

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

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021

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

INDEPENDENT AUDITORS' REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Texas Music Educators Association, Inc. 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), and its Affiliate, which comprise the consolidated statement of financial position as of June 30, 2021, 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.

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. and Affiliate as of June 30, 2021, and the consolidated changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Allman & Associates, Inc.

Austin, Texas
November 17, 2021

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2021

Assets	
Current Assets:	
Cash and cash equivalents	\$ 712,543
Investments	10,825,812
Accounts receivable	135,432
Prepaid expenses	<u>41,036</u>
Total Current Assets	11,714,823
Prepaid expenses	75,000
Property and Equipment, net of accumulated depreciation	<u>805,033</u>
Total Assets	<u><u>\$ 12,594,856</u></u>
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable	\$ 17,731
Accrued expenses	176,894
Deferred revenue	<u>177,930</u>
Total Current Liabilities	<u>372,555</u>
Net Assets:	
Without donor restrictions	11,434,871
With donor restrictions	<u>787,430</u>
Total Net Assets	<u>12,222,301</u>
Total Liabilities and Net Assets	<u><u>\$ 12,594,856</u></u>

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

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
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CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals
Revenues and Support:			
Membership dues	\$ 566,270	\$ -	\$ 566,270
Convention and clinic	644,069	-	644,069
Dividend and interest, net of fees of \$104,551	82,240	-	82,240
Rent	9,000	-	9,000
Honor band and orchestra	287,607	-	287,607
Subscriptions	105,553	-	105,553
Advertising, net of discounts	253,994	-	253,994
Database sales	12,673	-	12,673
Patch sales	59,942	-	59,942
Other income	884	-	884
Liability insurance	180,780	-	180,780
Unrealized gain (loss) on investments	1,441,241	-	1,441,241
Contributions	-	50,550	50,550
Net assets released from restrictions	220,000	(220,000)	-
Total Revenues and Support	3,864,253	(169,450)	3,694,803
Expenses and Losses:			
Programs Services:			
Convention	640,906	-	640,906
Publications, advertising and subscriptions	585,662	-	585,662
Memberships	251,230	-	251,230
Public and and government relations	140,825	-	140,825
Competitions	278,898	-	278,898
Scholarships	252,706	-	252,706
Supporting Services:			
General and administrative	571,106	-	571,106
Total Expenses and Losses	2,721,333	-	2,721,333
Change in net assets	1,142,920	(169,450)	973,470
Net assets at beginning of year	10,291,951	956,880	11,248,831
Net assets at end of year	\$ 11,434,871	\$ 787,430	\$ 12,222,301

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

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021

	Program Services						Supporting Services	Total
	Convention	Publications, Advertising Subscriptions	Member- ship	Public and Government Relations	Competition	Scholar- ships	General and Administrative	
Salaries	\$ 262,528	\$ 164,988	\$ 40,880	\$ 45,756	\$ 117,295	\$ 15,970	\$ 284,510	\$ 931,927
Employee benefits	75,440	47,411	11,747	13,149	33,706	4,589	81,757	267,799
Insurance and taxes	21,503	13,514	147,164	3,748	9,608	1,308	23,304	220,149
Travel and honorariums	1,827	750	1,836	1,509	25,343	73	1,294	32,632
Supplies	2,134	1,341	332	372	43,745	130	2,312	50,366
Printing and postage	10,471	293,951	163	182	619	64	1,132	306,582
Depreciation	13,219	8,307	2,058	2,304	5,906	804	14,326	46,924
Technology	73,968	46,486	11,518	12,892	33,048	4,500	85,055	267,467
Food/beverage and hotel fees	1,420	-	-	-	-	-	-	1,420
Audio/visual	147,050	-	-	-	-	-	-	147,050
Entertainment	15,369	-	-	-	-	-	-	15,369
Professional fees	-	-	-	59,000	-	-	19,300	78,300
Miscellaneous	769	483	120	134	3,503	4,647	4,692	14,348
Building costs	10,210	6,416	1,590	1,779	4,562	621	53,424	78,602
Bank fees	4,998	2,015	33,822	-	1,563	-	-	42,398
Scholarships	-	-	-	-	-	220,000	-	220,000
Total expenses	\$ 640,906	\$ 585,662	\$ 251,230	\$ 140,825	\$ 278,898	\$ 252,706	\$ 571,106	\$ 2,721,333

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

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
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CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2021

Cash Flows From Operating Activities:	
Change in net assets	\$ 973,470
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	46,924
Reinvested earnings from investments, net of fees	(82,240)
Realized & unrealized (gain) loss on investments	(1,441,242)
Changes in assets and liabilities	
Accounts receivable	(43,960)
Prepaid expenses	(2,997)
Accounts payable	381
Accrued expenses	8,399
Deferred revenue	<u>53,702</u>
Net Cash Used by Operating Activities	<u>(487,563)</u>
Cash Flows From Investing Activities	
Proceeds from sale of investments	305,000
Purchase of furniture and equipment	<u>(1,320)</u>
Net Cash Provided by Investing Activities	<u>303,680</u>
Net Decrease in Cash	(183,883)
Cash and cash equivalents, beginning of the year	<u>896,426</u>
Cash and cash equivalents, end of year	<u><u>\$ 712,543</u></u>
Supplemental disclosure of cash flow information:	
Income taxes paid	<u>\$ -</u>
Interest paid	<u><u>\$ -</u></u>

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

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

1. Summary of Accounting Policies

This summary of significant accounting policies for the Texas Music Educators Association, Inc. 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 Symposium Fund (Symposium), a nonprofit entity.

