

TUCSON SYMPHONY SOCIETY

Audited Financial Statements

For the years ended June 30, 2021 and 2020

TUCSON SYMPHONY SOCIETY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Tucson Symphony Society

We have audited the accompanying financial statements of Tucson Symphony Society (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from 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 financial position of Tucson Symphony Society as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ludwig Klewer & Rudner PLLC

March 16, 2022



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TUCSON SYMPHONY SOCIETY
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2021 and 2020

ASSETS

	2021	2020
Current assets:		
Cash and cash equivalents	\$ 3,204,404	\$ 2,686,066
Accounts and grants receivable	365,112	46,791
Unconditional promises to give, current portion	116,222	170,260
Investments - other	300,969	300,000
Prepaid expenses and deposits	50,889	81,465
Bequests receivable	1,426,172	-
Total current assets	5,463,768	3,284,582
Unconditional promises to give, non-current portion, net	11,144	187,195
Investments	2,232,929	1,767,743
Beneficial interests in remainder trusts	7,487,106	6,044,963
Property and equipment, net	613,498	630,815
Other assets	1,600	1,600
Total assets	\$ 15,810,045	\$ 11,916,898

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 125,475	\$ 131,076
Deferred revenue	869,175	955,737
Line of credit	300,000	300,000
Note payable, current portion	38,663	186,671
Total current liabilities	1,333,313	1,573,484
Note payable, non-current portion	285,863	323,549
Total liabilities	1,619,176	1,897,033
Net assets:		
Without donor restrictions	2,397,226	567,061
With donor restrictions:		
Purpose restrictions	115,949	91,107
Time-restricted for future periods	133,131	559,258
Subject to appropriation and expenditure	548,388	278,597
Perpetual in nature	10,996,175	8,523,842
Total net assets with donor restrictions	11,793,643	9,452,804
Total net assets	14,190,869	10,019,865
Total liabilities and net assets	\$ 15,810,045	\$ 11,916,898

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

STATEMENT OF ACTIVITIES
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions and donations	\$ 2,919,639	\$ 1,106,620	\$ 4,026,259
Change in value of beneficial interests in remainder trusts	-	1,442,143	1,442,143
Investment income, net	-	469,791	469,791
Grant - Paycheck Protection Program	465,692	-	465,692
Government grants	328,939	-	328,939
Other income	26,771	-	26,771
Contract income	7,750	-	7,750
Loss on disposal of property and equipment	(3,080)	-	(3,080)
Total revenue and support	3,745,711	3,018,554	6,764,265
Net assets released from restrictions:			
Satisfaction of donor restrictions	477,715	(477,715)	-
Appropriated for expenditure	200,000	(200,000)	-
Total net assets released from restrictions	677,715	(677,715)	-
Total revenues and support, net of releases	4,423,426	2,340,839	6,764,265
Expenses:			
Program services	1,858,306	-	1,858,306
General and administrative expenses	506,808	-	506,808
Fund-raising	228,147	-	228,147
Total expenses	2,593,261	-	2,593,261
Change in net assets	1,830,165	2,340,839	4,171,004
Net assets, beginning of year, restated	567,061	9,452,804	10,019,865
Net assets, end of year	\$ 2,397,226	\$ 11,793,643	\$ 14,190,869

