

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2023
(with comparative totals for 2022)**

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**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

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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, 2023, 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, 2023, 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 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 3, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Emphasis-of-Matter Paragraph – Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, effective July 1, 2022, NAFME has adopted Accounting Standards Update 2016-02, Leases (Topic 842), which supersedes existing accounting standards for leases and requires lessees to recognize right-of-use lease assets and corresponding lease liabilities on the Statement of Financial Position for all operating and finance leases with lease terms greater than one year. Our opinion is not modified in respect to this matter.

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

Washington, DC
March 8, 2024

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,279,559	\$ 1,429,487
Cash and cash equivalents, restricted	210,500	112,932
Investments	6,867,081	6,577,016
Accounts receivable, net	130,474	140,164
Prepaid expenses and other assets	259,739	209,006
Operating lease right-of-use assets	98,224	
Property and equipment, net	292,937	342,047
	<hr/>	<hr/>
Total assets	\$ 9,138,514	\$ 8,810,652
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,213,850	\$ 1,243,093
Deferred revenue	1,889,691	1,870,553
Deferred rent		53,231
Deferred gain on sale of building	174,736	336,032
Operating lease liability	119,121	
	<hr/>	<hr/>
Total liabilities	3,397,398	3,502,909
Net assets without donor restrictions:		
Undesignated (deficit)	(1,562,972)	(1,329,729)
Board designated	7,055,664	6,492,617
	<hr/>	<hr/>
Total net assets without donor restrictions	5,492,692	5,162,888
Net assets with donor restrictions:		
	248,424	144,855
	<hr/>	<hr/>
Total net assets	5,741,116	5,307,743
	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net assets	\$ 9,138,514	\$ 8,810,652

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023 (with comparative totals for 2022)**

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and support				
Membership dues	\$ 4,813,795	\$	\$ 4,813,795	\$ 4,342,514
Meetings and conventions	759,525		759,525	155,538
Merchandise sales	505,379		505,379	475,644
Royalty income	112,277		112,277	113,501
Miscellaneous income	215,169		215,169	161,300
Sponsorships	47,150		47,150	26,250
Advertising	163,180		163,180	200,759
Grants and contracts	28,668	158,301	186,969	180,709
Publication revenue	1,437		1,437	9,854
Investment income, net	528,829	717	529,546	(690,178)
Contributions/donations	10,416	100,000	110,416	192,523
Paycheck Protection Program proceeds				462,500
Other income	555,287		555,287	
Net assets released from restrictions	155,449	(155,449)		
Total revenue and support	7,896,561	103,569	8,000,130	5,630,914
Expenses				
Program services:				
Membership growth and development	634,794		634,794	977,902
Member and student experiences	1,685,808		1,685,808	827,916
Capacity building	1,075,229		1,075,229	745,551
Publications	522,897		522,897	433,250
Other programs	380,511		380,511	318,016
Governance	217,843		217,843	203,952
Strategic relationship development	184,711		184,711	187,468
Total program services	4,701,793		4,701,793	3,694,055
Supporting services:				
Administration	2,652,131		2,652,131	2,131,461
Fundraising and Development	212,833		212,833	197,760
Total supporting services	2,864,964		2,864,964	2,329,221
Total expenses	7,566,757		7,566,757	6,023,276
Change in net assets	329,804	103,569	433,373	(392,362)
Net assets, beginning of year	5,162,888	144,855	5,307,743	5,700,105
Net assets, end of year	<u>\$ 5,492,692</u>	<u>\$ 248,424</u>	<u>\$ 5,741,116</u>	<u>\$ 5,307,743</u>

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FUNTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023 (with comparative totals for 2022)

