

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive
of Financial Activities of the
Chapters and Regions)

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report.....	1
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Activities.....	3
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6

Allman & Associates, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

9600 GREAT HILLS TRAIL
SUITE 150W
AUSTIN, TX 78759
(512) 502-3077
FAX: 888-512-7990
WWW.ALLMANCPAS.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Texas Music Educators Association, Inc., Subsidiary and Affiliate
Austin, Texas

We have audited the consolidated financial statements of the Texas Music Educators Association, Inc. (a nonprofit organization exclusive of the financial activities of its chapters and regions), its Subsidiary and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 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 the Texas Music Educators Association, Inc., Subsidiary and Affiliate as of June 30, 2018 and 2017, and the consolidated changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Allman & Associates, Inc.

Austin, Texas
September 14, 2018

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of Chapters and Regions)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 359,698	\$ 659,591
Investments	8,755,485	8,346,771
Accounts receivable	17,637	15,018
Prepaid expenses	125,800	87,183
Total Current Assets	9,258,620	9,108,563
Property and Equipment, net of accumulated depreciation	926,498	964,300
Total Assets	\$ 10,185,118	\$ 10,072,863
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 50,764	\$ 60,773
Accrued expenses	125,389	101,777
Deferred revenue	144,753	170,081
Total Current Liabilities	320,906	332,631
Net Assets:		
Unrestricted	8,947,869	8,880,934
Temporarily restricted	916,343	859,298
Total Net Assets	9,864,212	9,740,232
Total Liabilities and Net Assets	\$ 10,185,118	\$ 10,072,863

See accompanying auditors' report and notes to consolidated financial statements.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Totals
Revenues:			
Membership dues	\$ 729,122	\$ -	\$ 729,122
Convention and clinic	1,873,707	-	1,873,707
Dividend and interest income	154,458	35,137	189,595
Rent	21,600	-	21,600
Honor band and orchestra	84,340	-	84,340
Taping fees jazz and orchestra	16,981	-	16,981
Subscriptions	122,868	-	122,868
Advertising, net of discounts	411,821	-	411,821
Database sales	27,665	-	27,665
Patch sales, net of cost of goods \$31,545	23,095	-	23,095
Other income	38,713	-	38,713
Liability insurance	181,770	-	181,770
Contributions	-	165,386	165,386
Net assets released from restrictions	195,752	(195,752)	-
	3,881,892	4,771	3,886,663
Expenses and Losses:			
Headquarters	1,616,852	-	1,616,852
Convention	667,943	-	667,943
Region and area	21,425	-	21,425
Executive board	251,393	-	251,393
Public relations	85,513	-	85,513
Committees - special projects	63,549	-	63,549
Magazine	301,206	-	301,206
Liability insurance	125,765	-	125,765
Scholarships	178,000	-	178,000
Grants	758,699	-	758,699
	4,070,345	-	4,070,345
Other Income/Expense:			
Unrealized gain (loss) on investments	255,388	52,274	307,662
	255,388	52,274	307,662
Change in net assets	66,935	57,045	123,980
Net assets at beginning of year	8,880,934	859,298	9,740,232
Net assets at end of year	\$ 8,947,869	\$ 916,343	\$ 9,864,212

See accompanying auditors' report and notes to consolidated financial statements.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Totals
Revenues			
Membership dues	\$ 718,167	\$ -	\$ 718,167
Convention and clinic	1,840,002	-	1,840,002
Dividend and interest income	149,612	34,971	184,583
Rent	21,600	-	21,600
Honor band and orchestra	57,500	-	57,500
Taping fees jazz and orchestra	17,223	-	17,223
Subscriptions	121,352	-	121,352
Advertising, net of discounts	394,665	-	394,665
Database sales	35,744	-	35,744
Patch sales, net of cost of goods \$27,032	24,093	-	24,093
Other income	40,118	-	40,118
Liability insurance	174,210	-	174,210
Contributions	-	175,041	175,041
Net assets released from restrictions	188,250	(188,250)	-
Total Revenues	3,782,536	21,762	3,804,298
Expenses and Losses			
Headquarters	1,470,638	-	1,470,638
Convention	541,631	-	541,631
Region and area	15,286	-	15,286
Executive board	236,553	-	236,553
Public relations	95,420	-	95,420
Committees - special projects	19,456	-	19,456
Magazine	364,370	-	364,370
Liability insurance	127,141	-	127,141
Scholarships	179,050	-	179,050
Total Expenses and Losses	3,049,545	-	3,049,545
Other Income/Expense			
Federal income tax expense	(10,050)	-	(10,050)
Unrealized gain (loss) on investments	224,338	45,002	269,340
Realized gain (loss) on investments	9,616	-	9,616
Total Other Income/Expense	223,904	45,002	268,906
Change in net assets	956,895	66,764	1,023,659
Net assets at beginning of year	7,924,039	792,534	8,716,573
Net assets at end of year	\$ 8,880,934	\$ 859,298	\$ 9,740,232