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

STATEMENT OF ACTIVITIES
For the year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions and donations	\$ 1,786,681	\$ 6,439,919	\$ 8,226,600
Admissions	1,794,513	-	1,794,513
Grant - Paycheck Protection Program	547,100	-	547,100
Contract income	141,687	-	141,687
Investment income, net	-	127,248	127,248
Special events, net	76,008	-	76,008
Government grants	44,750	-	44,750
Other income	13,855	-	13,855
In-kind revenue	11,861	-	11,861
Total revenue and support	4,416,455	6,567,167	10,983,622
Net assets released from restrictions:			
Satisfaction of donor restrictions	246,500	(246,500)	-
Donor-granted releases	1,000,000	(1,000,000)	-
Appropriated for expenditure	200,000	(200,000)	-
Total net assets released from restrictions	1,446,500	(1,446,500)	-
Total revenues and support, net of releases	5,862,955	5,120,667	10,983,622
Expenses:			
Program services	4,192,133	-	4,192,133
General and administrative expenses	542,711	-	542,711
Fund-raising	341,347	-	341,347
Total expenses	5,076,191	-	5,076,191
Change in net assets	786,764	5,120,667	5,907,431
Net assets (deficit), beginning of year, restated and reclassified	(219,703)	4,332,137	4,112,434
Net assets, end of year, restated	\$ 567,061	\$ 9,452,804	\$ 10,019,865

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

	Program Services	General and Administrative	Fund-raising	Total
Salaries, wages, and fringe benefits	\$ 1,268,911	\$ 313,962	\$ 74,811	\$ 1,657,684
Contracted services	199,804	47,164	44,752	291,720
Marketing	112,605	-	20,656	133,261
Depreciation	95,933	19,236	5,003	120,172
Occupancy	51,975	23,676	6,733	82,384
Professional services	-	69,435	-	69,435
Licenses, fees, and dues	42,818	11,910	128	54,856
Bad debt	-	-	54,720	54,720
Equipment	35,909	8,438	3,254	47,601
Interest	18,767	8,677	2,257	29,701
Other	8,634	3,233	15,294	27,161
Insurance	22,950	1,077	539	24,566
Total expenses	<u>\$ 1,858,306</u>	<u>\$ 506,808</u>	<u>\$ 228,147</u>	<u>\$ 2,593,261</u>

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2020

	Program Services	General and Administrative	Fund-raising	Total
Salaries, wages, and fringe benefits	\$ 2,460,199	\$ 420,735	\$ 200,642	\$ 3,081,576
Contracted services	876,254	52,027	44,596	972,877
Marketing	268,291	-	7,282	275,573
Depreciation	85,058	18,565	11,371	114,994
Occupancy	150,930	9,107	12,893	172,930
Professional services	15,163	3,471	2,066	20,700
Licenses, fees, and dues	46,931	1,149	2,169	50,249
Bad debt	-	-	8,195	8,195
Equipment	144,922	4,859	3,342	153,123
Interest	16,236	3,717	2,212	22,165
Other	109,056	24,710	43,978	177,744
Insurance	19,093	4,371	2,601	26,065
Total expenses	<u>\$ 4,192,133</u>	<u>\$ 542,711</u>	<u>\$ 341,347</u>	<u>\$ 5,076,191</u>

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

STATEMENT OF CASH FLOWS
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 4,171,004	\$ 5,907,431
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Write off uncollectible unconditional promises to give	50,000	8,195
Discount on unconditional promises to give	(31,856)	34,538
Net realized and unrealized gain on investments	(449,814)	(66,918)
Reinvested interest and dividends	(32,197)	(55,871)
Contribution of beneficial interests in remainder trusts	-	(5,871,767)
Change in value of beneficial interests in remainder trusts	(1,442,143)	-
Depreciation	120,172	114,994
Loss on disposal of property and equipment	3,080	-
Notes payable forgiven	(90,000)	-
Changes in operating assets and liabilities:		
Accounts and grants receivable	(318,321)	(17,259)
Unconditional promises to give	211,945	(105,961)
Prepaid expenses and deposits	30,576	61,135
Bequests receivable	(1,426,172)	-
Accounts payable and accrued expenses	(5,601)	37,621
Deferred revenue	(86,562)	(118,890)
Total adjustments	(3,466,893)	(5,980,183)
Net cash provided by (used in) operating activities	704,111	(72,752)
Cash flows from investing activities:		
Purchases of property and equipment	(105,935)	(3,400)
Purchases of investments	(449,365)	(304,748)
Proceeds from sale of investments	465,221	2,299,896
Net cash (used in) provided by investing activities	(90,079)	1,991,748
Cash flows from financing activities:		
Advances on line of credit	-	300,000
Proceeds from notes payable	-	150,000
Principal payments on notes payable	(95,694)	(26,184)
Net cash (used in) provided by financing activities	(95,694)	423,816
Change in cash and cash equivalents	518,338	2,342,812
Cash and cash equivalents, beginning of year	2,686,066	343,254
Cash and cash equivalents, end of year	\$ 3,204,404	\$ 2,686,066
Supplemental cash flow information:		
Cash paid during the year for interest	\$ 29,701	\$ 22,165
Cash paid during the year for taxes	\$ -	\$ -
Reinvested dividends	\$ 32,197	\$ 55,871
Notes payable forgiven	\$ 90,000	\$ -

