

TUCSON SYMPHONY SOCIETY

AUDITED FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS AND SCHEDULES
Years ended June 30, 2023 and 2022



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

TUCSON SYMPHONY SOCIETY
AUDITED FINANCIAL STATEMENTS AND
SINGLE AUDIT REPORTS AND SCHEDULES
Years ended June 30, 2023 and 2022

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JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tucson Symphony Society
Tucson, Arizona

Opinion

I have audited the accompanying financial statements of Tucson Symphony Society (an Arizona nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tucson Symphony Society as of June 30, 2023 and 2022, 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.

Basis for opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Tucson Symphony Society and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tucson Symphony Society's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations,

or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tucson Symphony Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tucson Symphony Society's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Supplementary information

My audit was performed for the purpose of forming an opinion on the financial statements of Tucson Symphony Society taken as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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 basic 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2023 on my consideration of Tucson Symphony Society's internal control over financial reporting and on

my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tucson Symphony Society's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Jennifer J. Phillips, CPA, PLLC". The signature is written in a cursive, flowing style.

JENNIFER J. PHILLIPS, CPA, PLLC
Tucson, Arizona

December 14, 2023

TUCSON SYMPHONY SOCIETY
STATEMENT OF FINANCIAL POSITION
Year ended June 30, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,272,729	\$ 338,397	\$ 1,611,126
Accounts receivable - admissions	25,534	-	25,534
Government grants receivable	225,321	-	225,321
Contributions receivable, current portion - Note 4	27,627	280,500	308,127
Certificates of deposit	500,000	-	500,000
Prepaid expenses and deposits	128,884	-	128,884
Bequests receivable	70,000	45,000	115,000
Total current assets	2,250,095	663,897	2,913,992
Contributions receivable, non-current portion, net - Notes 4 and 11	-	213,912	213,912
Investments - Note 11	2,141,549	3,432,406	5,573,955
Beneficial interests in remainder trusts - Notes 5 and 11	-	6,599,273	6,599,273
Operating lease right of use asset - Note 13	72,838	-	72,838
Property and equipment - Note 7	655,962	-	655,962
Other assets	13,608	-	13,608
Total assets	\$ 5,134,052	\$ 10,909,488	\$ 16,043,540
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 234,681	\$ -	\$ 234,681
Deferred revenue	1,063,536	-	1,063,536
Operating lease liability, current portion - Note 13	22,854	-	22,854
Note payable, current portion - Note 8	43,887	-	43,887
Total current liabilities	1,364,958	-	1,364,958
Operating lease liability, non-current portion - Note 13	49,984	-	49,984
Note payable, non-current portion - Note 8	199,048	-	199,048
Total liabilities	1,613,990	-	1,613,990
Net assets:			
Without donor restrictions - Note 3	3,520,062	-	3,520,062
With donor restrictions - Notes 9 and 10	-	10,909,488	10,909,488
Total net assets	3,520,062	10,909,488	14,429,550
Total liabilities and net assets	\$ 5,134,052	\$ 10,909,488	\$ 16,043,540

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF FINANCIAL POSITION
Year ended June 30, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,245,003	\$ 250,291	\$ 1,495,294
Accounts receivable - admissions	32,151	-	32,151
Government grants receivable	368,124	-	368,124
Contributions receivable, current portion - Note 4	35,464	296,200	331,664
Certificates of deposit	301,271	-	301,271
Prepaid expenses and deposits	129,576	-	129,576
Bequests receivable	365,000	-	365,000
Total current assets	2,476,589	546,491	3,023,080
Contributions receivable, non-current portion, net - Notes 4 and 11	-	408,532	408,532
Investments - Note 11	2,043,496	3,248,654	5,292,150
Beneficial interests in remainder trusts - Notes 5 and 11	-	6,124,116	6,124,116
Operating lease right of use asset - Note 13	72,496	-	72,496
Property and equipment - Note 7	578,699	-	578,699
Other assets	1,600	-	1,600
Total assets	\$ 5,172,880	\$ 10,327,793	\$ 15,500,673
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and accrued expenses	\$ 159,172	\$ -	\$ 159,172
Deferred revenue	1,032,751	-	1,032,751
Operating lease liability, current portion - Note 13	19,016	-	19,016
Note payable, current portion - Note 8	42,174	-	42,174
Total current liabilities	1,253,113	-	1,253,113
Operating lease liability, non-current portion - Note 13	53,480	-	53,480
Note payable, non-current portion - Note 8	242,935	-	242,935
Total liabilities	1,549,528	-	1,549,528
Net assets:			
Without donor restrictions - Note 3	3,623,352	-	3,623,352
With donor restrictions - Notes 9 and 10	-	10,327,793	10,327,793
Total net assets	3,623,352	10,327,793	13,951,145
Total liabilities and net assets	\$ 5,172,880	\$ 10,327,793	\$ 15,500,673

