

**THE SOCIETY FOR
ETHNOMUSICOLOGY, INC**

Financial Statements
For the Years Ended
June 30, 2017 and 2016

the society for
ethnomusicology

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Society for Ethnomusicology, Inc.
Bloomington, Indiana

We have audited the accompanying financial statements of The Society for Ethnomusicology, Inc. (a nonprofit organization) which comprise the statements of assets, liabilities and net assets – modified cash basis as of June 30, 2017 and 2016, and the related statements of support, revenue, expenses and changes in net assets – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of The Society for Ethnomusicology, Inc. as of June 30, 2017 and 2016, and its support, revenue, expenses and changes in its net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Schedule of Expenses

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of expenses – modified cash basis on page 16 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

Stampfli Associates

Bloomington, Indiana
October 3, 2017

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Statement of Assets, Liabilities and Net Assets - Modified Cash Basis
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and bank accounts	\$ 99,627	\$ 106,662
Cash in investment accounts	20,570	17,135
Cash in agent accounts	<u>43,965</u>	<u>48,061</u>
Total cash and cash equivalents (Note 3)	<u>164,162</u>	<u>171,858</u>
INVESTMENTS (Note 5)	<u>1,385,995</u>	<u>1,337,285</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	4,373	4,373
Less accumulated depreciation	<u>(4,163)</u>	<u>(4,054)</u>
	<u>210</u>	<u>319</u>
TOTAL ASSETS	<u>\$ 1,550,367</u>	<u>\$ 1,509,462</u>
LIABILITIES AND NET ASSETS		
LIABILITIES	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS:		
Unrestricted	1,364,663	1,321,383
Temporarily restricted (Note 6)	33,284	37,764
Permanently restricted (Note 7)	<u>152,420</u>	<u>150,315</u>
Total net assets	<u>1,550,367</u>	<u>1,509,462</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,550,367</u>	<u>\$ 1,509,462</u>

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Statements of Support, Revenue, Expenses and Changes in Net Assets - Modified Cash Basis
For the Years Ended June 30, 2017 and 2016

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>		<u>Permanently Restricted</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUE:								
Dues	\$ 235,290	\$ 229,054	\$ -	\$ -	\$ -	\$ -	\$ 235,290	\$ 229,054
Annual meeting income	201,184	190,525	-	-	-	-	201,184	190,525
In-kind contribution (Note 9)	37,767	32,856	-	-	-	-	37,767	32,856
Contributions	12,308	17,736	-	-	2,105	3,770	14,413	21,506
Royalties and reprint income	13,841	13,363	-	-	-	-	13,841	13,363
Sales	2,039	5,003	-	-	-	-	2,039	5,003
Postage revenue	2,783	3,079	-	-	-	-	2,783	3,079
Other income	50	20	-	-	-	-	50	20
Investment income	34,570	(13,287)	4,520	(2,284)	-	-	39,090	(15,571)
Total Revenue	539,832	478,349	4,520	(2,284)	2,105	3,770	546,457	479,835
NET ASSETS RELEASED FROM RESTRICTIONS (Note 8)	<u>9,000</u>	<u>10,500</u>	<u>(9,000)</u>	<u>(10,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	548,832	488,849	(4,480)	(12,784)	2,105	3,770	546,457	479,835
EXPENSES	<u>505,552</u>	<u>452,317</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>505,552</u>	<u>452,317</u>
CHANGES IN NET ASSETS	43,280	36,532	(4,480)	(12,784)	2,105	3,770	40,905	27,518
NET ASSETS - July 1	<u>1,321,383</u>	<u>1,284,851</u>	<u>37,764</u>	<u>50,548</u>	<u>150,315</u>	<u>146,545</u>	<u>1,509,462</u>	<u>1,481,944</u>
NET ASSETS - June 30	<u>\$ 1,364,663</u>	<u>\$ 1,321,383</u>	<u>\$ 33,284</u>	<u>\$ 37,764</u>	<u>\$ 152,420</u>	<u>\$ 150,315</u>	<u>\$ 1,550,367</u>	<u>\$ 1,509,462</u>

See accompanying notes to financial statements

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations:

The Society for Ethnomusicology, Inc. (The Society) is a New York not-for-profit corporation. The Society is an international membership organization. Its purpose is the advancement of research and study in the field of ethnomusicology. Its principle programs involve an annual meeting and production of publications.

Basis of Accounting:

The Society's policy is to prepare its financial statements on the modified cash basis of accounting; consequently certain revenues are recognized when received rather than when earned, and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Revenues include life memberships which are also recognized as received.

