

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Financial Statements

And

Additional Financial Information

June 30, 2007 and 2006

With

Independent Auditors' Report

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Music Teachers National Association, Inc. (a nonprofit Corporation) as of June 30, 2007 and 2006, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Music Teachers National Association, Inc. as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedules on pages 9 - 12 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Clark, Slaughter, Harbitt & Co.

Cincinnati, Ohio
October 22, 2007

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Financial Position

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Cash and cash equivalents	\$ 880,965	1,125,035
Investments at fair value	2,222,936	1,942,332
Accounts receivable	33,165	33,305
Inventory	8,440	6,619
Prepaid expenses	26,522	21,056
Property and equipment, net	44,214	55,435
Deposits	<u>420</u>	<u>420</u>
 Total assets	 \$ <u>3,216,662</u>	 <u>3,184,202</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 20,936	6,572
Due to state and local affiliates	176,123	87,736
Accrued expenses	48,182	43,796
Deferred revenue	<u>816,856</u>	<u>859,013</u>
 Total liabilities	 <u>1,062,097</u>	 <u>997,117</u>
Net assets:		
Unrestricted	1,110,507	1,272,284
Unrestricted - Board designated	659,001	600,878
Temporarily restricted	<u>385,057</u>	<u>313,923</u>
 Total net assets	 <u>2,154,565</u>	 <u>2,187,085</u>
	\$ <u>3,216,662</u>	<u>3,184,202</u>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Activities

Years Ended June 30, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Membership dues	\$ 1,205,732	-	1,205,732	1,175,735	-	1,175,735
Subscription and advertising	253,618	-	253,618	279,518	-	279,518
Less direct costs	(194,076)	-	(194,076)	(190,777)	-	(190,777)
Conferences and competitions	612,265	-	612,265	559,509	-	559,509
Less direct costs	(785,241)	-	(785,241)	(579,431)	-	(579,431)
Contributions	121,687	25,499	147,186	152,602	73,623	226,225
Other	132,441	-	132,441	149,843	-	149,843
Interest and dividends	51,369	8,751	60,120	99,823	17,083	116,906
Unrealized gain on investments	174,159	36,864	211,023	1,915	-	1,915
Realized gain on investments	38,121	11,639	49,760	29,353	-	29,353
Released from restrictions	11,619	(11,619)	-	70,860	(70,860)	-
	<u>1,621,694</u>	<u>71,134</u>	<u>1,692,828</u>	<u>1,748,950</u>	<u>19,846</u>	<u>1,768,796</u>
Expenses:						
Salaries and wages	784,890	-	784,890	689,143	-	689,143
Payroll taxes	53,713	-	53,713	45,271	-	45,271
Employee benefits	94,581	-	94,581	90,853	-	90,853
Rent and utilities	144,099	-	144,099	140,437	-	140,437
Travel and entertainment	133,872	-	133,872	94,616	-	94,616
Newsletters and mailings	32,228	-	32,228	42,826	-	42,826
Membership retention	56,586	-	56,586	30,124	-	30,124
Insurance	23,361	-	23,361	23,357	-	23,357
Office supplies and postage	22,743	-	22,743	23,687	-	23,687
Information services	103,405	-	103,405	37,416	-	37,416
Telephone	9,950	-	9,950	9,060	-	9,060
Professional fees	21,640	-	21,640	13,574	-	13,574
Bank charges	32,026	-	32,026	45,224	-	45,224
Depreciation	25,692	-	25,692	25,096	-	25,096
Grants and awards	111,129	-	111,129	140,606	-	140,606
Other	75,433	-	75,433	66,533	-	66,533
	<u>1,725,348</u>	<u>-</u>	<u>1,725,348</u>	<u>1,517,823</u>	<u>-</u>	<u>1,517,823</u>
Change in net assets	(103,654)	71,134	(32,520)	231,127	19,846	250,973
Net assets:						
Beginning of year	<u>1,873,162</u>	<u>313,923</u>	<u>2,187,085</u>	<u>1,642,035</u>	<u>294,077</u>	<u>1,936,112</u>
End of year	\$ <u>1,769,508</u>	<u>385,057</u>	<u>2,154,565</u>	<u>1,873,162</u>	<u>313,923</u>	<u>2,187,085</u>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Cash Flows