	Program Services							Supporting Services				2023 Total	2022 Total
	Membership Growth & Development	Member and Student Experiences	Capacity Building	Publications	Other Program	Governance	Strategic Relationship Development	Total Program	Administration	Fundraising and Development	Total Support Services		
Salaries and benefits	\$ 106,770	\$ 218,241	\$ 572,693	\$ 102,276	\$ 192,019	\$ 125,802	\$ 46,409	\$ 1,364,210	\$ 1,180,768	\$ 85,692	\$ 1,266,460	\$ 2,630,670	\$ 2,235,567
Professional services/consultants	365,664	94,155			2,000	1,983	50,000	513,802	974,712	30,933	1,005,645	1,519,447	1,427,488
Travel	1,367	691,039	229,519	194	5,656	65,517	3,553	996,845	3,367	36,610	39,977	1,036,822	181,778
Production and printing	19,966	25,341	18,245	325,564	4,192	(32)		393,276		4,149	4,149	397,425	312,478
Meetings, conventions and conferences	802	372,779	71,346		11,747	754	1,000	458,428	15,193	15,344	30,537	488,965	75,961
Management fees	20,166	49,056	25,411	2,368	100,728	851	18	198,598	248,441	25,502	273,943	472,541	407,123
Postage and mailing	30,624	14,111		59,571				104,306	6,367		6,367	110,673	103,655
Merchandise sales cost		127,040	100				69,428	196,568		9,901	9,901	206,469	217,098
Other	89,435	94,046	157,915	32,924	64,169	22,968	14,303	475,760	223,283	4,702	227,985	703,745	1,062,128
Total expenses	<u>\$ 634,794</u>	<u>\$ 1,685,808</u>	<u>\$ 1,075,229</u>	<u>\$ 522,897</u>	<u>\$ 380,511</u>	<u>\$ 217,843</u>	<u>\$ 184,711</u>	<u>\$ 4,701,793</u>	<u>\$ 2,652,131</u>	<u>\$ 212,833</u>	<u>\$ 2,864,964</u>	<u>\$ 7,566,757</u>	<u>\$ 6,023,276</u>

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023 (with comparative totals for 2022)**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 433,373	\$ (392,362)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	118,611	119,750
Realized and unrealized (gains) and losses on investments	(337,595)	822,472
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	9,690	(15,411)
Prepaid expenses and other assets	(50,733)	(48,828)
Increase (decrease) in:		
Accounts payable and accrued expenses	(29,243)	418,372
Deferred revenue	19,138	392,578
Deferred gain on sale of building	(161,296)	(161,295)
Deferred rent	(53,231)	(41,459)
Operating lease assets and liabilities, net	20,896	
Net cash (used in) provided by operating activities	<u>(30,390)</u>	<u>1,093,817</u>
Cash flows from investing activities:		
Purchases of property and equipment	(69,500)	(43,392)
Net proceeds from investments	47,530	114,609
Net cash provided by (used in) investing activities	<u>(21,970)</u>	<u>71,217</u>
Cash flows from financing activities:		
Noncash PPP loan forgiveness		(462,500)
Net cash used in financing activities		<u>(462,500)</u>
Net increase (decrease) in cash and cash equivalents	(52,360)	702,534
Cash and cash equivalents:		
Beginning	<u>1,542,419</u>	<u>839,885</u>
Ending	<u>\$ 1,490,059</u>	<u>\$ 1,542,419</u>
Cash and cash equivalents, end of year	\$ 1,279,559	\$ 1,429,487
Cash and cash equivalents (restricted), end of year	<u>210,500</u>	<u>112,932</u>
	1,490,059	1,542,419
Supplemental disclosure of cash flow information:		
Income taxes paid	<u>\$ 867</u>	<u>\$ 740</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$</u>	<u>\$ 239</u>

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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, 2023 and 2022 but 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, 2023 AND 2022**

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

However, as of June 30, 2023, it is noted that the designated net assets did not meet 100% of the annual operating budget. The Association's budget for fiscal year 2023 was \$7,250,078, while the board-designated net assets were only \$7,055,664. This discrepancy is attributed to an increase in expenses by approximately \$1.5 million, affecting the alignment with the established goal for reserve account coverage.

