

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022
(with comparative totals for 2021)

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**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
National Association for Music Education

Opinion

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, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NAfME and Subsidiary as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NAfME and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NAfME's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NAFME's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NAFME's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited NAFME's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 10, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

Washington, DC

February 3, 2023

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|--|------------------|------------------|
| <u>Assets</u> | | |
| Cash and cash equivalents | \$ 1,429,487 | \$ 725,814 |
| Cash and cash equivalents, restricted | 112,932 | 114,071 |
| Investments | 6,577,016 | 7,514,096 |
| Accounts receivable, net | 140,164 | 124,753 |
| Prepaid expenses and other assets | 209,006 | 160,178 |
| Property and equipment, net | 342,047 | 418,406 |
| Total assets | \$ 8,810,652 | \$ 9,057,318 |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,243,093 | \$ 677,998 |
| Deferred revenue | 1,870,553 | 1,477,975 |
| Deferred rent | 53,231 | 94,690 |
| Deferred gain on sale of building | 336,032 | 497,327 |
| PPP loan | 462,500 | 462,500 |
| Total liabilities | 3,502,909 | 3,210,490 |
| Net assets without donor restrictions: | | |
| Undesignated (deficit) | (1,329,729) | (1,428,887) |
| Board designated | 6,492,617 | 7,182,913 |
| Total net assets without donor restrictions | 5,162,888 | 5,754,026 |
| Net assets with donor restrictions: | | |
| | 144,855 | 92,802 |
| Total net assets | 5,307,743 | 5,846,828 |
| Total liabilities and net assets | \$ 8,810,652 | \$ 9,057,318 |

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARR ENDED JUNE 30, 2022 (with comparative totals for 2021)

| | 2022 | | | 2021 |
|---|---------------------------------------|------------------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| <u>Revenue and Support</u> | | | | |
| Membership dues | \$ 4,342,514 | | \$ 4,342,514 | \$ 4,200,411 |
| Meetings and conventions | 155,538 | | 155,538 | 169,811 |
| Merchandise sales | 475,644 | | 475,644 | 412,975 |
| Royalty income | 113,501 | | 113,501 | 94,882 |
| Miscellaneous income | 161,300 | | 161,300 | 161,296 |
| Sponsorships | 26,250 | | 26,250 | 16,500 |
| Advertising | 200,759 | | 200,759 | 165,414 |
| Grants and contracts | 180,709 | | 180,709 | 75,014 |
| Publication revenue | 9,854 | | 9,854 | 7,560 |
| Investment income, net | (690,189) | 11 | (690,178) | 1,183,423 |
| Contributions/donations | 83,320 | 109,203 | 192,523 | 47,602 |
| Paycheck Protection Program proceeds | 462,500 | | 462,500 | 510,300 |
| Net assets released from restrictions | 57,161 | (57,161) | | |
| Total revenue and support | <u>5,578,861</u> | <u>52,053</u> | <u>5,630,914</u> | <u>7,045,188</u> |
| <u>Expenses</u> | | | | |
| Program services: | | | | |
| Membership growth and development | 977,902 | | 977,902 | 758,627 |
| Member and student experiences | 827,916 | | 827,916 | 1,055,043 |
| Capacity building | 745,551 | | 745,551 | 525,208 |
| Publications | 433,250 | | 433,250 | 413,433 |
| Other programs | 318,016 | | 318,016 | 281,485 |
| Governance | 203,952 | | 203,952 | 230,601 |
| Strategic relationship development | 187,468 | | 187,468 | 165,650 |
| Total program services | <u>3,694,055</u> | | <u>3,694,055</u> | <u>3,430,047</u> |
| Supporting services: | | | | |
| Administration | 2,131,461 | | 2,131,461 | 2,402,695 |
| Fundraising and Development | 197,760 | | 197,760 | 112,860 |
| Total supporting services | <u>2,329,221</u> | | <u>2,329,221</u> | <u>2,515,555</u> |
| Total expenses | <u>6,023,276</u> | | <u>6,023,276</u> | <u>5,945,602</u> |
| Change in net assets | (444,415) | 52,053 | (392,362) | 1,099,586 |
| Net assets, beginning of year | 5,754,026 | 92,802 | 5,846,828 | 4,747,242 |
| Prior period adjustment | (146,723) | | (146,723) | |
| Net assets, beginning of year as restated | <u>5,607,303</u> | <u>92,802</u> | <u>5,700,105</u> | <u>4,747,242</u> |
| Net assets, end of year | <u>\$ 5,162,888</u> | <u>\$ 144,855</u> | <u>\$ 5,307,743</u> | <u>\$ 5,846,828</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, 2022 (with comparative totals for 2021)