Cash and Cash Equivalents:

Cash and cash equivalents include cash, and money market accounts which are similar to bank money market accounts.

Property and Equipment:

Property and Equipment are recorded at cost, except in the case of donated property which was recorded at the estimated fair-market value at the date of donation. Property and equipment are depreciated using the straight-line method over the estimated useful lives between 5 and 7 years.

Donated Services:

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the years ended June 30, 2017 and 2016, a number of volunteers donated significant amounts of time in the Society's program activities. Except for services provided through Indiana University, no support or expense has been recorded in connection with those services because they did not meet the criteria for recognition.

Donated Assets:

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenue, expenses and changes in net assets as net assets released from restrictions.

The Society reports gifts of property and equipment as unrestricted support 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

It is the policy of the Society to treat restricted contributions as unrestricted if the restriction is met in the same year as the contribution is made.

Investments:

Marketable securities and other investments are accounted for at cost under the modified cash basis of accounting.

The Society has adopted a prudent investor standard whereby a portion of the investment income, regardless of character, is recognized as available for operations and the remainder is recognized as permanently restricted.

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

Use of Estimates:

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

Net Asset Classification:

The financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions, as applicable. Net assets are to be classified as unrestricted, temporarily restricted and permanently restricted.

The following classes of net assets are maintained:

Unrestricted Net Assets

The unrestricted net asset class includes general assets of the Society. The unrestricted net assets of the Society may be used at the discretion of management to support the Society's purposes and operations. Unrestricted net assets were \$1,364,463 as of June 30, 2017 and \$1,321,383 as of June 30, 2016.

Temporarily Restricted Net Assets

The temporarily restricted net asset class includes assets related to donor imposed restrictions that have not been met as to a specified purpose or to later periods of time or after specified dates. See Note 6 for a listing of temporarily restricted net assets balances.

Permanently Restricted Net Assets

The permanently restricted net asset class includes assets for which the donor has stipulated that the contribution be maintained in perpetuity. Donor imposed restrictions limiting the use of the assets or its economic benefit neither expire with the passage of time nor can be removed by satisfying a specific purpose. See Note 7 for a listing of permanently restricted net assets.

NOTE 2 - INCOME TAX STATUS:

The Society files federal and state income tax returns as an exempt organization under section 501(c)(3) of the Internal Revenue Code and does not report any unrelated business income or other income taxes. The agency is not considered to be a private foundation.

The Society has filed its federal and state exempt tax returns for periods through June 30, 2016. These returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions). Accordingly, the exempt income tax filings for the years ended June 30, 2016, 2015, and 2014 are open to examination at June 30, 2017. The Society recognizes tax benefits only to the extent the agency believes it is "more likely than not" that its tax positions would be sustained upon examination. There were no tax positions considered less than 50% likely of sustainability.

There were no income tax penalties or interest incurred for years ended June 30, 2017 and 2016.

NOTE 3 - CONCENTRATION OF CREDIT RISK:

The Society maintains bank accounts at local banks and cash equivalent funds in brokerage accounts. Amounts in accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or other institutions up to certain

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

limits. The Society carries balances in excess of these limits when deemed necessary to meet operating needs. At June 30, 2017 and 2016, there were no uninsured cash balances.

NOTE 4 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Society estimates that the fair value of financial instruments, other than investments, does not differ materially from aggregate carrying values of financial instruments reported in the financial statement due to short maturity dates relating thereto.

NOTE 5 - INVESTMENTS:

The Society investments are as follows for year ended June 30:

	<u>Cost</u>		<u>Market</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>General fund</u>				
<u>Stock mutual funds</u>				
U.S. Large Cap	\$ 284,934	\$ 240,777	\$ 322,787	\$ 241,482
U.S. Mid Cap	92,778	92,779	113,063	99,291
U.S. Small Cap	56,617	55,278	69,615	55,411
International	122,253	120,825	137,016	115,034
Emerging markets	40,407	62,171	47,663	60,235
Real estate	<u>39,483</u>	<u>39,483</u>	<u>39,609</u>	<u>42,357</u>
	<u>636,472</u>	<u>611,313</u>	<u>729,753</u>	<u>571,269</u>
 <u>Bond mutual funds</u>				
U.S. Government and Corporate bonds	207,008	195,870	205,829	199,248
U.S. High Yield	28,642	28,642	29,699	28,459
Emerging markets	37,704	37,704	40,817	39,682
Treasury Inflation-protected	<u>119,086</u>	<u>116,036</u>	<u>121,484</u>	<u>121,803</u>
	<u>392,440</u>	<u>378,252</u>	<u>397,829</u>	<u>389,192</u>
 Total - General fund	 <u>\$ 1,028,912</u>	 <u>\$ 989,565</u>	 <u>\$ 1,127,582</u>	 <u>\$ 1,003,002</u>
 <u>Nahumck</u>				
<u>Stock mutual funds</u>				
U.S. Large Cap	\$ 16,815	\$ 14,765	\$ 19,036	\$ 14,728
U.S. Mid Cap	5,948	5,948	7,207	6,329
U.S. Small Cap	3,634	3,634	4,453	3,632
International	7,475	7,475	8,390	7,128
Emerging markets	2,944	4,194	3,587	4,166
Real estate	<u>2,463</u>	<u>1,854</u>	<u>2,417</u>	<u>1,989</u>
	<u>39,279</u>	<u>37,870</u>	<u>45,090</u>	<u>37,972</u>

