

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Financial Statements

And

Additional Financial Information

June 30, 2006 and 2005

With

Independent Auditors' Report

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 8
Additional Information:	
Consolidating Schedules of Financial Position	9 - 10
Consolidating Schedules of Activities	11 - 12

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 not-for-profit Corporation) as of June 30, 2006 and 2005, 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, 2006 and 2005, 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.

Cincinnati, Ohio
August 31, 2006

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Financial Position

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and cash equivalents	\$ 1,125,035	959,399
Investments at fair value	1,942,332	1,803,891
Accounts receivable	33,305	42,599
Inventory	6,619	9,963
Prepaid expenses	21,056	11,257
Property and equipment, net	55,435	64,375
Deposits	<u>420</u>	<u>8,420</u>
 Total assets	 \$ <u><u>3,184,202</u></u>	 <u><u>2,899,904</u></u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 6,572	7,214
Due to state and local affiliates	87,736	96,242
Accrued expenses	43,796	42,006
Deferred revenue	<u>859,013</u>	<u>818,330</u>
 Total liabilities	 <u>997,117</u>	 <u>963,792</u>
Net assets:		
Unrestricted	1,272,284	1,062,441
Unrestricted - Board designated	600,878	579,594
Temporarily restricted	<u>313,923</u>	<u>294,077</u>
 Total net assets	 <u>2,187,085</u>	 <u>1,936,112</u>
	\$ <u><u>3,184,202</u></u>	<u><u>2,899,904</u></u>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Activities

Years Ended June 30, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues:						
Membership dues	\$ 1,175,735	-	1,175,735	1,170,136	-	1,170,136
Subscription and advertising	279,518	-	279,518	299,406	-	299,406
Less direct costs	(190,777)	-	(190,777)	(200,397)	-	(200,397)
Conferences and competitions	559,509	-	559,509	546,080	-	546,080
Less direct costs	(579,431)	-	(579,431)	(544,915)	-	(544,915)
Contributions	152,602	73,623	226,225	109,412	50,136	159,548
Other	149,843	-	149,843	130,270	-	130,270
Interest and dividends	99,823	17,083	116,906	58,737	10,778	69,515
Unrealized gain on investments	1,915	-	1,915	14,481	-	14,481
Realized gain on investments	29,353	-	29,353	-	-	-
Released from restrictions	70,860	(70,860)	-	66,071	(66,071)	-
	<u>1,748,950</u>	<u>19,846</u>	<u>1,768,796</u>	<u>1,649,281</u>	<u>(5,157)</u>	<u>1,644,124</u>
Expenses:						
Salaries and wages	689,143	-	689,143	666,270	-	666,270
Payroll taxes	45,271	-	45,271	46,011	-	46,011
Employee benefits	90,853	-	90,853	100,286	-	100,286
Rent and utilities	140,437	-	140,437	124,458	-	124,458
Travel and entertainment	94,616	-	94,616	100,605	-	100,605
Newsletters and mailings	42,826	-	42,826	38,930	-	38,930
Membership retention	30,124	-	30,124	46,266	-	46,266
Insurance	23,357	-	23,357	23,353	-	23,353
Office supplies and postage	29,357	-	29,357	27,205	-	27,205
Computer maintenance	31,746	-	31,746	29,999	-	29,999
Telephone	9,060	-	9,060	10,848	-	10,848
Professional fees	13,574	-	13,574	18,083	-	18,083
Bank charges	45,224	-	45,224	40,494	-	40,494
Depreciation	25,096	-	25,096	26,974	-	26,974
Grants and awards	140,606	-	140,606	114,967	-	114,967
Other	66,533	-	66,533	61,123	-	61,123
	<u>1,517,823</u>	<u>-</u>	<u>1,517,823</u>	<u>1,475,872</u>	<u>-</u>	<u>1,475,872</u>
Change in net assets	231,127	19,846	250,973	173,409	(5,157)	168,252
Net assets:						
Beginning of year	<u>1,642,035</u>	<u>294,077</u>	<u>1,936,112</u>	<u>1,468,626</u>	<u>299,234</u>	<u>1,767,860</u>
End 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>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidated Statements of Cash Flows

Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 250,973	168,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,096	26,974
Unrealized gain on investments	(1,915)	(14,481)
Realized gain on sale of investments	(29,353)	-
Effect of change in operating assets and liabilities:		
Accounts receivable	9,294	(12,487)
Inventory	3,344	2,328
Prepaid expenses and deposits	(1,799)	34,073
Accounts payable	(642)	(3,263)
Due to state and local affiliates	(8,506)	16,624
Accrued expenses	1,790	6,956
Deferred revenue	40,683	(25,107)
Net cash provided by operating activities	<u>288,965</u>	<u>199,869</u>
Cash flows from investing activities:		
Purchases of property and equipment	(16,156)	(17,762)
Proceeds received from sale of investments	550,433	-
Purchases of investments	(657,606)	(68,247)
Net cash used by investing activities	<u>(123,329)</u>	<u>(86,009)</u>
Change in cash and cash equivalents	165,636	113,860
Cash and cash equivalents - beginning of year	<u>959,399</u>	<u>845,539</u>
Cash and cash equivalents - end of year	\$ <u><u>1,125,035</u></u>	<u><u>959,399</u></u>

See accompanying notes to financial statements.

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Notes to Consolidated 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, 2006 and 2005.

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>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market investments \$	1,250	1,250	2,090	2,090
Mutual funds	268,683	259,603	259,989	256,546
Bonds	529,654	502,513	512,859	498,007
Equities	<u>1,131,342</u>	<u>1,178,966</u>	<u>1,023,360</u>	<u>1,047,248</u>
	<u>\$ 1,930,929</u>	<u>1,942,332</u>	<u>1,798,298</u>	<u>1,803,891</u>

3. Property and Equipment:

Property and equipment at June 30 is summarized as follows:

	<u>2006</u>	<u>2005</u>
Furniture and fixtures	\$ 248,238	257,996
Less accumulated depreciation	<u>(192,803)</u>	<u>(193,621)</u>
	<u>\$ 55,435</u>	<u>64,375</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 \$16,351 and \$16,714 for the years ended June 30, 2006 and 2005, respectively.

5. Leases:

The Association is under agreement to lease certain office space through July 2008. Total rent expense including common area maintenance and utilities charges for the years ended June 30, 2006 and 2005 was \$140,437 and \$124,458, respectively. The future minimum lease payments for the office lease at June 30 are as follows:

2007	\$ 115,787
2008	115,787
2009	<u>9,649</u>
	\$ <u>241,223</u>

The Association is leasing certain office equipment under an operating lease that expires in April 2007. Total lease expense included in operations for the years ended June 30, 2006 and 2005 was \$4,188 and \$4,188, respectively. Future minimum lease payments for the office equipment under this lease are \$3,141 in the year ending June 30, 2007.

6. Unrestricted – Board Designated Net Assets:

As of June 30, 2006 and 2005, the Board has designated \$600,878 and \$579,594 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>2006</u>	<u>2005</u>
Teacher enrichment grants	\$ 256,495	241,589
Local association grants	34,292	30,710
Other	<u>23,136</u>	<u>21,778</u>
	\$ <u>313,923</u>	<u>294,077</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	420	-	420
	<u> </u>	<u> </u>	<u> </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	859,013	-	859,013
	<u> </u>	<u> </u>	<u> </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	313,923	-	313,923
	<u> </u>	<u> </u>	<u> </u>
Total net assets	<u>2,124,228</u>	<u>62,857</u>	<u>2,187,085</u>
	<u> </u>	<u> </u>	<u> </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 Financial Position

June 30, 2005

	<u>Association</u>	<u>Certification</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 934,830	24,569	959,399
Investments at fair value	1,774,286	29,605	1,803,891
Accounts receivable	42,599	-	42,599
Inventory	9,963	-	9,963
Prepaid expenses	11,257	-	11,257
Property and equipment, net	64,375	-	64,375
Deposits	<u>8,420</u>	<u>-</u>	<u>8,420</u>
Total assets	\$ <u>2,845,730</u>	<u>54,174</u>	<u>2,899,904</u>
Liabilities and net assets:			
Liabilities:			
Accounts payable	\$ 6,075	1,139	7,214
Due to state and local affiliates	96,242	-	96,242
Accrued expenses	42,006	-	42,006
Deferred revenue	<u>818,330</u>	<u>-</u>	<u>818,330</u>
Total liabilities	<u>962,653</u>	<u>1,139</u>	<u>963,792</u>
Net assets:			
Unrestricted	1,009,406	53,035	1,062,441
Unrestricted - Board designated	579,594	-	579,594
Temporarily restricted	<u>294,077</u>	<u>-</u>	<u>294,077</u>
Total net assets	<u>1,883,077</u>	<u>53,035</u>	<u>1,936,112</u>
Total liabilities and net assets	\$ <u>2,845,730</u>	<u>54,174</u>	<u>2,899,904</u>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Statement of Activities

