

Music Teachers National Association, Inc. and Subsidiary

Consolidated Financial Statements

And Supplemental Financial Information

June 30, 2021 and 2020

With Independent Auditors' Report



CLARK SCHAEFER HACKETT
CPAS & ADVISORS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Music Teachers National Association, Inc. and Subsidiary:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Music Teachers National Association, Inc. and Subsidiary (a not-for-profit association) which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Music Teachers National Association, Inc. and Subsidiary as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 18-21 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 26, 2021

Music Teachers National Association, Inc. and Subsidiary
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and cash equivalents	\$ 2,616,576	2,258,219
Investments, at fair value	4,260,838	3,444,976
Accounts receivable	28,530	194,934
Prepaid expenses	62,231	68,217
Property and equipment, net	81,828	92,122
Deposits	<u>12,703</u>	<u>12,703</u>
Total assets	\$ <u>7,062,706</u>	<u>6,071,171</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 17,839	227,420
Due to state and local affiliates	-	235,728
Accrued expenses	110,125	119,773
Deferred revenue	<u>855,657</u>	<u>717,861</u>
Total liabilities	<u>983,621</u>	<u>1,300,782</u>
Net assets:		
Without donor restrictions	4,889,353	3,900,558
With donor restrictions	<u>1,189,732</u>	<u>869,831</u>
Total net assets	<u>6,079,085</u>	<u>4,770,389</u>
Total liabilities and net assets	\$ <u><u>7,062,706</u></u>	<u><u>6,071,171</u></u>

See accompanying notes to the consolidated financial statements.

Music Teachers National Association, Inc. and Subsidiary
Consolidated Statements of Activities
Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Membership dues	\$ 1,247,456	-	1,247,456	1,363,866	-	1,363,866
Subscription and advertising	111,234	-	111,234	142,078	-	142,078
Conferences	322,127	-	322,127	96,600	-	96,600
Competitions	144,680	-	144,680	127,815	-	127,815
Contributions	144,406	267,441	411,847	234,661	103,852	338,513
Other	167,539	-	167,539	236,039	-	236,039
Investment return, net	553,871	211,830	765,701	78,304	67,058	145,362
Loss on disposal of property and equipment	-	-	-	(2,133)	-	(2,133)
Net assets released from restrictions	159,370	(159,370)	-	127,871	(127,871)	-
	<u>2,850,683</u>	<u>319,901</u>	<u>3,170,584</u>	<u>2,405,101</u>	<u>43,039</u>	<u>2,448,140</u>
Expenses:						
Program	1,502,205	-	1,502,205	1,667,385	-	1,667,385
Management and general	286,947	-	286,947	289,359	-	289,359
Fundraising	72,736	-	72,736	73,947	-	73,947
	<u>1,861,888</u>	<u>-</u>	<u>1,861,888</u>	<u>2,030,691</u>	<u>-</u>	<u>2,030,691</u>
Change in net assets	988,795	319,901	1,308,696	374,410	43,039	417,449
Net assets:						
Beginning of year	<u>3,900,558</u>	<u>869,831</u>	<u>4,770,389</u>	<u>3,526,148</u>	<u>826,792</u>	<u>4,352,940</u>
End of year	<u>\$ 4,889,353</u>	<u>1,189,732</u>	<u>6,079,085</u>	<u>3,900,558</u>	<u>869,831</u>	<u>4,770,389</u>

See accompanying notes to the consolidated financial statements.

Music Teachers National Association, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 506,321	135,019	33,755	675,095
Payroll taxes	35,822	9,553	2,388	47,763
Employee benefits	59,442	15,851	3,963	79,256
Rent and utilities	77,487	20,663	5,166	103,316
Travel and entertainment	1,618	431	108	2,157
Newsletters and mailings	33,737	-	-	33,737
Membership retention	9,218	-	-	9,218
Insurance	18,949	11,054	1,579	31,582
Office supplies and postage	6,950	1,853	463	9,266
Information services	46,902	27,359	3,909	78,170
Professional fees	39,025	22,765	3,252	65,042
Bank charges	69,596	18,558	4,640	92,794
Depreciation	11,731	3,129	782	15,642
Readership	143,534	-	7,554	151,088
Conferences	56,486	-	-	56,486
Competitions	95,606	-	-	95,606
Grants and awards	198,672	-	-	198,672
Licenses and fees	6,756	1,802	450	9,008
Technology	41,928	11,181	2,795	55,904
Leadership summit	66	-	-	66
Partnership development	13,373	-	-	13,373
Other	28,986	7,729	1,932	38,647
	<u>1,502,205</u>	<u>286,947</u>	<u>72,736</u>	<u>1,861,888</u>
Total expenses	\$ <u>1,502,205</u>	<u>286,947</u>	<u>72,736</u>	<u>1,861,888</u>

