526
Other programs	247,532	-	247,532	292,238	-	292,238
Strategic relationship development	194,839	-	194,839	147,495	-	147,495
Total program services	5,047,589	-	5,047,589	5,034,023	-	5,034,023
Supporting services:						
Administration	3,617,674	-	3,617,674	3,393,749	-	3,393,749
Fundraising and development	175,796	-	175,796	224,073	-	224,073
Total supporting services	3,793,470	-	3,793,470	3,617,822	-	3,617,822
Total expenses	8,841,059	-	8,841,059	8,651,845	-	8,651,845
Change in net assets	(1,857,407)	1,485	(1,855,922)	2,031,916	860	2,032,776
Net assets:						
Beginning	6,509,707	93,457	6,603,164	4,477,791	92,597	4,570,388
Ending	\$ 4,652,300	\$ 94,942	\$ 4,747,242	\$ 6,509,707	\$ 93,457	\$ 6,603,164

See notes to consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2020

	Program Services								Supporting Services					Total
	Member and Student Experiences	Capacity Building	Governance	Business Process	Publications	Membership Growth and Development	Other Programs	Strategic Relationship Development	Total Program	Administration	Fundraising and Development	Total Supporting Services		
Salaries and benefits	\$ 441,258	\$ 598,146	\$ 169,835	\$ 254,442	\$ 113,384	\$ 88,195	\$ 190,707	\$ 163,963	\$ 2,019,930	\$ 1,721,459	\$ 67,960	\$ 1,789,419	\$ 3,809,349	
Professional services/consultants	17,892	-	137,201	267,572	2,185	743	21,575	-	447,168	1,727,114	67,536	1,794,650	2,241,818	
Travel	745,178	-	291,303	-	1,597	2,293	1,924	17,635	1,059,930	2,310	16,317	18,627	1,078,557	
Production and printing	36,667	5,240	58	41,111	312,633	39,341	268	5,490	440,808	3,276	4	3,280	444,088	
Meetings, conventions and conferences	351,734	59,770	13,015	-	-	-	482	5,008	430,009	-	-	-	430,009	
Management fees	106,044	13,415	1,870	-	395	111,836	30,586	591	264,737	99,255	14,828	114,083	378,820	
Postage and mailing	89,948	939	2,276	5,421	75,729	20,726	-	1,038	196,077	5,863	196	6,059	202,136	
Merchandise sales cost	150,785	-	-	-	-	1,140	-	-	151,925	30,072	8,270	38,342	190,267	
Other	6,319	15,676	-	-	273	11,633	1,990	1,114	37,005	28,325	685	29,010	66,015	
Total expenses	\$ 1,945,825	\$ 693,186	\$ 615,558	\$ 568,546	\$ 506,196	\$ 275,907	\$ 247,532	\$ 194,839	\$ 5,047,589	\$ 3,617,674	\$ 175,796	\$ 3,793,470	\$ 8,841,059	

See notes to consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statement of Functional Expenses Year Ended June 30, 2019

	Program Services									Supporting Services			Total
	Member and Student Experiences	Capacity Building	Publications	Governance	Other Programs	Business Process	Strategic Relationship Development	Membership Growth and Development	Total Program	Administration	Fundraising and Development	Total Supporting Services	
	Salaries and benefits	\$ 327,827	\$ 463,519	\$ 95,923	\$ 150,927	\$ 166,166	\$ 170,438	\$ 115,181	\$ 56,589	\$ 1,546,570	\$ 2,060,271	\$ 67,677	
Travel	711,017	335,012	6,548	291,915	8,183	-	20,032	2,427	1,375,134	17,951	29,698	47,649	1,422,783
Professional services/consultants	14,658	64,043	25,641	45,191	59,800	12,217	2,000	-	223,550	716,936	83,224	800,160	1,023,710
Meetings, conventions and conferences	566,510	87,893	-	5,275	3,798	-	4,356	808	668,640	996	1,800	2,796	671,436
Production and printing	42,215	17,544	411,620	450	1,111	63,050	-	5,786	541,776	3,055	-	3,055	544,831
Other	33,142	16,087	298	-	2,427	8,390	4,630	54,979	119,953	474,101	2,571	476,672	596,625
Management fees	72,944	40	55	3,450	50,139	30,497	252	-	157,377	109,764	11,126	120,890	278,267
Postage and mailing	112,203	1,412	72,231	1,461	259	1,232	349	18,937	208,084	8,280	3,219	11,499	219,583
Merchandise sales cost	112,986	7,800	33,974	-	-	-	-	-	154,760	-	24,174	24,174	178,934
Promotion, printing and publicity	11,024	393	15,388	353	355	-	8	-	27,521	1,153	584	1,737	29,258
Awards, scholarships, and grants	9,894	77	-	-	-	-	687	-	10,658	1,242	-	1,242	11,900
Total expenses	\$ 2,014,420	\$ 993,820	\$ 661,678	\$ 499,022	\$ 292,238	\$ 285,824	\$ 147,495	\$ 139,526	\$ 5,034,023	\$ 3,393,749	\$ 224,073	\$ 3,617,822	\$ 8,651,845