	Year Ended June 30, 2006				
	Association				
	Temporarily				
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Certification</u>	<u>Total</u>
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 gain on investments	3,506	-	3,506	(1,591)	1,915
Realized gain on investments	29,353	-	29,353	-	29,353
Released from restrictions	70,860	(70,860)	-	-	-
	<u>1,717,278</u>	<u>19,846</u>	<u>1,737,124</u>	<u>31,672</u>	<u>1,768,796</u>
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	29,357	-	29,357	-	29,357
Computer maintenance	31,746	-	31,746	-	31,746
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
	<u>1,495,973</u>	<u>-</u>	<u>1,495,973</u>	<u>21,850</u>	<u>1,517,823</u>
Change in net assets	221,305	19,846	241,151	9,822	250,973
Net assets - beginning of year	<u>1,589,000</u>	<u>294,077</u>	<u>1,883,077</u>	<u>53,035</u>	<u>1,936,112</u>
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>

MUSIC TEACHERS NATIONAL ASSOCIATION, INC.

Consolidating Statement of Activities

Year Ended June 30, 2005

	Association			Certification	Total
	Unrestricted	Temporarily Restricted	Total		
Revenues:					
Membership dues	\$ 1,170,136	-	1,170,136	-	1,170,136
Subscription and advertising	299,406	-	299,406	-	299,406
Less direct costs	(200,397)	-	(200,397)	-	(200,397)
Conferences and competitions	546,080	-	546,080	-	546,080
Less direct costs	(544,915)	-	(544,915)	-	(544,915)
Contributions	109,412	50,136	159,548	-	159,548
Other	85,092	-	85,092	45,178	130,270
Management fee	20,448	-	20,448	(20,448)	-
Interest and dividends	57,111	10,778	67,889	1,626	69,515
Unrealized loss on investments	15,214	-	15,214	(733)	14,481
Realized loss on investments	-	-	-	-	-
Released from restrictions	66,071	(66,071)	-	-	-
	<u>1,623,658</u>	<u>(5,157)</u>	<u>1,618,501</u>	<u>25,623</u>	<u>1,644,124</u>
Expenses:					
Salaries and wages	666,270	-	666,270	-	666,270
Payroll taxes	46,011	-	46,011	-	46,011
Employee benefits	100,286	-	100,286	-	100,286
Rent and utilities	124,458	-	124,458	-	124,458
Travel and entertainment	100,605	-	100,605	-	100,605
Newsletters and mailings	38,930	-	38,930	-	38,930
Membership retention	46,266	-	46,266	-	46,266
Insurance	23,353	-	23,353	-	23,353
Office supplies and postage	27,205	-	27,205	-	27,205
Computer maintenance	29,999	-	29,999	-	29,999
Telephone	10,848	-	10,848	-	10,848
Professional fees	18,083	-	18,083	-	18,083
Bank charges	40,494	-	40,494	-	40,494
Depreciation	26,974	-	26,974	-	26,974
Grants and awards	114,967	-	114,967	-	114,967
Other	40,378	-	40,378	20,745	61,123
	<u>1,455,127</u>	<u>-</u>	<u>1,455,127</u>	<u>20,745</u>	<u>1,475,872</u>
Change in net assets	168,531	(5,157)	163,374	4,878	168,252
Net assets - beginning of year	<u>1,420,469</u>	<u>299,234</u>	<u>1,719,703</u>	<u>48,157</u>	<u>1,767,860</u>
Net assets - end of year	<u>\$ 1,589,000</u>	<u>294,077</u>	<u>1,883,077</u>	<u>53,035</u>	<u>1,936,112</u>