

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2024
(with comparative totals for 2023)**

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**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2024**

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CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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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, 2024, 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, 2024, 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 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 8, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 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
March 6, 2025

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023

	2024	2023
<u>Assets</u>		
Cash and cash equivalents	\$ 675,556	\$ 1,279,559
Cash and cash equivalents, restricted	254,989	210,500
Investments	7,615,097	6,867,081
Accounts receivable, net	203,196	130,474
Prepaid expenses and other assets	241,175	259,739
Operating lease right-of-use assets		98,224
Property and equipment, net	63,227	184,087
Intangible assets - work in progres (website redevelopment)		108,850
Intangible assets - website redevelopment, net	75,099	
Total assets	\$ 9,128,339	\$ 9,138,514
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,126,077	\$ 1,213,850
Deferred revenue	1,952,994	1,889,691
Deferred gain on sale of building		174,736
Operating lease liability		119,121
Total liabilities	3,079,071	3,397,398
Net assets without donor restrictions:		
Undesignated (deficit)	(2,265,858)	(1,562,972)
Board designated	8,008,487	7,055,664.00
Total net assets without donor restrictions	5,742,629	5,492,692
Net assets with donor restrictions:	306,639	248,424
Total net assets	6,049,268	5,741,116
Total liabilities and net assets	\$ 9,128,339	\$ 9,138,514

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024 (with comparative totals for 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<u>Revenue and support</u>				
Membership dues	\$ 5,090,985	\$	\$ 5,090,985	\$ 4,813,795
Meetings and conventions	51,820		51,820	759,525
Merchandise sales	470,556		470,556	505,379
Royalty income	100,398		100,398	112,277
Miscellaneous income	174,736		174,736	215,169
Sponsorships	14,000		14,000	47,150
Advertising	165,195		165,195	163,180
Grants and contracts	62,320	160,210	222,530	186,969
Publication revenue	6,451		6,451	1,437
Investment income, net	904,509	9,631	914,140	529,546
Contributions/donations	2,431	60,008	62,439	110,416
Other income	12,125		12,125	555,287
Net assets released from restrictions	171,634	(171,634)		
Total revenue and support	7,227,160	58,215	7,285,375	8,000,130
<u>Expenses</u>				
Program services:				
Membership growth and development	697,628		697,628	634,794
Member and student experiences	510,175		510,175	1,685,808
Capacity building	1,214,913		1,214,913	1,075,229
Publications	609,738		609,738	522,897
Other programs	583,759		583,759	380,511
Governance	259,571		259,571	217,843
Strategic relationship development	231,992		231,992	184,711
Total program services	4,107,776		4,107,776	4,701,793
Supporting services:				
Administration	2,632,708		2,632,708	2,652,131
Fundraising and development	236,739		236,739	212,833
Total supporting services	2,869,447		2,869,447	2,864,964
Total expenses	6,977,223		6,977,223	7,566,757
Change in net assets	249,937	58,215	308,152	433,373
Net assets, beginning of year	5,492,692		5,741,116	5,307,743
Net assets, end of year	<u>\$ 5,742,629</u>	<u>\$ 306,639</u>	<u>\$ 6,049,268</u>	<u>\$ 5,741,116</u>

See Notes to the Consolidated Financial Statements.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024 (with comparative totals for 2023)