See accompanying notes to the consolidated financial statements.

Music Teachers National Association, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 540,674	144,179	36,045	720,898
Payroll taxes	34,166	9,111	2,278	45,555
Employee benefits	56,807	15,148	3,787	75,742
Rent and utilities	68,948	18,386	4,597	91,931
Travel and entertainment	10,619	2,831	708	14,158
Newsletters and mailings	44,469	-	-	44,469
Membership retention	17,618	-	-	17,618
Insurance	15,656	9,133	1,305	26,094
Office supplies and postage	5,818	1,551	388	7,757
Information services	49,459	28,850	4,122	82,431
Professional fees	39,141	22,832	3,262	65,235
Bank charges	61,888	16,503	4,126	82,517
Depreciation	7,801	2,080	520	10,401
Readership	154,285	-	8,120	162,405
Conferences	72,673	-	-	72,673
Competitions	106,303	-	-	106,303
Grants and awards	208,171	-	-	208,171
Licenses and fees	6,967	1,858	464	9,289
Technology	39,012	10,403	2,601	52,016
Leadership summit	69,804	-	-	69,804
Partnership development	32,755	-	-	32,755
Other	24,351	6,494	1,624	32,469
	<u>1,667,385</u>	<u>289,359</u>	<u>73,947</u>	<u>2,030,691</u>
Total expenses	\$ <u>1,667,385</u>	<u>289,359</u>	<u>73,947</u>	<u>2,030,691</u>

See accompanying notes to the consolidated financial statements.

Music Teachers National Association, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,308,696	417,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	15,642	10,401
Realized and unrealized gain on investments	(665,998)	(11,517)
Loss on disposal of property and equipment	-	2,133
Effect of change in operating assets and liabilities:		
Accounts receivable	166,404	(173,716)
Prepaid expenses and deposits	5,986	(29,951)
Accounts payable	(144,178)	130,439
Due to state and local affiliates	(235,728)	35,729
Accrued expenses	(9,648)	(25,411)
Deferred revenue	<u>137,796</u>	<u>(177,914)</u>
Net cash provided by operating activities	<u>578,972</u>	<u>177,642</u>
Cash flows from investing activities:		
Purchases of property and equipment	(70,751)	(22,786)
Proceeds received from sale of investments	822,645	2,146,558
Purchases of investments	<u>(972,509)</u>	<u>(2,230,699)</u>
Net cash used in investing activities	<u>(220,615)</u>	<u>(106,927)</u>
Change in cash and cash equivalents	358,357	70,715
Cash and cash equivalents - beginning of year	<u>2,258,219</u>	<u>2,187,504</u>
Cash and cash equivalents - end of year	\$ <u>2,616,576</u>	<u>2,258,219</u>
Supplemental disclosures:		
Property and equipment included in accounts payable	\$ <u>-</u>	<u>65,403</u>

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Music Teachers National Association, Inc. and Subsidiary (the "Association"), are set forth to facilitate the understanding of data presented in the consolidated financial statements.

Nature of operations

The Association advances the value of music study and music making to society and supports the professionalism of music teachers.

Principles of consolidation

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets of the Association, its former corporate entity, which has been renamed, MTNA Certification Program (Certification) and its wholly owned subsidiary, the American Classical Music Hall of Fame and Museum (ACMHOFM). All inter-organizational accounts and transactions have been eliminated.

Use of estimates

The presentation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Financial statement presentation

The Association is required to report information regarding its consolidated financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the Board of Directors.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions that are likely to be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2021 and 2020, the Association did not have any net assets required to be maintained in perpetuity.