TMEA is incorporated under the laws of the State of Texas. The purpose of TMEA, 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. TMEA is governed by an executive board consisting of eight elected members who serve without compensation. TMEA's support comes primarily from membership dues and exhibit and registration fees for the annual convention.

The Symposium Fund, that shares the same management of TMEA, dispenses scholarships to deserving students for educational endeavors.

Reporting Entity

TMEA and its 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 Symposium have been eliminated in the consolidation.

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 donor restricted in the period received depending on the existence and/or nature of any donor restrictions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

1. Summary of Accounting Policies (continued)

Financial Statement Presentation

Financial statement presentation follows the recommendation of the “Financial Statements of Not-For-Profit Organizations” section of the Accounting Standards Codification (ASC). Under the ASC, the Association is required to report information regarding its financial position and activities according to two classes of net assets as applicable.

- a) *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Net assets without donor restrictions include the revenues and expenses of the primary operations of the Association.
- b) *Net assets with donor restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Net assets with donor restrictions consisted of contributions for scholarships as of June 30, 2021.

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.

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.

Membership Revenue Recognition

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

1. Summary of Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the statement 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, and asset backed U.S. government securities. Unrealized gains and losses are reported in the statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Functional Allocation of Expenses

The costs of providing the various programs and activities of the Association have been summarized on a functional basis in the statement of activities. The statement of functional expenses reports the natural classification detail of expenses by function. Expenses that can be identified with a specific program or relate to a specific source of revenue are allocated directly to that program. Indirect expenses have been allocated based on management's estimates.

Federal Income Taxes

TMEA 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.

Both organizations have adopted the recognition requirements for uncertain income tax positions as required by GAAP, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. Both organizations have analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. Both organizations believe that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the organization's financial position, changes in net assets or cash flows. Accordingly, each organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2021. Each organization is subject to income tax audits for the previous three years which are open. There are currently no income tax audits for any tax periods in progress.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

1. Summary of Accounting Policies (continued)

Change in Not-for-Profit Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09's core principle requires an entity to recognize revenue in a manner that depicts the transfer of goods and/or services to a customer in an amount that reflects the consideration to which it expects to be entitled in exchange for those good and/or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual periods beginning after December 15, 2018, delayed until after December 15, 2019, and has been applied on a retrospective basis, with no material effect on revenue recognition.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. ASU 2018-13 takes effect for not-for-profit entities for fiscal years beginning after December 15, 2019. ASU 2018-13 has been applied prospectively beginning after December 31, 2019, with no significant impact on the financial statement disclosures.

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, 2021 in the amount of \$1,636,340.

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, 2021.

TEXAS MUSIC EDUCATORS ASSOCIATION, INC.,
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

3. Property and Equipment

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

Building	\$ 1,072,210
Furniture and equipment	<u>355,739</u>
Total depreciable assets	1,427,949
Less accumulated depreciation	<u>(825,814)</u>
Building and equipment, net	602,135
Land	<u>202,898</u>
Net property and equipment	<u><u>\$ 805,033</u></u>

The Association recognized depreciation expense in the amount of \$46,924 for the year ended June 30, 2021.

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 \$1,189,277 for leased employees for the year ended June 30, 2021.

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 \$7,645 for the year ended June 30, 2021.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

6. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 include contributions to be used for scholarship funds as follows:

TMEA Symposium Fund (Purpose restrictions)	\$ 787,430
Total	<u>\$ 787,430</u>

Net assets with donor restrictions of \$220,000 were released from restrictions due to satisfaction of purpose during the year ended June 30, 2021.

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.

The following table represents assets and liabilities reported on the statement of financial position at their fair value as of June 30, 2021 by level within the fair value measurement hierarchy.

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June 30, 2021

7. Fair Value of Financial Instruments (continued)

Description	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)
Money Funds	\$ 1,703,507	\$ -	\$ 1,703,507	\$ -
Equity Securities:				
Large Cap Value	2,011,776	2,011,776	-	-
Mid Cap Value	592,473	592,473	-	-
SMID Core	219,721	219,721	-	-
Small Cap Value	309,630	309,630	-	-
International	587,535	587,535	-	-
Large Cap Growth	1,117,911	1,117,911	-	-
Fixed Income:				
Asset Backed Securities	896,883	896,883	-	-
Corporate Bonds	1,107,514	-	1,107,514	-
Municipal Bonds	412,511	-	412,511	-
Mutual Funds:				
Equity	873,988	873,988	-	-
Fixed Income	992,363	992,363	-	-
Total	<u>\$ 10,825,812</u>	<u>\$ 7,602,280</u>	<u>\$ 3,223,532</u>	<u>\$ -</u>

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. Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 712,543
Investments	10,825,812
Accounts receivable	135,432
Less net assets designated for scholarships	(787,430)
Financial assets available for general expenditures within one year	<u>\$ 10,886,357</u>

The Association does not have a formal liquidity policy, but intends to meet cash needs through convention revenue, membership dues, program and advertising fees and meeting budget expectations.

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June 30, 2021

9. Risks and Uncertainties

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact future activities of the Association. The continuing disruption is having a broad and negative impact on the US economy. As a result of the spread of the COVID-19 coronavirus, in-person gatherings have been cancelled or changed to a virtual format. The Association has significantly cut expenses to essential costs as well as budgeted appropriately and conservatively to minimize impact and uncertainty as the COVID-19 crisis continues past June 30, 2021.

10. Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. Management evaluated subsequent events through the date the financial statements were available for issuance, November 17, 2021, and there were no subsequent events to disclose.