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Notes to the Financial Statements

	<u>Cost</u>		<u>Market</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<u>Bond mutual funds</u>				
U.S. Government and Corporate bonds	12,643	12,133	12,582	12,361
U.S. High Yield	1,883	1,883	1,945	1,863
Emerging markets	2,462	2,462	2,674	2,600
Treasury Inflation-protected	<u>6,545</u>	<u>7,320</u>	<u>6,692</u>	<u>7,700</u>
	<u>23,533</u>	<u>23,798</u>	<u>23,893</u>	<u>24,524</u>
Total - Nahumck	\$ <u>62,812</u>	\$ <u>61,668</u>	\$ <u>68,983</u>	\$ <u>62,496</u>
<u>21st Century Fund</u>				
<u>Stock mutual funds</u>				
U.S. Large Cap	\$ 20,127	\$ 16,889	22,683	16,842
U.S. Mid Cap	6,514	6,514	7,927	6,962
U.S. Small Cap	3,951	3,951	4,859	3,964
International	8,526	8,526	9,549	8,117
Emerging markets	2,804	4,535	3,376	4,448
Real estate	<u>2,780</u>	<u>2,780</u>	<u>2,790</u>	<u>2,983</u>
	<u>44,702</u>	<u>43,195</u>	<u>51,184</u>	<u>43,316</u>
<u>Bond mutual funds</u>				
U.S. Government and Corporate bonds	14,533	13,859	14,458	14,107
U.S. High Yield	2,043	2,043	2,121	2,033
Emerging markets	2,672	2,672	2,893	2,812
Treasury Inflation-protected	<u>8,461</u>	<u>7,998</u>	<u>8,621</u>	<u>8,400</u>
	<u>27,709</u>	<u>26,572</u>	<u>28,903</u>	<u>27,352</u>
Total - 21 st Century	\$ <u>72,411</u>	\$ <u>69,767</u>	\$ <u>79,277</u>	\$ <u>70,668</u>
<u>Halpern Fund</u>				
Asset allocation fund	\$ <u>37,279</u>	<u>35,568</u>	\$ <u>40,022</u>	<u>35,544</u>
Total - Halpern	\$ <u>37,279</u>	\$ <u>35,568</u>	\$ <u>40,022</u>	\$ <u>35,544</u>
<u>Stevenson Fund</u>				
Asset allocation fund	\$ <u>30,501</u>	<u>29,100</u>	\$ <u>32,751</u>	<u>29,086</u>
Total - Stevenson	\$ <u>30,501</u>	\$ <u>29,100</u>	\$ <u>32,751</u>	\$ <u>29,086</u>
<u>Operations reserve account</u>				
<u>Stock mutual funds</u>				
U.S. Large Cap	\$ 27,724	\$ 27,724	\$ 34,046	\$ 30,035

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Notes to the Financial Statements

	<u>Cost</u>		<u>Market</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Commodities	10,256	8,555	8,487	8,133
Energy	<u>9,741</u>	<u>18,665</u>	<u>10,154</u>	<u>18,380</u>
	<u>47,721</u>	<u>54,944</u>	<u>52,687</u>	<u>56,548</u>
 <u>Bond mutual funds</u>				
U.S. Government and Corporate bonds	41,314	41,336	41,418	41,774
U.S. Corporate High Yield	10,268	7,126	10,516	7,001
U.S. Municipal High Yield	19,614	13,905	19,930	14,469
Emerging markets	11,797	11,403	12,668	11,970
Treasury Inflation-protected	<u>12,809</u>	<u>12,809</u>	<u>12,934</u>	<u>13,260</u>
	<u>95,802</u>	<u>86,579</u>	<u>97,466</u>	<u>88,474</u>
 Total – Operations reserve	 \$ <u>143,523</u>	 \$ <u>141,523</u>	 \$ <u>150,153</u>	 \$ <u>145,022</u>
 <u>Restricted Gifts fund</u>				
Asset allocation fund	\$ <u>10,557</u>	\$ <u>10,094</u>	\$ <u>10,839</u>	\$ <u>9,626</u>
Total – Restricted Gifts	\$ <u>10,557</u>	\$ <u>10,094</u>	\$ <u>10,839</u>	\$ <u>9,626</u>
 Totals - all investments	 <u>\$1,385,995</u>	 <u>\$1,337,285</u>	 <u>\$1,509,607</u>	 <u>\$1,355,444</u>