2022

| | Program Services | | | | | | Supporting Services | | | | | Total | 2021 Total |
|---------------------------------------|--------------------------------------|-----------------------------------|----------------------|--------------|----------------|------------|--|---------------------------|----------------|--------------------------------|---------------------------|--------------|---------------|
| | Membership Growth and Development | Member and Student Experiences | Capacity Building | Publications | Other Programs | Governance | Strategic Relationship Development | Total Program Services | Administration | Fundraising and Development | Total Support Services | | |
| Salaries and benefits | \$ 116,730 | \$ 220,795 | \$ 411,689 | \$ 77,096 | \$ 145,263 | \$ 145,982 | \$ 88,667 | \$ 1,206,222 | \$ 928,505 | \$ 100,840 | \$ 1,029,345 | \$ 2,235,567 | \$ 2,315,390 |
| Professional services/consultants | 520,454 | 45,660 | 10,530 | 2,167 | 28,740 | 11,664 | | 619,215 | 780,556 | 27,717 | 808,273 | 1,427,488 | 1,496,080 |
| Travel | | 157 | 168,668 | | | 12,126 | 791 | 181,742 | 36 | | 36 | 181,778 | 12,389 |
| Production and printing | 18,162 | 14,210 | 4,174 | 275,580 | 50 | 183 | | 312,359 | 119 | | 119 | 312,478 | 288,801 |
| Meetings, conventions and conferences | | 46,681 | 8,206 | | 2,034 | | 1,000 | 57,921 | 18,040 | | 18,040 | 75,961 | 81,984 |
| Management fees | 18,075 | 42,343 | 26,170 | | 80,272 | 3,561 | | 170,421 | 206,860 | 29,842 | 236,702 | 407,123 | 271,984 |
| Postage and mailing | 24,567 | 24,919 | 35 | 50,899 | | | | 100,420 | 3,235 | | 3,235 | 103,655 | 91,034 |
| Merchandise sales cost | | 140,898 | | | | | 66,753 | 207,651 | | 9,447 | 9,447 | 217,098 | 161,010 |
| Other | 279,914 | 292,253 | 116,079 | 27,508 | 61,657 | 30,436 | 30,257 | 838,104 | 194,110 | 29,914 | 224,024 | 1,062,128 | 1,226,930 |
| Total expenses | \$ 977,902 | \$ 827,916 | \$ 745,551 | \$ 433,250 | \$ 318,016 | \$ 203,952 | \$ 187,468 | \$ 3,694,055 | \$ 2,131,461 | \$ 197,760 | \$ 2,329,221 | \$ 6,023,276 | \$ 5,945,602 |