See independent auditor's report and accompanying notes.

TUCSON SYMPHONY SOCIETY

NOTES TO FINANCIAL STATEMENTS For the year ended June 30, 2021 and 2020

1. Organization

Tucson Symphony Society (Society) is a nonprofit organization that supports and manages a symphony orchestra and produces symphonic concerts and other musical performances in Tucson, Arizona and surrounding communities. The majority of the Society's support is obtained through ticket sales and contributions.

2. Summary of Significant Accounting Policies

Financial Statement Presentation and Contributions

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions – net assets available for use in general operations and not subject to donor (or grantor) restrictions.
- Net assets with donor restrictions – net assets subject to donor (or grantor) 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.

The Society reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Society considers cash and highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include short-term certificates of deposit and money market accounts which are stated at market value, which approximates cost.

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. Investments held by other institutions are covered up to \$500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, the SIPC does not protect against losses in market value. The Society had cash and cash equivalents and investments in excess of FDIC and SIPC limitations of \$4,984,967 and \$3,996,685 at June 30, 2021 and 2020, respectively. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time.

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

2. Summary of Significant Accounting Policies, Continued

Accounts and Grants Receivable

Accounts receivable consist of amounts due for scheduled community events and grants awarded to the Society but not yet received. Management believes all amounts are collectible and, therefore, has not established an allowance for uncollectible amounts. There are no amounts greater than 90 days past due as of June 30, 2021 and 2020.

Bequests Receivable

Bequests are recognized as contribution revenue when the Society has an irrevocable right to the gift as determined by applicable court declarations, and the amount can be reasonably estimated. The revenue and related receivable are recorded at the present value of the amount which management estimates it will collect. Bequests receivable that are expected to be collected within one year are recorded at their net realizable value and classified as current. Bequests receivable that are expected to be collected in future years are recorded at the estimated net realizable value and classified as non-current.

Unconditional Promises to Give

Unconditional promises to give are stated net of an allowance for doubtful accounts. The Society estimated the allowance based on an analysis of specific donors, taking into consideration the age of past due amounts and an assessment of the donor's ability to pay.

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 with the change in net assets.

Property and Equipment

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized and depreciated. The Society's policy is to capitalize expenditures for property and equipment that exceed \$5,000. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Building and improvements	5 - 30 years
Concert equipment	5 - 10 years
Computer equipment and software	3 - 5 years
Office furniture and equipment	5 - 10 years
Musical instruments	5 - 10 years
Music library	5 - 25 years

Donated Services and Materials

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial 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.

Although the Society utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles general accepted in the United States of America.

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

2. Summary of Significant Accounting Policies, Continued

Deferred Revenue

Season ticket revenue collected prior to year-end and applicable to the following season is recorded as deferred revenue. The related revenue is recognized during the following concert season. Community contract engagements executed prior to year-end are recorded as deferred revenue, and the related contract income is recognized as the contract engagements are performed.

Income Tax Status

The Society is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and from Arizona income tax under Arizona Revised Statute section 43-1201(4). However, income from certain activities not directly related to the Society's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, the Society qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Society's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2021, there were no uncertain tax positions that are potentially material.