See accompanying auditors' report and notes to consolidated financial statements.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 123,980	\$ 1,023,659
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,563	54,842
Realized & unrealized (gain) loss on investments	(307,662)	(277,443)
Changes in assets and liabilities		
Accounts receivable	(2,619)	8,235
Prepaid expenses	(38,617)	(46,569)
Deferred revenue	(25,328)	86,526
Accounts payable and accrued expenses	13,603	48,503
Net Cash Provided by Operating Activities	(170,080)	897,753
 Cash Flows From Investing Activities		
Purchase of investments	-	(1,100,000)
Purchase of furniture and equipment	(28,761)	(24,812)
Reinvested earnings from investments	(101,052)	(106,442)
Net Cash Provided (Used) by Investing Activities	(129,813)	(1,231,254)
Net Increase (Decrease) in Cash	(299,893)	(333,501)
Cash, beginning of the year	659,591	993,092
Cash, end of year	\$ 359,698	\$ 659,591
 Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 10,050	\$ 3,665
Interest paid	\$ -	\$ -

See accompanying auditors' report and notes to consolidated financial statements.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Summary of Accounting Policies

This summary of significant accounting policies for the Texas Music Educators Association, Inc., Subsidiary and Affiliate (the Association) is presented to assist in understanding the Association's consolidated financial statements. The consolidated financial statements and notes are representations of the Association's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP), and have been consistently applied in the preparation of the consolidated financial statements.

General Purpose

The accompanying consolidated financial statements include accounts of the Texas Music Educators Association, Inc., its wholly owned for-profit subsidiary Music Educators Business Enterprises, Inc. (MEBE), and the Texas Music Educators Symposium Fund (Symposium), a nonprofit entity.

The Association is incorporated under the laws of the State of Texas. The purpose of the Association, as outlined by its charter, is (a) the promotion of music education; (b) the maintenance of a cooperative relationship with the State Department of Education for the development of a better program of music education in Texas; (c) to maintain a cooperative relationship with other music education associations. The Association is governed by an executive board consisting of eight elected members who serve without compensation. The Association's support comes primarily from membership dues and exhibit and registration fees for the annual convention.

MEBE was formed in 1987 to assume certain business activities unrelated to the Association's exempt purpose and to expand the services provided to the Association's members. The Symposium Fund dispenses scholarships to deserving students for educational endeavors.

Reporting Entity

The Association, subsidiary, and Affiliate, for financial purposes, includes all of the financial activities relevant to their operations, exclusive of the financial activity of the chapters and regions. Chapters and regions operate at local levels to contribute to the goals of the Association.

Principles of Consolidation

All significant inter-company accounts and transactions between TMEA and MEBE have been eliminated in the combination. The activity of the Symposium Fund has been consolidated with the activity of TMEA and MEBE.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Summary of Accounting Policies (continued)

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendation of the “Financial Statements of Not-For-Profit Organizations” section of the Accounting Standards Codification (ASC). Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted net assets – These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since the Board of Directors may reverse these restrictions at anytime in the future.

Temporarily restricted net assets – These types of net assets are subject to donor-imposed stipulations, which limit their use by the Association to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. There were temporarily restricted net assets consisting of contributions restricted for scholarships as of June 30, 2018 and 2017.

Permanently restricted net assets – These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently. There were no permanently restricted net assets as of June 30, 2018 and 2017.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence and/or nature of any donor restrictions. Conditional promises to give are recognized as assets and revenues as allowable costs are incurred.

Property, Equipment and Depreciation

Property and equipment are recorded at cost and depreciated using estimated lives of five to forty years on the straight-line method. It is the Association's policy to capitalize expenditures for these items in excess of \$500. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the period. Maintenance and repairs are charged to expense as incurred, and significant renewals and betterments are capitalized.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Summary of Accounting Policies (continued)

Membership Revenue Recognition

Income from membership dues is deferred and recognized as revenue over the periods to which the dues and fees relate.

Federal Income Taxes

The Association is exempt from Federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Provision for income tax on unrelated business income is made when required for income from non tax-exempt activities. The Symposium is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. MEBE is a for-profit Corporation that incurred federal income tax in the amount of \$-0- and \$10,050, respectively, for the years ended June 30, 2018 and 2017. Each organization is potentially subject to an IRS audit for the prior three tax years. There were no IRS audits ongoing as of the date of the audit report.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association considers deposits in banks and money market accounts as cash and cash equivalents, unless designated for investment purposes.