	Program Services								Supporting Services					
	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	2024 Total	2023 Total	
Salaries and benefits	\$ 158,582	\$ 84,146	\$ 538,465	\$ 164,069	\$ 336,826	\$ 142,435	\$ 52,150	\$ 1,476,673	\$ 1,262,378	\$ 118,962	\$ 1,381,340	\$ 2,858,013	\$ 2,630,670	
Professional services/consultants	320,040	16,288	7,000		10,634	8,033	89,194	451,189	824,284	42,211	866,495	1,317,684	1,519,447	
Travel	6,297	69,494	354,197	231	1,008	86,744	2,027	519,998	2,223	30,751	32,974	552,972	1,036,822	
Production and printing	18,791	16,261	12,747	335,528	14			383,341		566	566	383,907	397,425	
Meetings, conventions and conferences	1,500	23,734	138,111		10,199	515	4,500	178,559	11,210	18,700	29,910	208,469	488,965	
Management fees	25,882	49,556	26,746	230	133,066	1,401		236,881	264,888	14,043	278,931	515,812	472,541	
Postage and mailing	34,348	21,613	573	68,137				124,671	6,909	471	7,380	132,051	110,673	
Merchandise sales cost		160,386	250				70,072	230,708		10,223	10,223	240,931	206,469	
Other	132,188	68,697	136,824	41,543	92,012	20,443	14,049	505,756	260,816	812	261,628	767,384	703,745	
Total expenses	\$ 697,628	\$ 510,175	\$ 1,214,913	\$ 609,738	\$ 583,759	\$ 259,571	\$ 231,992	\$ 4,107,776	\$ 2,632,708	\$ 236,739	\$ 2,869,447	\$ 6,977,223	\$ 7,566,757	

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, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 308,152	\$ 433,373
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	153,861	118,611
Realized and unrealized (gains) and losses on investments	(676,304)	(337,595)
Non-cash disposal of fixed asset	2,250	
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(72,722)	9,690
Prepaid expenses and other assets	18,564	(50,733)
Increase (decrease) in:		
Accounts payable and accrued expenses	(87,773)	(29,243)
Deferred revenue	63,303	19,138
Deferred gain on sale of building	(174,736)	(161,296)
Deferred rent		(53,231)
Operating lease assets and liabilities, net	(20,897)	20,896
Net cash used in operating activities	(486,302)	(30,390)
Cash flows from investing activities:		
Capitalized website redevelopment costs	(1,500)	(69,500)
Net proceeds from investments	(71,712)	47,530
Net cash used in investing activities	(73,212)	(21,970)
Net decrease in cash and cash equivalents	(559,514)	(52,360)
Cash and cash equivalents:		
Beginning cash and cash equivalents	1,490,059	1,542,419
Ending cash and cash equivalents	\$ 930,545	\$ 1,490,059
Cash and cash equivalents, end of year	\$ 675,556	\$ 1,279,559
Cash and cash equivalents - endowment funds, end of year	254,989	190,500
Cash and cash equivalents - reserve fund - eastern division conference, end of year	930,545	20,000
	1,490,059	1,490,059
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 5,327	\$ 867

See Notes to the Consolidated Financial Statements.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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, 2024 and 2023 but there were no plans for dissolution at the issuance date of the report.

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.

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

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, 2024 AND 2023

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. As of June 30, 2024, the Association's board-designated net assets of \$8,008,487 were sufficient to cover the Fiscal Year (FY) 2024 budget of \$7,077,697.

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>2024</u>	<u>2023</u>
Specific purpose:		
Kane Scholarship	\$ 113	\$ 2,130
Harley Scholarship	11,821	11,377
Dr. Marvin Greenberg Fund	6,642	588
Connected Arts Networks ("CAN") grant	52,920	59,194
	<u>71,496</u>	<u>73,289</u>
Perpetual endowment funds:		
Kane Scholarship Fund	65,395	65,395
Harley Scholarship Fund	9,740	9,740
Dr. Marvin Greenberg Fund	160,008	100,000
	<u>235,143</u>	<u>175,135</u>
Total net assets with donor restrictions	<u>\$ 306,639</u>	<u>\$ 248,424</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, 2024 AND 2023

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. The provisions included in accounting principles generally accepted in the United States of America provide consistent guidance for accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. NAFME performed an evaluation of uncertain tax positions as of June 30, 2024 and 2023, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. 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 endowment fund is for the purpose of scholarship and research imposed by donor. The restricted cash and cash equivalent consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Endowment funds	\$ 254,989	\$ 190,500
Reserve fund - Eastern Division Conference		20,000
	<u>\$ 254,989</u>	<u>\$ 210,500</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.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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

Concentrations of credit risk: The Association maintains its cash and cash equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Association moves account balances beyond \$250,000 into a sweep account where excess funds are deposited to ensure all funds are FDIC insured. As of June 30, 2024, and 2023, the Association had approximately \$0 in uninsured balances.