Adoption of new accounting standard

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU, as updated, represented a comprehensive overhaul of substantially all previous revenue recognition guidance within GAAP. Additionally, the ASU required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Association adopted the new standard effective July 1, 2020, the first day of the Association's fiscal year, using the modified retrospective approach.

As part of the adoption of the ASU, the Association elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Management has analyzed the provisions of the ASU and has concluded that no changes are necessary to conform with the new standard.

Functional allocation of expenses

The consolidated financial statements report certain categories of expenses that are attributable programs and supporting functions of the Association. Expenses are directly applied when applicable. Newsletters and mailings, membership retention, conferences, competitions, grants and awards, leadership summit and partnership development expenses are directly applied. All other expenses are allocated to programs or support services based on management's estimate of time and effort of individual employees and their related duties.

Income taxes

For federal tax purposes, Music Teachers National Association, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code but is subject to tax on its unrelated business income.

In addition, Music Teachers National Association, Inc. was formerly organized under Section 501(c)(6) of the Internal Revenue Code. All of the assets except \$50,000 were transferred from the 501(c)(6) organization, now named MTNA Certification Program, into the 501(c)(3) organization. MTNA Certification Program is used strictly for certification and its financial position and results of operations have been consolidated with the Association in these consolidated financial statements.

ACMHOFM is a tax exempt organization under the Internal Revenue Code Section 501(c)(3). ACMHOFM does not have net income from activities subject to the unrelated business income tax.

The Association's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense. In evaluating the Association's tax provision and tax exempt status, interpretations and tax planning strategies were considered. The Association believes their estimates are appropriate based on the current facts and circumstances.

Revenue recognition – contributions

Contributions of cash and other assets without donor stipulations concerning the use of such assets are reported as revenues of the net assets without donor restrictions class. Contributions of cash or other assets to be used in accordance with donor stipulations are reported as revenues of the net assets with donor restrictions classes.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to net assets without restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Association reports gifts of long-lived assets as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated long-lived assets are placed in service.

Unconditional contributions are recorded when the promise to give is received. Contributions are recorded when the contribution is awarded, unless conditional by nature. There are no conditional promises to give at June 30, 2021 and 2020. Revenues from sources other than contributions are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions.

Revenue recognition – exchange transactions

The Association derives exchange transaction revenue primarily from membership dues, subscriptions and advertising, conferences and competitions. These revenues are recognized when control of these products or services is transferred to its members and customers, in an amount that reflects the consideration the Association expects to be entitled to in exchange for those products and services. Incidental items that are immaterial in the context of the contracts are recognized as expense. The Association does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

Revenue from performance obligations satisfied at a point in time consists of subscription and advertising, conferences and competitions. Subscriptions and advertising are recognized at the time the service is provided or the advertisement is published. Customers are invoiced in the month of publication. Any subscription and advertising fees received ahead of the month of publication are non-refundable two months before publication. Revenue from conferences and competitions is generally recognized at the time the program or event takes place. Customers pay the contract amount in full at the time of purchase. Conference fees are non-refundable two months before the event, and competition fees are non-refundable at the time of purchase.

Revenue from performance obligations satisfied over time consists of membership dues. Members pay the contract amount in full at the time of purchase. Membership dues are non-refundable and are recognized as revenue ratably over the term of the one-year membership.

The following table disaggregates the Association's revenue based on the timing of satisfaction of performance obligations for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Subscription and advertising	\$ 111,234	142,078
Conferences	322,127	96,600
Competitions	<u>144,680</u>	<u>127,815</u>
Revenue from performance obligations satisfied at a point in time	578,041	366,493
Revenue from performance obligations satisfied over time	<u>1,247,456</u>	<u>1,363,866</u>
Total	<u>\$ 1,825,497</u>	<u>1,730,359</u>

Cash received in advance is recorded on the consolidated statements of financial position as deferred revenue. Deferred revenue, which is considered a contract liability, of \$855,657 and \$717,861 at June 30, 2021 and 2020, respectively, consists of deferred membership dues, conference and competition fees and subscription and advertising fees.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except for money markets held within its investment accounts.