Expense Allocation

Concert production costs represent the direct expenses of performances produced by the Society. General and administrative costs represent the cost of supporting services, none of which have been allocated to production costs. Special event expenses represent direct costs incurred for specific fund-raising events. The Society allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural classification. Certain other expenses are allocated among program services and supporting services benefited. These allocated expenses include administrative payroll and related expenses, which are allocated based on estimates of time, as well as depreciation, utilities, and repairs and maintenance, which are allocated based on the square footage occupied by the separate functions. All other allocated expenses are allocated based on department headcount. These other expenses include equipment rental, fee/licenses/service charges, printing and postage, supplies, insurance, and professional services.

Advertising

Advertising costs are expensed as incurred. The Society does not participate in direct-response advertising which requires the capitalization and amortization of related costs. For the years ended June 30, 2021 and 2020 advertising costs totaled \$54,202 and \$169,291, respectively.

Investments - Other

Investments - other consists of a certificate of deposits held for investment that is not a debt security. Certificates of deposit with original maturities greater than one year with remaining maturities less than one year are classified as current. Certificates of deposit with remaining maturities greater than one year are classified as non-current.

Reclassifications

Certain items from the 2020 financial statements have been reclassified to conform to the 2021 financial statement presentation.

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

3. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the financial position date, are comprised of:

	2021	2020
Cash and cash equivalents	\$ 3,204,404	\$ 2,686,066
Accounts and grants receivable	365,112	46,791
Unconditional promises to give, current portion	116,222	170,260
Bequests receivable	1,426,172	-
Less: cash portion of investments	(2,512,082)	(1,713,541)
Total financial assets available within one year	2,599,828	1,189,576
Less:		
Amounts unavailable for general expenditure within one year due to:		
Purpose restrictions	(115,949)	(91,107)
Time-restricted for future periods	(133,131)	(559,258)
Subject to appropriation and expenditure:	(548,388)	(278,597)
Total amounts unavailable for general expenditures within one year	(797,468)	(928,962)
Total financial assets available to management for general expenditure within one year	\$ 1,802,360	\$ 260,614

The Society maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come. To help manage unanticipated liquidity needs, the Society maintains a line of credit in the amount of \$300,000 that can be drawn upon as needed during the year to manage cash flow.

4. Unconditional Promises to Give

The Society has an ongoing campaign to help raise funds. The balances due related to this campaign are scheduled to be paid in future years as follows at June 30,:

	2021	2020
<u>Year ended June 30,</u>		
2021	\$ -	\$ 187,647
2022	130,402	224,700
2023	10,200	200
2024	10,200	200
Total unconditional promises to give	150,802	412,747
Less interest component at 5.30%	(7,436)	(39,292)
Less allowance for uncollectible unconditional promises to give	(16,000)	(16,000)
Unconditional promises to give, net	127,366	357,455
Less current portion	(116,222)	(170,260)
Non-current portion, net	\$ 11,144	\$ 187,195

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
 NOTES TO FINANCIAL STATEMENTS
 For the years ended June 30, 2021 and 2020

5. Investments

Investments are stated at fair value and consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Mutual funds	\$ 2,222,383	\$ 1,754,322
Equities	10,546	13,421
Total investments	<u>\$ 2,232,929</u>	<u>\$ 1,767,743</u>

Investment income consists of the following for the year ended June 30,:

	<u>2021</u>	<u>2020</u>
Realized and unrealized gain on investments, net	\$ 449,814	\$ 66,918
Interest and dividend income	32,727	74,944
Investment fees	(12,750)	(14,614)
Total investment income, net	<u>\$ 469,791</u>	<u>\$ 127,248</u>

6. Beneficial Interests in Remainder Trusts

The Society is the named beneficiary of a charitable remainder unitrust established in 2005. The donor has indicated that the assets of the trust are to be added to the Society's endowment fund. Changes in the fair value of the Society's interest in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. The assets of the trust as of June 30, 2021 and 2020 consist of investments in the amount of \$222,138 and \$173,196, respectively.