“Asset allocation fund” is a mutual fund managed by TIAA that invests in a variety of stock and bond mutual funds. Fair value of all investments are based upon quoted market prices on public exchanges for those investments.

The following schedule summarizes the investment return and its classification in the statement of activities during the year ended June 30:

	<u>2017</u>	<u>2016</u>
Interest	\$ 39	\$ 44
Dividends	38,308	39,869
Net realized gains (losses)	<u>743</u>	<u>(55,484)</u>
Totals	\$ <u>39,090</u>	\$ <u>(15,571)</u>

All income earned during the year ended June 30, 2017 and 2016, including capital gains and losses on permanently restricted funds, are considered to be expendable based upon the Society’s understanding of the terms of the contributions and applicable state law. A portion of such investment income is temporarily restricted to particular purposes.

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes or periods as of June 30:

	<u>2017</u>	<u>2016</u>
Halpern fund for research scholarships	\$19,868	\$19,868
21 st Century fund - fellowships	1,915	5,521
Nahumck fund for prizes	8,677	11,416
Stevenson fund for prizes	1,401	---
Restricted Gifts fund	<u>1,423</u>	<u>959</u>
Total	<u>\$33,284</u>	<u>\$37,764</u>

Temporarily restricted funds are composed of the unexpended portion of original donations or investment income derived from certain permanently restricted funds created for that purpose. These funds are restricted for the funding of prizes, fellowships or scholarships in recognition of specific musical pursuits.

NOTE 7 - PERMANENTLY RESTRICTED NET ASSETS:

As required by accounting standards, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments (of which there are none), are classified and reported based on the existence or absence of donor-imposed restrictions. Permanently restricted net assets are restricted to investment in perpetuity, income from which is expendable to defined purposes.

Interpretation of Relevant Law

The Board of Directors of the society has interpreted the Indiana Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the society classifies as permanently restricted net assets (a) the original value of gifts donated to permanent endowments, (b) the original value of subsequent gifts to permanent endowments, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UMIFA. In accordance with UMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

The society has decided that for the years ended June 30, 2017 and 2016, no investment income should be allocated to permanently restricted funds due to a generally weak economy and negligible inflation rate. The investment income on all permanently restricted funds is allocated to temporarily restricted funds until appropriated for use.

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Notes to the Financial Statements

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<u>Donor-restricted endowment funds</u>				
Nahumck - prizes	\$ 5,000	\$ 8,677	\$ 50,000	\$ 63,677
21 st Century fund - fellowships	9,950	1,915	61,405	73,270
Stevenson fund - prizes	---	1,401	30,000	31,401
Restricted Gifts fund - prizes	<u>150</u>	<u>1,423</u>	<u>11,015</u>	<u>12,588</u>
Donor restricted endowment funds	\$ <u>15,100</u>	\$ <u>13,416</u>	\$ <u>152,420</u>	\$ <u>180,936</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,030	\$ 17,896	\$ 150,315	\$ 173,241
Contribution	1,070	---	2,105	3,175
Investment return	---	4,520	---	4,520
Appropriation for expenditure	<u>9,000</u>	<u>(9,000)</u>	<u>---</u>	<u>---</u>
Endowment net assets, end of year	\$ <u>15,100</u>	\$ <u>13,416</u>	\$ <u>152,420</u>	\$ <u>180,936</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
<u>Donor-restricted endowment funds</u>				
Nahumck - prizes	\$ 1,000	\$ 11,416	\$ 50,000	\$ 62,416
21 st Century fund - fellowships	4,980	5,521	60,260	70,761
Stevenson fund - prizes	(900)	---	30,000	29,100
Restricted Gifts fund - prizes	<u>(50)</u>	<u>959</u>	<u>10,055</u>	<u>10,964</u>
Donor restricted endowment funds	\$ <u>5,030</u>	\$ <u>17,896</u>	\$ <u>150,315</u>	\$ <u>173,241</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2016