Concentration of credit risk

The Association maintains its cash in deposit accounts, which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Allowance for doubtful accounts

The Association extends credit to various customers for use of mailing lists and advertising. On a periodic basis, the Association evaluates its accounts receivable and establishes an allowance, based on a history of past write-offs and collections and current credit conditions. All accounts receivable are deemed fully collectible by management. Therefore, no allowance for doubtful accounts is necessary.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Dividends, interest income, realized and unrealized gains and losses on security transactions, unrealized gains or losses on investments and investment expenses are included as investment return, net in the consolidated statements of activities.

Property and equipment and depreciation

The Association capitalizes all property and equipment in excess of \$1,000. Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets which range from 3-7 years.

Due to state and local affiliates

Amounts due to affiliates represent membership dues collected by the Association on behalf of its 50 state and over 500 local affiliates, but not yet distributed as of year-end.

Subsequent events

The Association evaluates events and transactions occurring subsequent to the date of the consolidated financial statements for matters requiring recognition or disclosure in the consolidated financial statements. The accompanying consolidated financial statements consider events through August 26, 2021, the date on which the consolidated financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT:

Property and equipment at June 30 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Furniture and fixtures	\$ 190,272	186,744
Leasehold improvements	90,009	88,189
Less accumulated depreciation	<u>(198,453)</u>	<u>(182,811)</u>
	<u>\$ 81,828</u>	<u>92,122</u>

3. RETIREMENT PLAN:

The Association offers a voluntary participation 401(k) retirement plan to its employees. All employees of the Association are eligible to participate in the Plan upon meeting certain eligibility requirements. The Association matches a certain percentage of the employee contributions. Total matching retirement contributions were \$18,921 and \$15,843 for the years ended June 30, 2021 and 2020, respectively.

4. PAYCHECK PROTECTION PROGRAM:

On May 8, 2020, the Association received a forgivable loan of \$93,400 under the Small Business Administration’s Paycheck Protection Program (PPP). The loan had an interest rate of 1% and was originally due in May 2022. PPP allows for a portion of the loan (up to the full amount) to be forgiven based on qualifying expenses. During fiscal year 2020, the Association incurred qualifying expenses in excess of the loan amount and recognized the full amount of the loan in contributions on the consolidated statement of activities. On April 19, 2021, the Association received official notice of forgiveness.

On January 26, 2021, the Association received a PPP Second Draw Loan in the amount of \$133,453. The loan bears interest at 1% and is due in January 2026. During fiscal year 2021, the Association incurred qualifying expenses in excess of the second loan amount and has recognized the full amount of the second loan in contributions on the consolidated statement of activities.

5. LEASES:

In July 2020, the Association entered into an escalating lease agreement for certain office space through December 2027. A liability of \$26,132 associated with this lease is included in accrued expenses at June 30, 2021.

Total rent expense including common area maintenance and utilities charges for the years ended June 30, 2021 and 2020 was \$103,316 and \$91,931, respectively. The Association is leasing certain office equipment under operating leases that have various expiration dates through June 2025. Total lease expense for the years ended June 30, 2021 and 2020 was \$8,638 and \$14,646, respectively.

The future minimum lease payments for the office lease and office equipment at June 30 are as follows:

2022	\$ 59,632
2023	60,475
2024	61,566
2025	62,184
2026	57,556
Thereafter	<u>88,704</u>
	<u>\$ 390,117</u>

6. NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED:

As of June 30, 2021 and 2020, the Board has designated \$1,908,367 and \$1,599,244, respectively, of net assets to be used for competition awards for students and other purposes.

7. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Teacher enrichment grants	\$ 626,847	438,562
Local association grants	22,925	19,437
Other	<u>539,960</u>	<u>411,832</u>
	<u>\$ 1,189,732</u>	<u>869,831</u>

8. ENDOWMENT FUNDS:

Generally accepted accounting principles require that net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Association's endowment consists of several funds established to provide student awards, association grants, and teacher enrichment grants. Its endowment consists of board-designated funds. The board designated endowment had a balance of \$1,908,367 and \$1,599,244 at June 30, 2021 and 2020, respectively.