During the year ended June 30, 2020, a previously revocable trust for which the Society was listed as a beneficiary became irrevocable. According to the trust documents, the primary beneficiary (an individual unrelated to the Society) will receive regular distributions from the income generated by the trust assets throughout the duration of her life. The distributions from the charitable remainder trust to the primary beneficiary in any one year are limited to the lesser of 5% of the fair value of the trust assets at the previous year end, or the income generated by the trust assets in the previous year. The primary beneficiary is not entitled to any of the principal of the assets held in the trust. After such obligations are fulfilled, the remaining assets held in the trust will be distributed in equal shares to the eight charitable organizations named in the agreement, to be held by each organization as a permanent endowment.

The Society became aware of this gift after June 30, 2020. As a result, these financial statements reflect a prior period adjustment to the statement of financial position and statement of activities to record the beneficial interests in the trusts as of and for the year ended June 30, 2020. The amount recognized was the estimated fair value of its beneficial interest based on the Society's share of the present value of the assets held in the trusts, using an estimated 2.6% interest rate, as of the date it became irrevocable and utilizing Internal Revenue Service guidelines and factor tables for calculating the present value of a remainder. See Note 18. Changes in the fair value of the Society's interest in the trust assets are reflected as gains or losses in the statement of activities in the period they occur. The beneficial interests in the trusts as of June 30, 2021 and 2020 are \$7,264,968 and \$5,871,767, respectively, and are reported net of the estimated discount to net present value of \$1,687,912 and \$1,703,704, respectively.

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2021 and 2020

7. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

- *Equities, fixed income*: Valued at fair value based on national trade listing.
- *Mutual funds*: Valued at the net asset value ("NAV") of shares held by the Society at year end.
- *Beneficial interests in remainder trusts*: Valued at the fair value of the underlying investments as reported by the third party.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See independent auditor's report.

TUCSON SYMPHONY SOCIETY
 NOTES TO FINANCIAL STATEMENTS
 For the years ended June 30, 2021 and 2020

7. Fair Value Measurements, Continued

Fair values of assets measured on a recurring basis at June 30, are:

	Investments at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,222,383	\$ -	\$ -	\$ 2,222,383
Equities	10,546	-	-	10,546
Total investments	\$ 2,232,929	\$ -	\$ -	\$ 2,232,929
Beneficial interest in remainder trust	\$ -	\$ -	\$ 7,487,106	\$ 7,487,106

	Investments at Fair Value as of June 30, 2020			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,754,322	\$ -	\$ -	\$ 1,754,322
Fixed income	13,421	-	-	13,421
Total investments	\$ 1,767,743	\$ -	\$ -	\$ 1,767,743
Beneficial interest in remainder trust	\$ -	\$ -	\$ 6,044,963	\$ 6,044,963

Activity measured on a recurring basis for Level 3 investments consisted of the following for the years ended June 30,:

	2021	2020
Balance, beginning of year	\$ 6,044,963	\$ 173,196
Contribution of beneficial interest	-	7,575,471
Discount to net present value	-	(1,703,704)
Change in value	1,442,143	-
	\$ 7,487,106	\$ 6,044,963

8. Property and Equipment

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

	2021	2020
Building and improvements	\$ 1,468,745	\$ 1,492,731
Concert equipment	324,030	252,686
Computer equipment and software	128,132	447,924
Office furniture and equipment	19,848	71,877
Musical instruments	371,814	371,814
Music library	163,898	163,898
Total property and equipment, at cost or donated value	2,476,467	2,800,930
Less accumulated depreciation	(1,862,969)	(2,170,115)
Property and equipment, net	\$ 613,498	\$ 630,815

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9. Line of Credit

The Society has a revolving line of credit with a maximum borrowing amount of \$300,000. The line of credit expires April 1, 2022 and is secured with the Society's building, assignment of rents and investments – other in the amount of \$300,000. Interest is payable monthly at a fixed rate of 3.15%. At June 30, 2021 and 2020, the outstanding principal balance on this line of credit was \$300,000.