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,000	\$ 26,680	\$ 146,545	\$ 182,225
Contribution	(9,070)	---	3,770	(5,300)
Investment return	---	(2,284)	---	(3,684)
Appropriation for expenditure	<u>6,500</u>	<u>(6,500)</u>	<u>---</u>	<u>---</u>
Endowment net assets, end of year	\$ <u>5,030</u>	\$ <u>17,896</u>	\$ <u>150,315</u>	\$ <u>173,241</u>

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

Net investment income is allocated in total and not differentiated by net asset class. The components of net investment income in the endowment funds are as follows for the year ended June 30:

	<u>2017</u>	<u>2016</u>
Dividends	\$ 5,283	\$ 5,737
Realized gains on sale	199	(7,192)
Investment expense	<u>(962)</u>	<u>(829)</u>
Totals	\$ <u>4,520</u>	\$ <u>(2,284)</u>

These amounts are included in total investment returns as reported in the footnote on investments.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting standards, deficiencies of this nature are reported in unrestricted net assets. At June 30, 2017, there were no deficiencies. At June 30, 2016, there were deficiencies in the Stevenson fund of \$900 and Restricted Gifts fund of \$50; these deficiencies are a result of losses realized upon the sale of nearly all investments in October after moving all securities from a new brokerage (market values lower in October 2015 than June 2015 or June 2016).

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. The Society expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually, which includes a return of 2-3% for appropriation. Actual returns in any given year may vary from this amount. Endowment assets are invested in a manner that is intended to produce these results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the society 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 society targets a diversified asset allocation that includes fixed income and equity mutual funds to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The society has a policy of appropriating for prizes on an annual or biennial basis only that portion of available funds for which worthy recipients are identified. In establishing this policy, the society considered the long-term expected return on its endowment. Accordingly, over the long term, the society expects the current spending policy to allow its endowment to grow at 4-5% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

NOTE 8 - RESTRICTIONS RELEASED:

In 2017, temporarily restricted funds were expended in the amounts of \$5,000 for the 21st Century Fellowship and \$4,000 for Halpern. In 2016, \$5,000 of temporarily restricted funds were expended for the 21st Century Fellowship, \$4,000 for Halpern, \$1,000 for Nahumck, and \$500 for Stevenson.

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Notes to the Financial Statements

NOTE 9 - IN-KIND CONTRIBUTIONS:

In-kind contributions are received from Indiana University and are summarized as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Payroll and related costs	\$ 22,667	\$ 23,592
Occupancy costs	14,500	8,664
Computer support	<u>600</u>	<u>600</u>
Total	\$ <u>37,767</u>	\$ <u>32,856</u>

Office rent is provided to the Society on an in-kind basis and included in the occupancy cost above.

NOTE 10 - EXPENSES BY FUNCTIONAL AREA:

Expenses incurred by functional area were as follows for year ended June 30:

	<u>2017</u>	<u>2016</u>
Program Services	\$ 394,083	\$ 349,926
Management and general	105,163	96,362
Fund raising	<u>6,306</u>	<u>6,029</u>
Total	\$ <u>505,552</u>	\$ <u>452,317</u>

NOTE 11 - PENSION PLAN:

The Society employees are paid through Indiana University and included in certain benefit and retirement plans offered by the university. The Society reimburses the university for its portion of these costs. Pension expense was \$16,354 and \$16,396 for years ended June 30, 2017 and 2016, respectively.

NOTE 12 - CONFERENCE:

The Society receives a material portion of net income from registrations for the annual conference. Gross revenue for this event was 36% and 38% of total support and revenues for the years ended June 30, 2017 and 2016, respectively.

NOTE 13 - SUBSEQUENT EVENTS:

For the purposes of this financial statement subsequent events were evaluated through October 3, 2017 which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

THE SOCIETY FOR ETHNOMUSICOLOGY, INC.

Supplemental Schedule of Expenses - Modified Cash Basis
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Payroll and related costs	\$ 171,400	\$ 167,579
Meetings and conventions	151,523	108,494
Journal expense	63,495	68,865
Other program expense	42,686	42,794
Travel	12,890	13,654
Bank charges and fees	17,240	12,289
Occupancy	14,500	8,664
Professional services	7,530	7,520
Computer expense	7,833	7,454
Office expense	6,361	3,515
Insurance	3,512	3,512
Dues	2,890	2,890
Renewal expense	1,083	2,478
Donations	2,500	2,500
Depreciation	<u>109</u>	<u>109</u>
Total Expenses	<u>\$ 505,552</u>	<u>\$ 452,317</u>