See notes to consolidated financial statements.

National Association for Music Education and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (1,855,922)	\$ 2,032,776
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Bad debt expense	12,073	144
Depreciation	62,151	135,864
Gain on disposition of property	-	(2,326,870)
Net gain on investments	140,920	(183,183)
Deferred rent	8,903	73,681
Deferred gain on sale of building	(161,295)	819,917
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	50,923	(28,294)
Prepaid expenses and other assets	180,825	31,262
Increase (decrease) in:		
Accounts payable and accrued expenses	(531,526)	217,205
Deferred revenue	(142,904)	185,791
Net cash (used in) provided by operating activities	(2,235,852)	958,293
Cash flows from investing activities:		
Purchases of property and equipment	(171,187)	(411,912)
Proceeds from building sale	-	4,312,261
Proceeds from sales of investments	1,639,103	582,519
Purchases of investments	(92,834)	(5,264,069)
Net cash provided by (used in) investing activities	1,375,082	(781,201)
Cash flows from financing activities:		
Principal receipts from (payments to) margin loan	679,218	(306,484)
Proceeds from PPP loan	510,300	-
Net cash provided by (used in) financing activities	1,189,518	(306,484)
Net increase (decrease) in cash and cash equivalents	328,748	(129,392)
Cash and cash equivalents:		
Beginning	245,924	375,316
Ending	\$ 574,672	\$ 245,924
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 1,400	\$ 7,500
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 39,495	\$ 28,511

See notes to consolidated financial statements.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

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, 2020 and 2019 but there were no plans for dissolution at the issuance date.

A summary of the NAfME'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. The Association's policies set as a goal that the Association maintain a reserve account equaling or exceeding 100% of the annual operating budget, which is to be used as designated by the board.

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.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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's activities are reported on the tax return of its sole member, NAFME.

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

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

Financial risk: The Association 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. As such, the failure of an underlying institution could result in financial loss to the Association.

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 \$4,516 and \$31,132 at June 30, 2020 and 2019, 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, 2020 and 2019, management did not consider the value of any property or equipment or intangible assets to be impaired.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition: 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 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 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 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 effective for the year ended June 30, 2020, using the modified prospective method. The Association will adopt the contributions made portion of the new standard when it is required during the year ending June 30, 2021. Based on management's review of its contributions received, the timing of the amount of contributions recognized previously is consistent with how contributions are recognized under this new standard. Therefore, the adoption of this standard had no impact on the consolidated financial statements but the standard does require additional disclosures related to conditional contributions when they are present.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2019. The Association is currently evaluating the effect that the standard will have on the consolidated financial statements and anticipate adopting the new standard during the year end June 30, 2021.

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 18, 2021, which is the date the consolidated financial statements were available to be issued.