10. Notes Payable

The notes payable consists of the following at June 30,:

	2021	2020
Note payable, due in monthly installments of \$4,599 including interest at 5.3% through April 2023, when the interest rate will adjust to the LIBOR/Swap rate (minimum of 3.835%), and the remaining monthly payments will change to \$4,435; final payment due April 2028, collateralized by the Society's building.	\$ 324,526	\$ 360,220
Notes payable from three board members, interest-free and unsecured. The maturity dates ranged between April and June 2020 but were extended due to cash flow concerns. One loan was repaid during August 2020 and the other two loans were forgiven during the year ended June 30, 2021.	-	\$ 150,000
Total notes payable	324,526	510,220
Less current portion	(38,663)	(186,671)
Non-current portion	\$ 285,863	\$ 323,549

Principal maturities of the note payable are:

<u>Year ended June 30,</u>	
2022	\$ 38,663
2023	40,763
2024	42,976
2025	45,310
2026	47,771
Thereafter	109,043
	\$ 324,526

11. Paycheck Protection Program Conditional Grant

On April 11, 2020, the Society received a loan in the amount of \$547,100 from the Small Business Administration's Paycheck Protection Program. Under the terms of the agreement, there are no payments due for six months and interest accrues at the rate of 1% during the deferment period. If the Society does not apply for forgiveness, there are no payments due and interest will not accrue for a period of ten months. If applicable, interest will accrue at the rate of 1%. The Society may apply for forgiveness of the total loan amount, by providing evidence that the loan proceeds were used to fund eligible costs, during either an eight or twenty four-week period, and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full and including interest, on April 11, 2025; however, the Society may negotiate with the lender to extend the maturity date to April 11, 2025. The Society received full forgiveness during the year ended June 30, 2021.

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11. Paycheck Protection Program Conditional Grant, Continued

On April 1, 2021, the Society received a second loan in the amount of \$465,692 from the Small Business Administration's Paycheck Protection Program. Under the terms of the agreement, there are no payments due for six months and interest accrues at the rate of 1% during the deferment period. If the Society does not apply for forgiveness, there are no payments due and interest will not accrue for a period of ten months. If applicable, interest will accrue at the rate of 1%. The Society may apply for forgiveness of the total loan amount, by providing evidence that the loan proceeds were used to fund eligible costs, during either an eight or twenty four-week period, and that additional criteria for forgiveness have been met. Any amount not forgiven will be payable, in full and including interest, on April 11, 2023; however, the Society may negotiate with the lender to extend the maturity date to April 11, 2026.

The Society is accounting for the proceeds as a conditional contribution under FASB ASC 958-605 *Not-for-Profit Entities – Revenue Recognition*. Under this guidance, the loan forgiveness is recognized as contribution revenue as the conditions of forgiveness are substantially met. As of June 30, 2020, those conditions had been met and, as a result, the Society recognized grant revenue in the amount of \$547,100 for the year ended June 30, 2020. As of June 30, 2021, the Society applied for forgiveness of the second loan under a provision which allows for full forgiveness of the loan if the borrower was unable to operate during the covered period at the same level of business activity as before February 15, 2020, due to compliance requirements established or guidance issued between March 1, 2020 and the last day of the covered period. The Society was forced to halt all concerts and productions due to regulations related to COVID during the covered period. As a result, the Society has recognized grant revenue in the amount of \$465,692 for the year ended June 30, 2021.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted as follows at June 30,:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Concert sponsorship	\$ 79,924	\$ 55,082
Campaign Crescendo	30,025	30,025
Flinn grant	<u>6,000</u>	<u>6,000</u>
	115,949	91,107
Subject to the passage of time:		
Future symphony seasons	133,131	559,258
Endowments:		
Subject to appropriation and expenditure:		
Accumulated earnings on original, unreleased endowment gifts	548,388	278,597
Not subject to appropriation and expenditure:		
Original endowment gifts - investments	3,509,069	2,478,879
Original endowment gifts - beneficial interest in trusts	<u>7,487,106</u>	<u>6,044,963</u>
Net assets with donor restrictions	<u>\$ 11,793,643</u>	<u>\$ 9,452,804</u>