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

Accounts receivable: Accounts receivable are reported net of an allowance for doubtful accounts. Management's estimate of the allowance is based on historical collection experience and a review of the current status of accounts receivable. Receivables are charged to allowance when deemed uncollectible. It is reasonably possible that management's estimate of the allowance will change. Allowance for doubtful accounts has a total of \$0 at June 30, 2024 and 2023, respectively.

Property and equipment: Property and equipment are recorded at cost, except for donated items, which are recorded at fair value at the date of donation. 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.

Intangible assets: Intangible assets, including website development costs, are recorded at cost. The Association capitalizes all intangible assets with a cost of \$500 or more that provide future economic benefits. Capitalized website development costs include expenses incurred during the application development stage in accordance with FASB ASC 350-50 (Website Development Costs). Amortization is computed on a straight-line basis over the estimated useful life of the asset. The Association amortizes website development costs over an estimated useful life of three years. Other intangible assets, if any, are amortized over their respective estimated useful lives based on the nature of the asset and expected period of benefit.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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

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, 2024 and 2023, 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, 2023, from which the summarized information was derived.

Revenue recognition: Membership dues are on an anniversary-date and a calendar date (July 1 – June 30) 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 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.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. 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. The majority of other expenses can be directly identified to their specific function. 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.

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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NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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

Leases – Finance and Operating Right-of-Use Assets and Lease Liabilities: 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.

The office lease that was recognized under ASC 842 in fiscal year 2023, ended in January 2024, which is within fiscal year 2024. As a result, the corresponding lease right-of-use asset and lease liability were fully amortized and settled by January 2024.

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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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

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. The Association did not enter into any long-term lease agreements as of June 30, 2024. Accordingly, no lease liabilities or right-of-use assets remain as of June 30, 2024.

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 6, 2025, which is the date the consolidated financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, because of this evaluation.

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.

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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, 2024:

	<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	\$ 1,688,738	\$ 1,688,738	\$	\$
US Large Cap Value	1,774,676	1,774,676		
Small/Mid Cap Growth	308,336	308,336		
Small/Mid Cap Value	630,232	630,232		
International Equity	101,250	101,250		
Equities Blend	1,022,974	1,022,974		
Mutual Funds - Fixed Income				
Short Term Bond	264,589	264,589		
Long Term Bond	137,069	137,069		
Intermediate Term Bond	302,145	302,145		
Fixed Income Blend	98,344	98,344		
Certificate of Deposits	362,015	362,015		
	<u>6,690,368</u>	<u>\$ 6,690,368</u>	<u>\$</u>	<u>\$</u>
Investments, at cost:				
Cash	924,729			
	<u>\$ 7,615,097</u>			

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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	
	6,256,726	<u>\$ 5,915,854</u>	<u>\$ 340,873</u>	<u>\$</u>
Investments, at cost:				
Cash	610,355			
	<u>\$ 6,867,081</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 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.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 675,556	\$ 1,279,559
Cash and cash equivalents, restricted	254,989	210,500
Investments	7,615,097	6,867,081
Receivables	<u>203,196</u>	<u>130,474</u>
	8,748,838	8,487,614
Less amounts not available within one year:		
Cash and cash equivalents, restricted	-	(20,000)
Net assets with donor restrictions	<u>(306,639)</u>	<u>(248,424)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 8,442,199</u></u>	<u><u>\$ 8,219,190</u></u>

NOTE 4 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Furniture and equipment	\$ 593,054	\$ 1,209,971
Less accumulated depreciation	<u>(529,827)</u>	<u>(1,025,884)</u>
	<u><u>\$ 63,227</u></u>	<u><u>\$ 184,087</u></u>

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 4 -- PROPERTY AND EQUIPMENT (CONTINUED)

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. As of June 30, 2024, the gain was fully recognized, as the lease term ended in January 2024. As of June 30, 2024, and 2023, gains of \$174,736 and \$161,296, respectively, were recognized.

NOTE 5 -- INTANGIBLE ASSETS

The Association began the redevelopment of its website in FY22, with costs incurred over multiple fiscal years. As of June 30, 2023, \$108,850 had been recorded as work in progress. During FY24, an additional \$1,500 was incurred, bringing the total cost of the website redevelopment project to \$110,350. The redevelopment was completed, and the website was put into use on July 21, 2023.