Investments

Investments are stated at fair market value and consist of mutual funds in debt and equity securities, money market funds, asset backed U.S. government securities, and a real estate investment trust. Unrealized gains and losses are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

2. Concentration of Credit Risk

Financial instruments which potentially subject the Association to credit risk consist of cash, investments and accounts receivable. The Association has no formal policy which limits credit exposure for balances exceeding federal insurance limits by restricting the amount which may be deposited with any one financial institution. The Association's deposits exceed the federal insurance limits as of June 30, 2018 and 2017 in the amount of \$1,277,228 and \$1,452,551, respectively.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position.

The Association generally does not maintain collateral for its accounts receivable, and does not believe significant credit risk exists as of June 30, 2018 and 2017.

3. Property and Equipment

Property and equipment at June 30, 2018 and 2017, consists of the following:

	2018	2017
Building	\$ 1,072,210	\$ 1,072,210
Furniture and equipment	527,037	520,933
	1,599,247	1,593,143
Less accumulated depreciation	(875,647)	(831,741)
	723,600	761,402
Land	202,898	202,898
Net property and equipment	\$ 926,498	\$ 964,300

The Association recognized depreciation expense in the amount of \$66,563 and \$54,842 for the years ended 2018 and 2017, respectively.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
 SUBSIDIARY AND AFFILIATE
 (A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

4. Leased Employees

Beginning on October 1, 2006, the Association began leasing its employees through Insperity. Insperity pays the employees and provides employee benefits such as health, dental, and life insurance, along with a 401k plan. TMEA paid Insperity \$1,134,949 and \$1,034,565 for leased employees for the years ended June 30, 2018 and 2017, respectively.

5. Leases

Beginning July 1, 2016, the Association began leasing office equipment at a monthly rental rate totaling \$822 under a 60 month agreement. Rental expense under the operating leases totaled \$10,972 and \$7,407 in 2018 and 2017, respectively.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 9,864
2020	9,864
2021	9,864
	<u>\$ 29,592</u>

6. Temporarily Restricted Net Assets

The temporarily restricted net assets at June 30, 2018 and 2017 include contributions plus any investment earnings to be used for scholarship funds as follows:

	<u>2018</u>	<u>2017</u>
TMEA Symposium Fund	\$ 916,343	\$ 859,298
	<u>\$ 916,343</u>	<u>\$ 859,298</u>

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

7. Fair Value of Financial Instruments

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement is the same in both cases – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price). *Fair Value Measurements and Disclosures* also establish a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 Inputs – Inputs other than quoted prices included with Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 Inputs – Unobservable inputs for the asset or liability.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

7. Fair Value of Financial Instruments (continued)

2018	Amount	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable inputs (Level 3)
Description				
Money Funds	\$ 1,863,742	\$ -	\$ 1,863,742	\$ -
Equity Securities:				
Large Cap Value	1,397,946	1,397,946	-	-
Mid Cap Value	204,541	204,541	-	-
SMID Core	159,111	159,111	-	-
Small Cap Value	222,118	222,118	-	-
International	497,989	497,989	-	-
Large Cap Growth	753,210	753,210	-	-
Mid Cap Growth	189,083	189,083	-	-
Fixed Income:				
Asset Backed Securities	576,179	576,179	-	-
Corporate Bonds	1,325,215	-	1,325,215	-
Municipal Bonds	159,399	-	159,399	-
Mutual Funds:				
Equity	320,073	320,073	-	-
Fixed Income	1,086,879	1,086,879	-	-
Total	<u>\$ 8,755,485</u>	<u>\$ 5,407,129</u>	<u>\$ 3,348,356</u>	<u>\$ -</u>
2017				
Money Funds	\$ 1,880,661	\$ -	\$ 1,880,661	\$ -
Equity Securities:				
Large Cap Value	1,375,330	1,375,330	-	-
Mid Cap Value	199,758	199,758	-	-
SMID Core	142,790	142,790	-	-
Small Cap Value	166,208	166,208	-	-
International	534,805	534,805	-	-
Large Cap Growth	673,347	673,347	-	-
Mid Cap Growth	188,267	188,267	-	-
Fixed Income:				
Asset Backed Securities	733,080	733,080	-	-
Corporate Bonds	961,659	-	961,659	-
Municipal Bonds	30,515	-	30,515	-
Mutual Funds:				
Equity	187,309	187,309	-	-
Fixed Income	1,120,615	1,120,615	-	-
Total	<u>\$ 8,194,344</u>	<u>\$ 5,321,509</u>	<u>\$ 2,872,835</u>	<u>\$ -</u>

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
SUBSIDIARY AND AFFILIATE
(A Nonprofit Corporation Exclusive of Financial Activities of the Chapters and Regions)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

7. Fair Value of Financial Instruments (continued)

The fair value of the Association's remaining current assets and current liabilities approximate the carrying amounts of such instruments due to their short maturity.

8. Subsequent Events

Subsequent events are events or transactions that occur after the statements of financial position date but before the financial statements are issued. Management evaluated subsequent events through the date of the issuance of the audit report, September 14, 2018, and there were no subsequent events to disclose.