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>2023</u>	<u>2022</u>
Specific purpose:		
Kane Scholarship	\$ 2,130	\$ 3,140
Harley Scholarship	11,377	11,388
Dr. Marvin Greenberg Fund	588	
Connected Arts Networks ("CAN") grant	<u>59,194</u>	<u>55,192</u>
	73,289	69,720
Perpetual endowment funds:		
Kane Scholarship Fund	65,395	65,395
Harley Scholarship Fund	9,740	9,740
Dr. Marvin Greenberg Fund	<u>100,000</u>	<u>75,135</u>
	175,135	75,135
Total net assets with donor restrictions	<u>\$ 248,424</u>	<u>\$ 144,855</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.

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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

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

Cash and cash equivalents, restricted: Restricted cash and cash equivalents are held for specific purposes. The Association acts as fiscal agent and provides accounting functions for the Eastern Division Conference held by its state Musical Education Associations (MEA’s). These states made an initial reserve fund of \$20,000 to the Association in order to cover any shortfall if the conference disbursements exceed the receipts. The endowment fund is for the purpose of scholarship imposed by donor. The restricted cash and cash equivalent consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Endowment funds	190,500	\$ 92,932
Reserve fund - Eastern Division Conference	20,000	20,000
	<u>\$ 210,500</u>	<u>\$ 112,932</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 net assets.

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. At June 30, 2023, NAFME moves account balances beyond \$250,000 into a sweep account where excess funds are deposited to ensure all funds are FDIC insured. The uninsured balances at June 30, 2023 and 2022 were approximately \$0 and \$1,196,215, 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, 2023 AND 2022**

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 possible that management's estimate of the allowance will change. Allowance for doubtful accounts has a total of \$0 at June 30, 2023 and 2022, respectively.

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 life of three to seven years, while building and improvements are depreciated or amortized over estimated useful lives of ten to forty 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, 2023 and 2022, management did not consider the value of any property or equipment or intangible assets to be impaired.

Comparative financial information: The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the audited financial statements for the year ended June 30, 2022, 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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

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. 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: On July 1, 2022, the Association adopted FASB ASU No. 2016-02, *Leases (Topic 842) (ASU 2016-02)*, and the additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, *ASC Topic 842*). *ASC Topic 842* modifies lease accounting for lessees to increase transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Association adopted *ASC Topic 842* using the modified retrospective transition method, under which amounts in prior periods presented herein were not restated. For contracts existing at the time of adoption, management elected the practical expedient and did not reassess (i) whether any are or contain leases, (ii) lease classification, and (iii) initial direct costs.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

For the Association, on a consolidated basis, the adoption of ASC *Topic 842* resulted in the following as of the Adoption Date:

Recognition of:

Operating lease right-of-use assets	\$	262,110
Operating lease liabilities		315,342

Derecognition of:

Deferred rent		53,232
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Leases – (Finance and Operating Right-of-Use Assets and Lease Liabilities): The Association adopted FASB Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842) (ASU 2016-02), and the additional ASUs issued to clarify and update the guidance in ASU 2016-02 (collectively, “ASC Topic 842”) on July 1, 2022 (the Adoption Date).

Leases arise from contractual obligations that convey the right to control the use of identified property, plant, or equipment for a period in exchange for consideration. At the inception of the contract, the Association determines if an arrangement contains a lease based on whether there is an identified asset and whether the Association controls the use of the identified asset. The Association also determines whether the lease classification is an operating or financing lease at the commencement date.

A right-of-use asset represents the Association’s right to use an underlying asset and a lease liability represents the Association’s obligation to make payments during the lease term. Right-of-use assets are recorded and recognized at commencement for the lease liability amount, adjusted for initial direct costs incurred and lease incentives received. Lease liabilities are recorded at the present value of the future lease payments over the lease term at commencement. The implicit rates for the Association’s leases are not readily determinable; therefore, the Association elected to use a risk-free discount rate at the lease commencement date for all new leases and at the Adoption Date.