The website is expected to enhance the Association's online presence and improve customer engagement. The total cost of \$110,350 has been capitalized as an intangible asset and is being amortized over its estimated useful life of three years using the straight-line method. As of June 30, 2024, the carrying amount of the website redevelopment costs is \$75,099, and the amortization expense for the year ended June 30, 2024, was \$35,251. The estimated future amortization expense for the next three years is as follows:

<u>Fiscal Year</u>	<u>Amortization Expense</u>
FY25	36,783
FY26	36,783
FY27	1,533

The website redevelopment costs are periodically reviewed for impairment in accordance with FASB ASC 360 ("Impairment or Disposal of Long-Lived Assets"). As of June 30, 2024, no indicators of impairment were identified.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

NOTE 6 -- 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. In fiscal years 2024 and 2023, the Association didn't utilize the line of credit.

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.

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023**

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

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

Strategies employed for achieving objectives: To satisfy its long-term rate of return objectives, The Association relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized/unrealized) and current yield (interest/dividends). The Association targets a diversified asset allocation in order to satisfy its cash withdrawal and long-term rate-of-return objectives.

Funds with deficiencies: From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2024 and 2023.

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.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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

Net assets with donor restrictions: Net assets with donor restrictions consisted of the following as of June 30, 2024:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Kane Scholarship Fund	\$ 113	\$ 65,395	\$ 65,508
Harley Scholarship Fund	11,821	9,740	21,561
Dr. Marvin Greenberg Fund	6,642	160,008	166,650
	<u>\$ 18,576</u>	<u>\$ 235,143</u>	<u>\$ 253,719</u>

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 activity: Changes consisted of the following for the years ended June 30, 2024 and 2023:

	With Donor Restrictions, Specified Purpose	With Donor Restrictions, Held in Perpetuity	Total
Endowment Net Assets, June 30, 2022	\$ 14,528	\$ 75,135	\$ 89,663
Net Investment return	717	100,000	100,717
Appropriations	(1,150)		(1,150)
Endowment Net Assets, June 30, 2023	<u>14,095</u>	<u>175,135</u>	<u>189,230</u>
Dr. Marvin Greenberg Fund		60,008	60,008
Net Investment return	9,631		9,631
Appropriations	(5,150)		(5,150)
Endowment Net Assets, June 30, 2024	<u>\$ 18,576</u>	<u>\$ 235,143</u>	<u>\$ 253,719</u>

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 and 2023, net amounts contributed after forfeitures were \$148,912 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 2025. In the event that the Association cancels or reduces its contracted room nights, the Association may be liable for cancellation fees.

NOTE 10 -- LEASE COMMITMENTS

The Association has lease arrangements for corporate facilities, copier and postage 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 years ended June 30, 2024 and 2023, all lease agreements are accounted for under ASC Topic 842.

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.

NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

NOTE 10 -- LEASE COMMITMENTS - (CONTINUED)

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. The Association did not renew the lease, as a fully remote work model was implemented in January 2024.

For the years ended June 30, 2024 and 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.

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

<u>Years Ending June 30:</u>	<u>2024</u>	<u>2023</u>
Operating lease cost:		
Fixed rent expense	\$ 99,354	\$ 170,322
Variable rent expense		
Net lease cost	<u>\$ 99,354</u>	<u>\$ 170,322</u>

During FY24, the office lease recognized under ASC 842 in FY23 ended in January 2024, within the fiscal year ending June 30, 2024. As a result, the corresponding lease right-of-use asset and lease liability were fully amortized and settled by January 2024.

Supplemental quantitative information related to operating leases for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities – operating cash flows	\$ 120,253
Weighted average remaining lease term (in months)	Ended in January 2024
Weighted average discount rate	2.84%

**NATIONAL ASSOCIATION FOR MUSIC EDUCATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 -- AFFILIATE TRANSACTIONS

The Association maintains an affiliate relationship with 51 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, 2024 and 2023, respectively.