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, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (392,362) | \$ 1,099,586 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Bad debt expense | | 11,060 |
| Depreciation | 119,750 | 121,291 |
| Realized and unrealized (gains) and losses on investments | 822,472 | (1,087,632) |
| Deferred rent | (41,459) | 10,437 |
| Deferred gain on sale of building | (161,295) | (161,295) |
| Changes in assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | (15,411) | (8,508) |
| Prepaid expenses and other assets | (48,828) | (70,344) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 418,372 | (221,524) |
| Deferred revenue | 392,578 | (389,848) |
| Net cash (used in) provided by operating activities | <u>1,093,817</u> | <u>(696,777)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (43,392) | (5,913) |
| Net proceeds from investments | <u>114,609</u> | <u>1,903,132</u> |
| Net cash provided by investing activities | 71,217 | 1,897,219 |
| Cash flows from financing activities: | | |
| Principal receipts from (payments to) margin loan | | (1,058,240) |
| Noncash PPP loan forgiveness | (462,500) | |
| Proceeds from PPP loan | | (47,800) |
| Net cash used in financing activities | <u>(462,500)</u> | <u>(1,106,040)</u> |
| Net increase in cash and cash equivalents | 702,534 | 94,402 |
| Cash and cash equivalents: | | |
| Beginning of year | <u>839,885</u> | <u>745,483</u> |
| Ending of year | <u>\$ 1,542,419</u> | <u>\$ 839,885</u> |
| Cash and cash equivalents, end of year | \$ 1,429,487 | \$ 725,814 |
| Cash and cash equivalents (restricted), end of year | <u>112,932</u> | <u>114,071</u> |
| | <u>1,542,419</u> | <u>839,885</u> |
| Supplemental disclosure of cash flow information: | | |
| Income taxes paid | <u>\$ 740</u> | <u>\$ 5,749</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 239</u> | <u>\$ 8,715</u> |

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021 and there were no plans for dissolution at the issuance date.

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. 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

**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. Net assets with donor restrictions were as follows for the year ended June 30:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Specific purpose: | | |
| Kane Scholarship | \$ 3,140 | \$ 6,210 |
| Harley Scholarship | 11,388 | 11,457 |
| Connected Arts Networks ("CAN") grant | <u>55,192</u> | <u> </u> |
| | 69,720 | 17,667 |
| Perpetual endowment funds: | | |
| Kane Scholarship Fund | 65,395 | 65,395 |
| Harley Scholarship Fund | <u>9,740</u> | <u>9,740</u> |
| | <u>75,135</u> | <u>75,135</u> |
| Total net assets with donor restrictions | <u>\$ 144,855</u> | <u>\$ 92,802</u> |

Net assets released from net assets with donor restrictions were as follows for the year ended June 30:

| | <u>2022</u> | <u>2021</u> |
|--|------------------|-------------------|
| Specific purpose: | | |
| Kane Scholarship | \$ 3,070 | \$ 2,070 |
| Harley Scholarship | 80 | 80 |
| Connected Arts Networks ("CAN") grant | <u>54,011</u> | <u> </u> |
| | <u>\$ 57,161</u> | <u>\$ 2,150</u> |
| Total net assets released from net assets with donor restrictions | <u>\$ 57,161</u> | <u>\$ 2,150</u> |

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
JUNE 30, 2022 AND 2021**

**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 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 established an initial reserve fund of \$20,000 in order to cover any shortfall if the conference disbursements exceed the receipts. The endowment fund is for the purpose of scholarship imposed by donor. The restricted cash and cash equivalent consisted of the following at June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Endowment funds | \$ 92,932 | \$ 94,071 |
| Reserve fund - Eastern Division Conference | <u>20,000</u> | <u>20,000</u> |
| | <u>\$ 112,932</u> | <u>\$ 114,071</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 decrease in investment income.

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, 2022 and 2021 were approximately \$1,196,215 and \$541,375, 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

Accounts receivable: Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. Receivables are charged to allowance when deemed uncollectible. It is reasonably possibly that management's estimate of the allowance will change. Allowance for doubtful accounts is \$0 at June 30, 2022 and 2021.

Property and equipment: Property and equipment are recorded at cost. The Association capitalizes all property and equipment purchased with a cost of \$500 or more. Depreciation is computed on a straight-line basis over the estimated useful lives of each asset. Furniture and equipment are depreciated over an estimated useful lives of three to seven years, while building and improvements are depreciated or amortized over estimated useful lives of ten to 40 years.

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, 2022 and 2021, management did not consider the value of any property or equipment or intangible assets to be impaired.

Comparative financial information: The accompanying consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2021, from which the summarized information was derived

Revenue recognition: Membership dues are on an anniversary-date basis and include multiple distinct performance obligations, including various quarterly 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: quarterly journal – upon publication and 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 upon shipment of the product.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

Contributions are recognized in the consolidated statement 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. Expenses require allocation on a reasonable basis that is consistently applied. 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 on the basis of estimates of time and effort. 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. Fundraising and development expenses are costs related to the capital campaign, development, and other fundraising efforts.