The Association’s corporate office operating leases typically include non-lease components such as common area maintenance (CAM) costs, utilities, and other maintenance costs. The Association elected not to combine non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities. Non-lease components that are neither fixed nor variable based on an index or rate are expensed as incurred as variable lease payments. The Association’s CAM, tax and electricity costs are expensed as incurred, as they are a variable cost that is not based on an index or rate.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

Certain leases contain options to extend the lease term at prevailing market rates at the time of the renewal. Because management cannot predict the future economic landscape, it is not reasonably certain to exercise the extension options. Therefore, the Association uses the base, non-cancelable, lease term when recognizing the lease assets and liabilities. The Association's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As a matter of policy, the Association elected to exclude leases with terms of 12 months or less (Short-Term) from the consolidated statements of financial position. Short-Term lease expense is recognized on a straight-line basis over the expected term of the lease.

For contracts existing as of the Adoption Date, the Association elected the practical expedient and did not reassess whether any expired or existing contracts are considered or contain leases, lease classification for any expired or existing leases, and initial direct costs for any existing leases. The Association does not have leases that contain land easements; therefore, did not elect the related optional practical expedient.

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 March 8, 2024, 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
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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, 2023:

	<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	\$ 1,445,586	\$ 1,445,586	\$	\$
US Large Cap Value	1,490,963	1,490,963		
Small/Mid Cap Growth	155,559	155,559		
Small/Mid Cap Value	404,491	404,491		
International Equity	44,701	44,701		
Equities Blend	518,180	518,180		
Mutual Funds - Fixed Income				
Short Term Bond	375,634	375,634		
Long Term Bond	352,418	352,418		
Intermediate Term Bond	543,415	543,415		
Fixed Income Blend	234,892	234,892		
Certificate of Deposits	350,015	350,015		
Corporate Bonds	340,872		340,873	
	<u>6,256,726</u>	<u>\$ 5,915,854</u>	<u>\$ 340,873</u>	<u>\$</u>
Investments, at cost:				
Cash	610,355			
	<u>\$ 6,867,081</u>			

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		645,639	
	<u>6,003,409</u>	<u>\$ 5,357,771</u>	<u>\$ 645,639</u>	<u>\$</u>
Investments, at cost:				
Cash	573,607			
	<u>\$ 6,577,016</u>			

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
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JUNE 30, 2023 AND 2022**

NOTE 2 -- INVESTMENTS – (CONTINUED)

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 are 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.

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,279,559	\$ 1,429,487
Cash and cash equivalents, restricted	210,500	112,932
Investments	6,867,081	6,577,016
Receivables	130,474	140,164
	<u>8,487,614</u>	<u>8,259,599</u>
Less amounts not available within one year:		
Cash and cash equivalents, restricted	(20,000)	(23,269)
Net assets with donor restrictions	<u>(248,424)</u>	<u>(144,855)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>8,219,190</u></u>	<u><u>8,091,475</u></u>

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
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NOTE 4 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 1,209,971	\$ 1,209,971
Work-in-process	108,850	39,350
	<u>1,318,821</u>	<u>1,249,321</u>
Less accumulated depreciation	<u>(1,025,884)</u>	<u>(907,274)</u>
	<u>\$ 292,937</u>	<u>\$ 342,047</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, 2023 and 2022, the amount of gain of \$161,296 was recognized, respectively.

NOTE 5 -- 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. The Association borrowed \$165,000 from this line of credit to pay event cancellation fees. This principle, along with the accrued interest, was repaid in full during the fiscal year 2022. In the fiscal year 2023, the Association didn't utilize the line of credit. At June 20, 2023 and 2022, 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 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 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, contribution revenue was recorded by the Association during the year ended June 30, 2022.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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, the Harley Scholarship Fund and Dr. Marvin Greenberg Fund, all of which are endowment funds. Investment income from these endowment funds is restricted for donor specified purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

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

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

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, 2023 and 2022.