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TUCSON SYMPHONY SOCIETY
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For the years ended June 30, 2021 and 2020

12. Net Assets With Donor Restrictions, Continued

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2021:

	<u>Contributions</u>	<u>Investment Income</u>	<u>Releases</u>
Subject to expenditure for specified purpose:			
Concert sponsorship	\$ 24,842	\$ -	\$ -
Subject to the passage of time:			
Future symphony seasons	51,588	-	(477,715)
Endowments:			
Subject to appropriation and expenditure:			
Accumulated earnings on original, unreleased endowment gifts	-	469,791	(200,000)
Not subject to appropriation and expenditure:			
Original endowment gifts	1,030,190	-	-
Change in value of beneficial interests in trusts	1,442,143	-	-
Net assets with donor restrictions	<u>\$ 2,548,763</u>	<u>\$ 469,791</u>	<u>\$ (677,715)</u>

Activity in net assets with donor restrictions is comprised of the following for the year ended June 30, 2020:

	<u>Contributions</u>	<u>Investment Income</u>	<u>Releases</u>
Subject to expenditure for specified purpose:			
Concert sponsorship	\$ 5,082	\$ -	\$ (138,500)
Education programs	-	-	(7,500)
Subject to the passage of time:			
Future symphony seasons	562,000	-	(100,500)
Endowments:			
Subject to appropriation and expenditure:			
Accumulated earnings on original, unreleased endowment gifts	-	127,248	(200,000)
Not subject to appropriation and expenditure:			
Original endowment gifts	<u>5,872,837</u>	<u>-</u>	<u>(1,000,000)</u>
Net assets with donor restrictions	<u>\$ 6,439,919</u>	<u>\$ 127,248</u>	<u>\$ (1,446,500)</u>

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13. Endowment Funds

The Society's endowment consists of donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds restricted by the donor are classified as net assets with donor restrictions, not subject to spending policy or appropriation.

The State of Arizona adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (the Act). The Board of Trustees of the Society adheres to the Act as implemented by the State of Arizona, and the Society's Investment Policy Statement (IPS), in managing the endowment fund and in making decisions to appropriate or accumulate endowment funds. The IPS restricts distributions from the endowment funds that would be contrary to the specific donor restrictions or reduce the corpus of the fund.

The portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions, not subject to spending policy or appropriation, is classified as net assets with donor restrictions, subject to spending policy or appropriation, until those amounts are appropriated for expenditure by the Society in a manner consistent with the IPS and the standards of prudence prescribed by the Act.

Accordingly, the Society considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Society and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Society
- The investment policies of the Society

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 the Act requires the Society to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of June 30, 2021 and 2020.

Investment Return Objectives, Risk Parameters and Strategies

The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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TUCSON SYMPHONY SOCIETY
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13. Endowment Funds, Continued

Spending Policy

The Society has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters. In establishing this policy, the Society considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Society expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually.

Loans

During the year ended June 30, 2020, two of the Society's endowment donors agreed to allow a temporary spending from their original endowment gifts for operating support. One donor agreed to allow up to 50% of the original gift (\$100,000) plus accumulated unspent earnings to be utilized. Under the terms of the agreement the funds must be restored to the endowment corpus within 20 years of the distribution. During October 2019, \$51,391 was disbursed to operations. During July 2021, this amount was repaid in full. Another donor agreed to allow the entire original gift (\$400,000) to be utilized. Any funds disbursed must be repaid at the rate of \$40,000 per year beginning during the year ended June 30, 2024 until repaid. As of June 30, 2021, none of these funds had been disbursed to operations.