Changes in endowment net assets are as follows for the years ended June 30:

	2021 Without Donor <u>Restrictions</u>	2020 Without Donor <u>Restrictions</u>
Endowment net assets at beginning of year	\$ 1,599,244	1,581,962
Interest and dividend income	49,325	61,058
Realized and unrealized gain (loss) on investments	308,359	(29,710)
Contributions	21,715	63,110
Appropriation of endowment assets for expenditure	(61,863)	(69,318)
Investment fees	<u>(8,413)</u>	<u>(7,858)</u>
Endowment net assets at end of year	\$ <u>1,908,367</u>	<u>1,599,244</u>

Return objectives and risk parameters

The Association has adopted investment and spending policies for endowment assets that attempt to provide for long-term growth of income and principal without undue exposure to risk. The return objective shall be accomplished using a balanced strategy of fixed income, equities, mutual funds and cash equivalents in a mix that is conducive to participation in rising markets while allowing for adequate protection in falling markets. The performance objectives will be measured against appropriate industry benchmarks such as the S&P 500 Index, Russell Mid Cap Index, Russell 2000 Index, and Morgan Stanley EAFE Index.

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 and unrealized) and current yield (interest and dividends). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Association has a policy of appropriating for distribution each year five percent of the endowment fund's average fair value over 12 quarters. In establishing this policy, the Association considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Association's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The Association elected to appropriate \$61,863 and \$69,318 during the years ended June 30, 2021 and 2020, respectively.

9. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the

transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Association has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Fair value methods and assumptions on investments consisting of money market funds, mutual funds and equities are based on the Level 1 market approach. Investments in fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued on Level 2 inputs using pricing obtained from our custodians, which use third-party data source providers.

The following tables present the Association's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2021 and 2020.

Fair Value Measurements at Reporting Date Using:

<u>June 30, 2021</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market funds	\$ 436,346	436,346	-	-
Mutual funds:				
Diversified emerging	233,724	233,724	-	-
Large growth	199,889	199,889	-	-
Large value	195,265	195,265	-	-
Mid-cap growth	198,479	198,479	-	-
Foreign large growth	457,429	457,429	-	-
World bond-USD hedged	151,684	151,684	-	-
World large stock	272,656	272,656	-	-
Intermediate term bond	530,244	530,244	-	-
Intermediate core-plus bond	303,522	303,522	-	-
Allocation – 50%-70% equity	620,674	620,674	-	-
Large blend	197,950	197,950	-	-
Short term bond	265,815	265,815	-	-
Small value	<u>197,161</u>	<u>197,161</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,260,838</u>	<u>4,260,838</u>	<u>-</u>	<u>-</u>

Fair Value Measurements at Reporting Date Using:

<u>June 30, 2020</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Money market funds	\$ 63,415	63,415	-	-
Mutual funds:				
Diversified emerging	180,846	180,846	-	-
Large growth	176,201	176,201	-	-
Mid-cap growth	178,318	178,318	-	-
Foreign large growth	179,334	179,334	-	-
Foreign large blend	176,767	176,767	-	-
World bond-USD hedged	134,608	134,608	-	-
World large stock	181,896	181,896	-	-
Intermediate term bond	495,465	495,465	-	-
Intermediate core-plus bond	269,074	269,074	-	-
Allocation – 50%-70% equity	618,125	618,125	-	-
Large blend	348,967	348,967	-	-
Short term bond	267,941	267,941	-	-
Small value	<u>174,019</u>	<u>174,019</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,444,976</u>	<u>3,444,976</u>	<u>-</u>	<u>-</u>

10. LIQUIDITY DISCLOSURES:

The Association is substantially supported by earned revenue. The Association also receives contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Association must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Association invests cash in excess of daily requirements in investments as deemed appropriate. The following table presents the financial assets available to meet cash needs for general expenditures within one year at June 30:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 2,616,576	2,258,219
Investments, at fair value	4,260,838	3,444,976
Accounts receivable	<u>28,530</u>	<u>194,934</u>
Financial assets available at year-end	<u>6,905,944</u>	<u>5,898,129</u>
Less those unavailable for general expenditures within one year due to:		
Contracts with others	-	235,728
Investments held with donor restrictions	<u>1,189,732</u>	<u>869,831</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,716,212</u>	<u>4,792,570</u>

11. RECENT ACCOUNTING PRONOUNCEMENTS:

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Association's year ending June 30, 2023.