Recent accounting pronouncement adopted: ASU 2020-07 - The FASB issued *ASU 2020-07, Not-for-Profit Entities (Topic 958) on Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires organizations to present contributed nonfinancial assets as a separate line item in the Statement of Activities, apart from cash and other financial assets, and disaggregate into different categories those nonfinancial assets. For each category of utilized assets, the description of programs or other activities in which the assets are utilized and any donor-imposed restrictions on the use of assets need to be disclosed.

The Association adopted this standard effectively July 1, 2021, using the modified retrospective approach. The Association didn't receive contributed nonfinancial assets during fiscal year 2022. 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 2020-07.

In May 2014, the Financial Accounting Standards Board ("FASB") issued *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*. This ASU, which 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

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 3, 2023, which is the date when 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
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JUNE 30, 2022 AND 2021**

NOTE 2 -- INVESTMENTS - (CONTINUED)

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, 2022:

| | <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 | \$ 1,234,816 | \$ 1,234,816 | \$ | \$ |
| US Large Cap Value | 1,357,242 | 1,357,242 | | |
| Small/Mid Cap Growth | 158,809 | 158,809 | | |
| Small/Mid Cap Value | 378,002 | 378,002 | | |
| International Equity | 60,153 | 60,153 | | |
| Equities Blend | 475,678 | 475,678 | | |
| Mutual Funds - Fixed Income | | | | |
| Short Term Bond | 405,942 | 405,942 | | |
| Long Term Bond | 304,160 | 304,160 | | |
| Intermediate Term Bond | 580,996 | 580,996 | | |
| Fixed Income Blend | 159,859 | 159,859 | | |
| Certificate of Deposits | 242,114 | 242,114 | | |
| Corporate Bonds | 645,638 | | 645,638 | |
| | <u>6,003,409</u> | <u>\$ 5,357,771</u> | <u>\$ 645,638</u> | <u>\$ -</u> |
| Investments, at cost: | | | | |
| Cash | 573,607 | | | |
| | <u>\$ 6,577,016</u> | | | |

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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, 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 | | 890,882 | |
| | <u>6,823,506</u> | <u>\$ 5,932,624</u> | <u>\$ 890,882</u> | <u>\$ -</u> |
| Investments, at cost: | | | | |
| Cash | 690,590 | | | |
| | <u>\$ 7,514,096</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, 2022 AND 2021

NOTE 3 -- LIQUIDITY AND AVAILABILITY

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, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,429,487 | \$ 725,814 |
| Cash and cash equivalents, restricted | 112,932 | 114,071 |
| Investments | 6,577,016 | 7,514,096 |
| Receivables | 140,164 | 124,753 |
| | <u>8,259,599</u> | <u>8,478,734</u> |
| Less amounts not available within one year: | | |
| Cash and cash equivalents, restricted | (23,269) | (21,269) |
| Net assets with donor restrictions | <u>(144,855)</u> | <u>(92,802)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 8,091,475</u> | <u>\$ 8,364,663</u> |

NOTE 4 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|-------------------------------|-------------------|-------------------|
| Furniture and equipment | \$ 1,209,971 | \$ 1,205,929 |
| Work-in-process | 39,350 | |
| | <u>1,249,321</u> | <u>1,205,929</u> |
| Less accumulated depreciation | <u>(907,274)</u> | <u>(787,523)</u> |
| | <u>\$ 342,047</u> | <u>\$ 418,406</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. At June 30, 2022 and 2021, the gain of \$161,296 was recognized.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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 serves as the collateral for the margin loan. At June 30, 2022 and 2021, the fair market value of the Association's investments held by the institution holding the margin loan agreement was \$6,577,016 and \$7,514,096, respectively.

The margin loan is payable on demand and accrues interest on the daily balance at the financial institution's base lending rate which is dependent on the average daily debit balance. At June 30, 2022 and 2021, the outstanding loan balance, including accrued interest totaled \$0.