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ (32,520)	250,973
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	25,692	25,096
Unrealized gain on investments	(211,023)	(1,915)
Realized gain on sale of investments	(49,760)	(29,353)
Effect of change in operating assets and liabilities:		
Accounts receivable	140	9,294
Inventory	(1,821)	3,344
Prepaid expenses and deposits	(5,466)	(1,799)
Accounts payable	14,364	(642)
Due to state and local affiliates	88,387	(8,506)
Accrued expenses	4,386	1,790
Deferred revenue	(42,157)	40,683
Net cash provided (used) by operating activities	<u>(209,778)</u>	<u>288,965</u>
Cash flows from investing activities:		
Purchases of property and equipment	(14,471)	(16,156)
Proceeds received from sale of investments	1,141,398	550,433
Purchases of investments	(1,161,219)	(657,606)
Net cash used by investing activities	<u>(34,292)</u>	<u>(123,329)</u>
Change in cash and cash equivalents	(244,070)	165,636
Cash and cash equivalents - beginning of year	<u>1,125,035</u>	<u>959,399</u>
Cash and cash equivalents - end of year	\$ <u><u>880,965</u></u>	<u><u>1,125,035</u></u>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

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

Nature of operations

The Association promotes the professional growth and development of its members, furthering the art of music by providing programs that encourage and support teaching, performance, composition and scholarly research.

Principles of consolidation

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets of the Association and its former corporate entity, which has been renamed, MTNA Certification Program. All inter-organizational accounts and transactions have been eliminated.

Use of estimates

The presentation of 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 financial position and activities in three classes of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire. The Association has no permanently restricted net assets at June 30, 2007 and 2006.

Temporarily restricted contributions and investment income are reported as unrestricted if the restriction is met during the same period.

Income taxes

For Federal tax purposes, the Association 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, the Association 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 financial statements.

Cash and cash equivalents

For purposes of the statement 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.

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. 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 statement of financial position. Unrealized gains and losses are included in the statement of activities.

Inventory

Inventory, consisting principally of merchandise for resale to members and the general public, is stated at cost.

Property and depreciation

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

Deferred revenue

Membership dues that have been collected for future periods have been recorded as deferred revenue.

Due to affiliates

Amounts due to affiliates represent membership dues collected by the Association on behalf of its 50 states and over 500 local affiliates.

2. Investments:

The Association's investments consisted of the following at June 30:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market investments \$	21,870	21,870	1,250	1,250
Mutual funds	1,826,889	1,983,141	268,683	259,603
Bonds	-	-	529,654	502,513
Equities	<u>187,200</u>	<u>217,925</u>	<u>1,131,342</u>	<u>1,178,966</u>
	\$ <u>2,035,959</u>	<u>2,222,936</u>	<u>1,930,929</u>	<u>1,942,332</u>

3. Property and Equipment:

Property and equipment at June 30 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Furniture and fixtures	\$ 233,300	248,238
Less accumulated depreciation	<u>(189,086)</u>	<u>(192,803)</u>
	\$ <u>44,214</u>	<u>55,435</u>

4. 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 \$18,017 and \$16,351 for the years ended June 30, 2007 and 2006, respectively.

5. Leases:

The Association is under agreement to lease certain office space through November 2014. Total rent expense including common area maintenance and utilities charges for the years ended June 30, 2007 and 2006 was \$144,099 and \$140,437, respectively. The future minimum lease payments for the office lease at June 30 are as follows:

2008	\$ 110,533
2009	110,055
2010	113,112
2011	116,508
2012	120,032
Thereafter	<u>305,442</u>
	\$ <u>875,682</u>

The Association is leasing certain office equipment under an operating lease that expires in December 2011. Total lease expense included in operations for the years ended June 30, 2007 and 2006 was \$4,675 and \$4,188, respectively. Future minimum lease payments for the office equipment under this lease are as follows:

2008	\$ 2,370
2009	2,370
2010	2,370
2011	2,370
2012	<u>1,185</u>
	\$ <u>10,665</u>

6. Unrestricted – Board Designated Net Assets:

As of June 30, 2007 and 2006, the Board has designated \$659,001 and \$600,878 of net assets to be used for competition awards for students.