The Association is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

12. RISKS AND UNCERTAINTY:

On March 11, 2020 the World Health Organization declared the outbreak of novel coronavirus (COVID-19) as a global pandemic. The COVID-19 pandemic has caused business disruption through closings of offices, cancellation of special events and significant fluctuations in stock market indices. The extent of the impact of COVID-19 pandemic on the Association's operational and financial performance will depend on certain developments, including the duration and spread of the pandemic.

Music Teachers National Association, Inc. and Subsidiary
Consolidating Schedule of Financial Position
June 30, 2021

	<u>Association</u>	<u>Certification</u>	<u>ACMHOFM</u>	<u>Elimination</u>	<u>Total</u>
Assets:					
Cash and cash equivalents	\$ 2,462,985	123,478	30,113	-	2,616,576
Investments, at fair value	4,198,434	62,404	-	-	4,260,838
Accounts receivable	28,896	27,421	-	(27,787)	28,530
Prepaid expenses	61,801	430	-	-	62,231
Property and equipment, net	81,828	-	-	-	81,828
Deposits	<u>12,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,703</u>
 Total assets	 \$ <u>6,846,647</u>	 <u>213,733</u>	 <u>30,113</u>	 <u>(27,787)</u>	 <u>7,062,706</u>
 Liabilities and net assets:					
Liabilities:					
Accounts payable	\$ 45,260	-	366	(27,787)	17,839
Accrued expenses	110,125	-	-	-	110,125
Deferred revenue	<u>855,657</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>855,657</u>
 Total liabilities	 <u>1,011,042</u>	 <u>-</u>	 <u>366</u>	 <u>(27,787)</u>	 <u>983,621</u>
 Net assets:					
Without donor restrictions	4,645,873	213,733	29,747	-	4,889,353
With donor restrictions	<u>1,189,732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,189,732</u>
 Total net assets	 <u>5,835,605</u>	 <u>213,733</u>	 <u>29,747</u>	 <u>-</u>	 <u>6,079,085</u>
 Total liabilities and net assets	 \$ <u>6,846,647</u>	 <u>213,733</u>	 <u>30,113</u>	 <u>(27,787)</u>	 <u>7,062,706</u>

Music Teachers National Association, Inc. and Subsidiary
Consolidating Schedule of Financial Position
June 30, 2020

	<u>Association</u>	<u>Certification</u>	<u>ACMHOFM</u>	<u>Elimination</u>	<u>Total</u>
Assets:					
Cash and cash equivalents	\$ 2,100,129	121,527	36,563	-	2,258,219
Investments, at fair value	3,394,506	50,470	-	-	3,444,976
Accounts receivable	197,976	11,869	-	(14,911)	194,934
Prepaid expenses	67,800	417	-	-	68,217
Property and equipment, net	92,122	-	-	-	92,122
Deposits	<u>12,703</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,703</u>
 Total assets	 \$ <u>5,865,236</u>	 <u>184,283</u>	 <u>36,563</u>	 <u>(14,911)</u>	 <u>6,071,171</u>
Liabilities and net assets:					
Liabilities:					
Accounts payable	\$ 239,289	-	3,042	(14,911)	227,420
Due to state and local affiliates	235,728	-	-	-	235,728
Accrued expenses	119,773	-	-	-	119,773
Deferred revenue	<u>715,861</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>717,861</u>
 Total liabilities	 <u>1,310,651</u>	 <u>2,000</u>	 <u>3,042</u>	 <u>(14,911)</u>	 <u>1,300,782</u>
Net assets:					
Without donor restrictions	3,684,754	182,283	33,521	-	3,900,558
With donor restrictions	<u>869,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>869,831</u>
 Total net assets	 <u>4,554,585</u>	 <u>182,283</u>	 <u>33,521</u>	 <u>-</u>	 <u>4,770,389</u>
 Total liabilities and net assets	 \$ <u>5,865,236</u>	 <u>184,283</u>	 <u>36,563</u>	 <u>(14,911)</u>	 <u>6,071,171</u>