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, 2023:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Kane Scholarship Fund	\$ 2,130	\$ 65,395	\$ 67,525
Harley Scholarship Fund	11,377	9,740	21,117
Dr. Marvin Greenberg Fund	588	100,000	100,588
	<u>\$ 14,095</u>	<u>\$ 175,135</u>	<u>\$ 189,230</u>

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

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

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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

Net assets with donor restrictions activity: Changes consisted of the following for the years ended June 30, 2023 and 2022:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
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	14,528	75,135	89,663
Dr. Marvin Greenberg Fund		100,000	100,000
Net Investment return	717		717
Appropriations	(1,150)		(1,150)
Endowment Net Assets, June 30, 2023	<u>\$ 14,095</u>	<u>\$ 175,135</u>	<u>\$ 189,230</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 2023, the Association changed participant's eligibility compensation to the defined contribution retirement plan from 4.5% to 6.5%. For the years ended June 30, 2023 and 2022, net amounts contributed after forfeitures were \$12,172 and \$76,190, 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 -- CONTINGENCIES

Hotel commitments: The Association is committed under agreements for conference space and room rentals through the year 2024. In the event that the Association cancels or reduces its contracted room nights, the Association may be liable for cancellation fees.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 -- LEASE COMMITMENTS

The Association has lease arrangements for corporate facilities, copier, postage and computer equipment which expire at various dates from June 2022 to January 2024. The residual payments due for the minor office equipment leases were deemed to be immaterial and below the Associations' asset capitalization policy at date of implementation.

For the year ended June 30, 2023, all lease agreements are accounted for under ASC Topic 842. For the year ended June 30, 2022, all lease agreements were accounted for under the previous lease standard.

Rental payments under the office lease include base rental amounts for the term of the lease and variable costs that are not based on an index or rate (e.g., utilities, real estate taxes and operating expenses such as CAM). For the Association, these variable lease payments are determined based on actual expenses incurred by the lessor and passed to the Association on a periodic basis. The Association expenses these non-lease components as incurred.

The leases do not contain residual value guarantees. Management included a description of the Association's material leases below.

Operating Leases: The Association is committed under a lease agreement for corporate office space, commencing on January 1, 2019, which under the original lease terms expires on January 31, 2024 by mutual agreement of the parties.

For the year ended June 30, 2023, the Association's corporate office lease agreement was accounted for under ASC Topic 842. Management elected not to include the following in the determination of the operating right-of-use asset and lease liability:

- (i) Non-lease components which are variable rental lease payments such as CAM, real estate taxes and utility costs as they are a variable cost not based on an index or rate. These costs are expensed as incurred.
- (ii) The additional terms of the renewal options and the early expiration right because the Association was not reasonably certain that it would exercise the options.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 10 – LEASE COMMITMENTS – (CONTINUED)

The Association recognized rent expense associated with its leases as follows:

<u>Years Ending June 30:</u>	<u>2023</u>
Operating lease cost:	
Fixed rent expense	\$ 170,322
Variable rent expense	
Net lease cost	<u>\$ 170,322</u>

The maturity of the lease liabilities under the Association’s operating leases as of June 30, 2023 are as follows:

<u>Years Ending June 30:</u>	
2024	\$ 120,252
Total operating lease payments	<u>120,252</u>
Less: Imputed interest	<u>1,130</u>
Total operating lease liability	<u>\$ 119,122</u>

Supplemental quantitative information related to operating leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities – operating cash flows	\$ 202,656
Weighted average remaining lease term (in months)	19
Weighted average discount rate	2.84%

Under the previous lease standard, at June 30, 2022, the Association’s future minimum rental payments, by year and in the aggregate, under its operating leases are as follows:

<u>Years Ending June 30:</u>	
2023	\$ 202,656
2024	<u>120,252</u>
	<u>\$ 322,908</u>

Rent expense charged to operations was \$170,322 and \$178,448 for the years ended June 30, 2023 and 2022, respectively.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
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JUNE 30, 2023 AND 2022**

NOTE 11 -- AFFILIATE TRANSACTIONS

The Association maintains an affiliate relationship with 52 state Music Education Associations (MEAs). NAFME's board consists of 23 voting members, 21 of whom represent these state affiliates. The other two members are from NAFME's Equity Committee. The Association also serves as the fiscal agent for the bi-annual Eastern Division Conference, overseeing and managing its accounting functions. The profit of the Association was \$0 at June 30, 2023 and 2022, respectively.