7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2007</u>	<u>2006</u>
Teacher enrichment grants	\$ 325,815	256,495
Local association grants	34,357	34,292
Other	<u>24,885</u>	<u>23,136</u>
	\$ <u>385,057</u>	<u>313,923</u>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Schedule of Financial Position

June 30, 2007

	<u>Association</u>	<u>Certification</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 845,493	35,472	880,965
Investments at fair value	2,188,261	34,675	2,222,936
Accounts receivable	33,165	-	33,165
Inventory	8,440	-	8,440
Prepaid expenses	26,522	-	26,522
Property and equipment, net	44,214	-	44,214
Deposits	<u>420</u>	<u>-</u>	<u>420</u>
 Total assets	 <u>\$ 3,146,515</u>	 <u>70,147</u>	 <u>3,216,662</u>
 Liabilities and net assets:			
Liabilities:			
Accounts payable	\$ 20,883	53	20,936
Due to state and local affiliates	176,123	-	176,123
Accrued expenses	48,182	-	48,182
Deferred revenue	<u>816,856</u>	<u>-</u>	<u>816,856</u>
 Total liabilities	 <u>1,062,044</u>	 <u>53</u>	 <u>1,062,097</u>
 Net assets:			
Unrestricted	1,040,413	70,094	1,110,507
Unrestricted - Board designated	659,001	-	659,001
Temporarily restricted	<u>385,057</u>	<u>-</u>	<u>385,057</u>
 Total net assets	 <u>2,084,471</u>	 <u>70,094</u>	 <u>2,154,565</u>
 Total liabilities and net assets	 <u>\$ 3,146,515</u>	 <u>70,147</u>	 <u>3,216,662</u>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Schedule of Financial Position

June 30, 2006

	<u>Association</u>	<u>Certification</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 1,091,913	33,122	1,125,035
Investments at fair value	1,912,597	29,735	1,942,332
Accounts receivable	33,305	-	33,305
Inventory	6,619	-	6,619
Prepaid expenses	21,056	-	21,056
Property and equipment, net	55,435	-	55,435
Deposits	<u>420</u>	<u>-</u>	<u>420</u>
 Total assets	 \$ <u>3,121,345</u>	 <u>62,857</u>	 <u>3,184,202</u>
 Liabilities and net assets:			
Liabilities:			
Accounts payable	\$ 6,572	-	6,572
Due to state and local affiliates	87,736	-	87,736
Accrued expenses	43,796	-	43,796
Deferred revenue	<u>859,013</u>	<u>-</u>	<u>859,013</u>
 Total liabilities	 <u>997,117</u>	 <u>-</u>	 <u>997,117</u>
 Net assets:			
Unrestricted	1,209,427	62,857	1,272,284
Unrestricted - Board designated	600,878	-	600,878
Temporarily restricted	<u>313,923</u>	<u>-</u>	<u>313,923</u>
 Total net assets	 <u>2,124,228</u>	 <u>62,857</u>	 <u>2,187,085</u>
 Total liabilities and net assets	 \$ <u>3,121,345</u>	 <u>62,857</u>	 <u>3,184,202</u>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Schedule of Activities