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.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

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:

	Total	Level 1	Level 2	Level 3
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>			

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

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, 2019:

	Total	Level 1	Level 2	Level 3
Investments, at fair value:				
Mutual Funds - Equities				
US Large Cap Growth	\$ 1,368,383	\$ 1,368,383	\$ -	\$ -
US Large Cap Core	1,714,459	1,714,459	-	-
US Large Cap Value	820,537	820,537	-	-
US Mid Cap Growth	233,694	233,694	-	-
US Mid Cap Core	192,932	192,932	-	-
US Mid Cap Value	131,844	131,844	-	-
US Small Cap Growth	84,177	84,177	-	-
US Small Cap Core	41,985	41,985	-	-
US Small Cap Value	27,767	27,767	-	-
Non-US developed	10,124	10,124	-	-
Emerging markets	38,945	38,945	-	-
Convertible and MLP's	87,341	87,341	-	-
Mutual Funds - Fixed Income				
US Investment Grade Corporate	1,435,328	1,435,328	-	-
Non-US Developed	1,001,950	1,001,950	-	-
Corporate bonds	137	-	137	-
	<u>7,189,603</u>	<u>\$ 7,189,466</u>	<u>\$ 137</u>	<u>\$ -</u>
Investments, at cost:				
Cash	2,748,242			
Certificates of deposit	90,000			
	<u>\$ 10,027,845</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 at 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

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, 2020 and 2019:

	2020	2019
Cash and cash equivalents	\$ 574,672	\$ 245,924
Investments	8,340,656	10,027,845
Receivables	116,245	179,241
	<u>9,031,573</u>	<u>10,453,010</u>
Less amounts not available within one year:		
Investments designated for margin loan	(1,058,240)	(379,022)
Net assets with donor restrictions	(94,942)	(93,457)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,878,391</u>	<u>\$ 9,980,531</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, 2020 and 2019:

	2020	2019
Furniture and equipment	\$ 1,184,565	\$ 616,552
Work-in-process	15,451	412,277
	<u>1,200,016</u>	<u>1,028,829</u>
Less accumulated depreciation	(666,232)	(604,081)
	<u>\$ 533,784</u>	<u>\$ 424,748</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.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 5. Margin Loan

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, 2020 and 2019, the fair market value of the Association's investments held by the institution holding the margin loan agreement was \$8,340,656 and \$10,027,845, 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, 2020 and 2019, the outstanding loan balance, including accrued interest totaled \$1,058,240 and \$379,022, respectively.

Note 6. PPP Loan

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. 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 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. 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 will be recorded by the Association during the year ended June 30, 2021.

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.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 7. Endowment Net Assets and Related Net Assets With Donor Restrictions (Continued)

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.

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, 2020 and 2019.

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, 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>

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Notes to Consolidated Financial Statements

Note 7. Endowment Net Assets and Related Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2019:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
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>

Net assets with donor restrictions activity: Changes consisted of the following for the years ended June 30, 2020 and 2019:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
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
Net investment return	1,635	-	1,635
Appropriations	(150)	-	(150)
Endowment net assets, June 30, 2020	<u>\$ 19,807</u>	<u>\$ 75,135</u>	<u>\$ 94,942</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. On an annual basis, The Association contributes 7% of participants' eligible compensation to the defined contribution retirement plan. For the years ended June 30, 2020 and 2019, net amounts contributed after forfeitures were \$177,385 and \$160,452, 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.

Deferred compensation plan: Effective May 1, 2017, The Association established a deferred compensation plan under Section 457(b) of the IRC 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 \$0 and \$49,984 at June 30, 2020 and 2019, respectively. Assets corresponding to the plan and related liabilities are included on the consolidated statements of financial position as prepaid expenses and other assets and accounts payable and accrued expenses, respectively.

National Association For Music Education and Subsidiary

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies

Office lease: As discussed in Note 4, the Association 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 \$82,584 and \$73,681 at June 30, 2020 and 2019, respectively.

In addition, the Association has various leases for an automobile and equipment which are classified as operating leases with lease terms expiring through October 1, 2021. 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, 2020 and 2019, was \$179,124 and \$101,624, respectively.

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

Years ending June 30:	
2021	\$ 195,591
2022	196,360
2023	199,681
2024	205,647
2025	17,179
	<u>\$ 814,458</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. 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 revenues, ability to provide its program services and operating results.

As a result, the financial markets experienced a high degree of volatility as a result of the pandemic. Therefore, 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 and it has not been determined whether these events will be rescheduled events. The Association increased their online virtual platform presence, reduced staffing and experienced a decline in revenue as a result of the pandemic.