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 of 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 BSBY 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. At June 30, 2022 and 2021, the outstanding balance related to the line of credit 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 PPP loan was made through Atlantic Union Bank (the "lender"). The Association 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 March 2023, whichever is earlier. 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. 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, loan forgiveness was reflected as contribution revenue in the accompanying consolidated statement of activities 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 PPP loan was made through Atlantic Union Bank (the "lender"). The Association elected to account for the loan as a financial liability until the time at which forgiveness was received. Under the terms of the agreement, monthly payments will continue until either the lending institution received communication of loan forgiveness from the Small Business Administration (SBA) or April 21, 2022, whichever was earlier. The loan bears interest at a fixed rate of 1.0% and is 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 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, 2022 AND 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 Association's Board 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, 2022 AND 2021**

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, 2022 and 2021.

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.

Endowment net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2022:

| | <u>With Donor Restrictions, Specified Purpose</u> | <u>With Donor Restrictions, Held in Perpetuity</u> | <u>Total</u> |
|-------------------------|---|--|------------------|
| Kane Scholarship Fund | \$ 3,141 | \$ 65,395 | \$ 68,536 |
| Harley Scholarship Fund | 11,387 | 9,740 | 21,127 |
| | <u>\$ 14,528</u> | <u>\$ 75,135</u> | <u>\$ 89,663</u> |

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

| | <u>With Donor Restrictions, Specified Purpose</u> | <u>With Donor Restrictions, Held in Perpetuity</u> | <u>Total</u> |
|-------------------------|---|--|------------------|
| Kane Scholarship Fund | \$ 6,210 | \$ 65,395 | \$ 71,605 |
| Harley Scholarship Fund | 11,457 | 9,740 | 21,197 |
| | <u>\$ 17,667</u> | <u>\$ 75,135</u> | <u>\$ 92,802</u> |

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

Endowment net assets with donor restrictions activity: Changes consisted of the following for the years ended June 30, 2022 and 2021:

| | <u>With Donor Restrictions, Specified Purpose</u> | <u>With Donor Restrictions, Held in Perpetuity</u> | <u>Total</u> |
|-------------------------------------|---|--|------------------|
| Endowment Net Assets, June 30, 2020 | \$ 19,807 | \$ 75,135 | \$ 94,942 |
| Net Investment return | 10 | | 10 |
| Appropriations | (2,150) | | (2,150) |
| Endowment Net Assets, June 30, 2021 | 17,667 | 75,135 | 92,802 |
| Net Investment return | 11 | | 11 |
| Appropriations | (3,150) | | (3,150) |
| Endowment Net Assets, June 30, 2022 | <u>\$ 14,528</u> | <u>\$ 75,135</u> | <u>\$ 89,663</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 2022, the Association changed participant's eligibility compensation to the defined contribution retirement plan from 3.5% to 4.5%. For the years ended June 30, 2022 and 2021, net amounts contributed after forfeitures were \$12,172 and \$69,972, 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 \$53,231 and \$94,690 at June 30, 2022 and 2021, respectively.

Total rent expense for all operating leases for the years ended June 30, 2022 and 2021, was \$178,448 and \$180,058, respectively.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 9 -- COMMITMENTS AND CONTINGENCIES - (CONTINUED)

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

| <u>Years ending June 30:</u> | | |
|------------------------------|-----------|----------------|
| 2023 | \$ | 202,656 |
| 2024 | | 206,146 |
| 2025 | | 17,179 |
| | <u>\$</u> | <u>425,981</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 -- PRIOR YEAR ADJUSTMENT

The Association was granted a license by the American Society of Composers, Authors and Publishers ("ASCAP") to perform publicly the musical compositions in the ASCAP repertory since 2001. Per the license agreement, the Association must submit an annual license fee payment for the prior contract year. During fiscal year 2022, the Association discovered that annual licenses fees have not been paid since July 1, 2017. Therefore, a prior period adjustment was made to record \$146,723 annual license fees for the period from July 1, 2017 through June 30, 2021, restating net assets at June 30, 2021 from \$5,846,828 to \$5,700,105 during fiscal year 2022.

NOTE 11 -- AFFILIATE TRANSACTIONS

The Association has an affiliate relationship with 18 State Music Education Associations (MEAs). A representative of each state 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 \$0 at June 30, 2022 and 2021.