Year Ended June 30, 2007

	Association				
	Temporarily			Certification	Total
	Unrestricted	Restricted	Total		
Revenues:					
Membership dues	\$ 1,205,732	-	1,205,732	-	1,205,732
Subscription and advertising	253,618	-	253,618	-	253,618
Less direct costs	(194,076)	-	(194,076)	-	(194,076)
Conferences and competitions	612,265	-	612,265	-	612,265
Less direct costs	(785,241)	-	(785,241)	-	(785,241)
Contributions	121,687	25,499	147,186	-	147,186
Other	69,306	-	69,306	63,135	132,441
Management fee	28,000	-	28,000	(28,000)	-
Interest and dividends	50,431	8,751	59,182	938	60,120
Unrealized gain on investments	173,832	36,864	210,696	327	211,023
Realized gain on investments	34,304	11,639	45,943	3,817	49,760
Released from restrictions	11,619	(11,619)	-	-	-
	<u>1,581,477</u>	<u>71,134</u>	<u>1,652,611</u>	<u>40,217</u>	<u>1,692,828</u>
Expenses:					
Salaries and wages	784,890	-	784,890	-	784,890
Payroll taxes	53,713	-	53,713	-	53,713
Employee benefits	94,581	-	94,581	-	94,581
Rent and utilities	144,099	-	144,099	-	144,099
Travel and entertainment	133,872	-	133,872	-	133,872
Newsletters and mailings	32,228	-	32,228	-	32,228
Membership retention	56,586	-	56,586	-	56,586
Insurance	23,361	-	23,361	-	23,361
Office supplies and postage	22,743	-	22,743	-	22,743
Information services	103,405	-	103,405	-	103,405
Telephone	9,950	-	9,950	-	9,950
Professional fees	21,640	-	21,640	-	21,640
Bank charges	32,026	-	32,026	-	32,026
Depreciation	25,692	-	25,692	-	25,692
Grants and awards	111,129	-	111,129	-	111,129
Other	42,453	-	42,453	32,980	75,433
	<u>1,692,368</u>	<u>-</u>	<u>1,692,368</u>	<u>32,980</u>	<u>1,725,348</u>
Change in net assets	(110,891)	71,134	(39,757)	7,237	(32,520)
Net assets - beginning of year	<u>1,810,305</u>	<u>313,923</u>	<u>2,124,228</u>	<u>62,857</u>	<u>2,187,085</u>
Net assets - end of year	<u>\$ 1,699,414</u>	<u>385,057</u>	<u>2,084,471</u>	<u>70,094</u>	<u>2,154,565</u>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Schedule of Activities

Year Ended June 30, 2006

	Association				
		Temporarily		Certification	Total
	Unrestricted	Restricted	Total		
Revenues:					
Membership dues	\$ 1,175,735	-	1,175,735	-	1,175,735
Subscription and advertising	279,518	-	279,518	-	279,518
Less direct costs	(190,777)	-	(190,777)	-	(190,777)
Conferences and competitions	559,509	-	559,509	-	559,509
Less direct costs	(579,431)	-	(579,431)	-	(579,431)
Contributions	152,602	73,623	226,225	-	226,225
Other	97,853	-	97,853	51,990	149,843
Management fee	20,448	-	20,448	(20,448)	-
Interest and dividends	98,102	17,083	115,185	1,721	116,906
Unrealized loss on investments	3,506	-	3,506	(1,591)	1,915
Realized loss on investments	29,353	-	29,353	-	29,353
Released from restrictions	70,860	(70,860)	-	-	-
	1,717,278	19,846	1,737,124	31,672	1,768,796
Expenses:					
Salaries and wages	689,143	-	689,143	-	689,143
Payroll taxes	45,271	-	45,271	-	45,271
Employee benefits	90,853	-	90,853	-	90,853
Rent and utilities	140,437	-	140,437	-	140,437
Travel and entertainment	94,616	-	94,616	-	94,616
Newsletters and mailings	42,826	-	42,826	-	42,826
Membership retention	30,124	-	30,124	-	30,124
Insurance	23,357	-	23,357	-	23,357
Office supplies and postage	23,687	-	23,687	-	23,687
Information services	37,416	-	37,416	-	37,416
Telephone	9,060	-	9,060	-	9,060
Professional fees	13,574	-	13,574	-	13,574
Bank charges	45,224	-	45,224	-	45,224
Depreciation	25,096	-	25,096	-	25,096
Grants and awards	140,606	-	140,606	-	140,606
Other	44,683	-	44,683	21,850	66,533
	1,495,973	-	1,495,973	21,850	1,517,823
Change in net assets	221,305	19,846	241,151	9,822	250,973
Net assets - beginning of year	1,589,000	294,077	1,883,077	53,035	1,936,112
Net assets - end of year	\$ <u>1,810,305</u>	<u>313,923</u>	<u>2,124,228</u>	<u>62,857</u>	<u>2,187,085</u>