The Society's endowment activities, all of which are donor-restricted, consisted of the following during the years ended June 30,:

	2021	2020
Balance, beginning of year	\$ 8,802,439	\$ 4,002,354
Contributions	1,030,190	5,872,837
Investment income	469,791	127,248
Change in value of charitable remainder unitrust	1,442,043	-
Appropriated for expenditure	(200,000)	(200,000)
Releases	-	(1,000,000)
Balance, end of year	\$ 11,544,463	\$ 8,802,439

14. Retirement Plans

The Society has a qualified 403(b) retirement savings plan covering substantially all employees. Under the Plan, employees may elect to contribute a specified percentage or a fixed dollar amount of their salary to the plan. The Plan also allows the Society to make a discretionary matching contribution. During the years ended June 30, 2021 and 2020, the Society contributed \$5,300 and \$8,879, respectively, to the Plan.

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15. Commitments

Operating Leases

The Society has non-cancelable operating leases for office equipment that expire on dates ranging between December 2023 and July 2026. Rental expense, including usage fees, for operating leases for the years ended June 30, 2021 and 2020 was \$26,610 and \$27,849, respectively. Future minimum lease payments under these agreements are:

<u>Year ended June 30,</u>	
2022	\$ 26,610
2023	26,610
2024	23,572
2025	10,267
	<u>\$ 87,059</u>

16. Special Events

The Society's special events activity for the year ended June 30, 2020 was comprised of revenue and expenses in the amount of \$86,631 and \$10,623, respectively. There were no special events held during the year ended June 30, 2021.

17. In-Kind Contributions

During the years ended June 30, 2021 and 2020, the Society recognized in-kind contributions consisting of small equipment and supplies in the amount of \$-0- and \$11,861, respectively. The contributed items were used toward various programmatic activities.

18. Related Party Transactions

Members of the board of trustees make contributions and volunteer their time to support the Society. Members of the board of trustees contributed \$413,133 and \$467,980 respectively, to the Society during the years ended June 30, 2021 and 2020. The unconditional promises to give from these members were \$-0- and \$174,000, respectively, as of June 30, 2021 and 2020. During the year ended June 30, 2020, three board members loaned a combined \$150,000 to the Society. One of these loans, in the amount of \$60,000, was repaid during the year ended June 30, 2021. The other two, in the combined amount of \$90,000, were forgiven during the year ended June 30, 2021. See Note 10.

19. Net Asset Restatement and Reclassification

Net assets at June 30, 2020 have been restated to reflect the Society's beneficial interest in charitable remainder trusts (see Note 6). The Society became aware of these interests during the year ended June 30, 2021. As of result, net assets with donor restrictions have been increased in the amount of \$5,871,767 as of June 30, 2020. Net assets at June 30, 2020 have also been restated to reflect corrections to certain unconditional promises to give and deferred revenue. As a result, net assets without donor restrictions have been decreased in the net amount of \$23,309 as of June 30, 2020. As a result of these changes, the change in net assets for the year ended June 30, 2020 as previously reported has been increased in the amount of \$5,848,458.

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19. Net Asset Restatement and Reclassification, Continued

Net assets at June 30, 2019 have been reclassified to reflect a donor release of endowment funds granted during the year ended June 30, 2019 not previously reflected. Net assets with donor restrictions have been decreased, and net assets without donor restrictions have been increased, as of June 30, 2019 in the amount of \$100,000. Net assets at June 30, 2019 have been restated to reflect a correction to prepaid expenses. As a result, net assets without donor restrictions have been decreased by \$61,753 as of June 30, 2019.

20. Subsequent Events

The Society was unaware of any additional subsequent events as of March 16, 2022, the date the financial statements were available to be issued.

See independent auditor's report.