Music Teachers National Association, Inc. and Subsidiary
 Consolidating Schedule of Activities
 Year Ended June 30, 2021

	<u>Association</u>			<u>Certification</u>	<u>ACMHOFM</u>	
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>Without Donor</u>	<u>Without Donor</u>	
	<u>Restrictions</u>	<u>Restrictions</u>		<u>Restrictions</u>	<u>Restrictions</u>	<u>Total</u>
Revenues:						
Membership dues	\$ 1,247,456	-	1,247,456	-	-	1,247,456
Subscription and advertising	111,234	-	111,234	-	-	111,234
Conferences	322,127	-	322,127	-	-	322,127
Competitions	144,680	-	144,680	-	-	144,680
Contributions	142,616	267,441	410,057	-	1,790	411,847
Other	72,948	-	72,948	94,587	4	167,539
Management fee	63,350	-	63,350	(63,350)	-	-
Investment return, net	541,672	211,830	753,502	12,199	-	765,701
Net assets released from restrictions	159,370	(159,370)	-	-	-	-
	<u>2,805,453</u>	<u>319,901</u>	<u>3,125,354</u>	<u>43,436</u>	<u>1,794</u>	<u>3,170,584</u>
Expenses:						
Program	1,489,039	-	1,489,039	8,990	4,176	1,502,205
Management and general	283,436	-	283,436	2,397	1,114	286,947
Fundraising	71,859	-	71,859	599	278	72,736
	<u>1,844,334</u>	<u>-</u>	<u>1,844,334</u>	<u>11,986</u>	<u>5,568</u>	<u>1,861,888</u>
Change in net assets	961,119	319,901	1,281,020	31,450	(3,774)	1,308,696
Net assets:						
Beginning of year	<u>3,684,754</u>	<u>869,831</u>	<u>4,554,585</u>	<u>182,283</u>	<u>33,521</u>	<u>4,770,389</u>
End of year	\$ <u>4,645,873</u>	<u>1,189,732</u>	<u>5,835,605</u>	<u>213,733</u>	<u>29,747</u>	<u>6,079,085</u>

Music Teachers National Association, Inc. and Subsidiary
Consolidating Schedule of Activities
Year Ended June 30, 2020

	Association			Certification	ACMHOFM	Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	Without Donor Restrictions	
Revenues:						
Membership dues	\$ 1,363,866	-	1,363,866	-	-	1,363,866
Subscription and advertising	142,078	-	142,078	-	-	142,078
Conferences	96,600	-	96,600	-	-	96,600
Competitions	127,815	-	127,815	-	-	127,815
Contributions	233,111	103,852	336,963	-	1,550	338,513
Other	152,672	-	152,672	83,360	7	236,039
Management fee	74,000	-	74,000	(62,000)	(12,000)	-
Investment return, net	76,195	67,058	143,253	2,109	-	145,362
Loss on disposal of property and equipment	(2,133)	-	(2,133)	-	-	(2,133)
Net assets released from restrictions	127,871	(127,871)	-	-	-	-
	<u>2,392,075</u>	<u>43,039</u>	<u>2,435,114</u>	<u>23,469</u>	<u>(10,443)</u>	<u>2,448,140</u>
Expenses:						
Program	1,656,512	-	1,656,512	7,049	3,824	1,667,385
Management and general	286,459	-	286,459	1,880	1,020	289,359
Fundraising	73,222	-	73,222	470	255	73,947
	<u>2,016,193</u>	<u>-</u>	<u>2,016,193</u>	<u>9,399</u>	<u>5,099</u>	<u>2,030,691</u>
Change in net assets	375,882	43,039	418,921	14,070	(15,542)	417,449
Net assets:						
Beginning of year	<u>3,308,872</u>	<u>826,792</u>	<u>4,135,664</u>	<u>168,213</u>	<u>49,063</u>	<u>4,352,940</u>
End of year	\$ <u>3,684,754</u>	<u>869,831</u>	<u>4,554,585</u>	<u>182,283</u>	<u>33,521</u>	<u>4,770,389</u>