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF ACTIVITIES
Year ended June 30, 2023

	Without donor restrictions			With donor restrictions			Grand total
	Operating	Board designated	Total	Time and purpose	Permanent	Total	
Public support and revenues:							
Public support:							
Government grants	\$ 807,723	\$ -	\$ 807,723	\$ -	\$ -	\$ -	\$ 807,723
Contributions and donations	1,469,818	-	1,469,818	226,080	147,500	373,580	1,843,398
Fundraising events, net of direct donor benefit costs of \$113,137	144,113	-	144,113	11,000	-	11,000	155,113
Total public support	<u>2,421,654</u>	<u>-</u>	<u>2,421,654</u>	<u>237,080</u>	<u>147,500</u>	<u>384,580</u>	<u>2,806,234</u>
Revenue:							
Admissions	2,156,380	-	2,156,380	-	-	-	2,156,380
Contract income	155,296	-	155,296	-	-	-	155,296
Net investment return	45,498	178,339	223,837	297,091	-	297,091	520,928
Change in value of trust - Note 5	-	-	-	-	475,157	475,157	475,157
Loss on disposal of assets	(3,375)	-	(3,375)	-	-	-	(3,375)
Other income	36,411	-	36,411	-	-	-	36,411
Total revenue	<u>2,390,210</u>	<u>178,339</u>	<u>2,568,549</u>	<u>297,091</u>	<u>475,157</u>	<u>772,248</u>	<u>3,340,797</u>
Net assets released from restrictions	707,818	(132,685)	575,133	(575,133)	-	(575,133)	-
Total public support and revenues	<u>5,519,682</u>	<u>45,654</u>	<u>5,565,336</u>	<u>(40,962)</u>	<u>622,657</u>	<u>581,695</u>	<u>6,147,031</u>
Expenses:							
Program services	4,600,253	-	4,600,253	-	-	-	4,600,253
General and administrative	585,813	-	585,813	-	-	-	585,813
Fundraising	482,560	-	482,560	-	-	-	482,560
Total expenses	<u>5,668,626</u>	<u>-</u>	<u>5,668,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,668,626</u>
Change in net assets	(148,944)	45,654	(103,290)	(40,962)	622,657	581,695	478,405
Net assets, beginning of year	<u>939,856</u>	<u>2,683,496</u>	<u>3,623,352</u>	<u>688,104</u>	<u>9,639,689</u>	<u>10,327,793</u>	<u>13,951,145</u>
Net assets, end of year	<u>\$ 790,912</u>	<u>\$ 2,729,150</u>	<u>\$ 3,520,062</u>	<u>\$ 647,142</u>	<u>\$ 10,262,346</u>	<u>\$ 10,909,488</u>	<u>\$ 14,429,550</u>

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF ACTIVITIES
Year ended June 30, 2022

	<u>Without donor restrictions</u>			<u>With donor restrictions</u>			<u>Grand total</u>
	<u>Operating</u>	<u>Board designated</u>	<u>Total</u>	<u>Time and purpose</u>	<u>Permanent</u>	<u>Total</u>	
Public support and revenues:							
Public support:							
Government grants	\$ 1,533,696	\$ -	\$ 1,533,696	\$ -	\$ -	\$ -	\$ 1,533,696
Contributions and donations	1,219,308	1,286,115	2,505,423	870,835	6,520	877,355	3,382,778
Fundraising events, net of direct donor benefit costs of \$17,098	35,677	-	35,677	-	-	-	35,677
Total public support	<u>2,788,681</u>	<u>1,286,115</u>	<u>4,074,796</u>	<u>870,835</u>	<u>6,520</u>	<u>877,355</u>	<u>4,952,151</u>
Revenue:							
Admissions	1,326,636	-	1,326,636	-	-	-	1,326,636
Contract income	76,447	-	76,447	-	-	-	76,447
Net investment return	10,985	(298,960)	(287,975)	(529,331)	-	(529,331)	(817,306)
Change in value of trust - Note 5	-	-	-	-	(1,362,990)	(1,362,990)	(1,362,990)
Loss on disposal of assets	-	-	-	-	-	-	-
Other income	18,382	-	18,382	-	-	-	18,382
Total revenue	<u>1,432,450</u>	<u>(298,960)</u>	<u>1,133,490</u>	<u>(529,331)</u>	<u>(1,362,990)</u>	<u>(1,892,321)</u>	<u>(758,831)</u>
Net assets released from restrictions	509,846	-	509,846	(509,830)	(16)	(509,846)	-
Total public support and revenues	<u>4,730,977</u>	<u>987,155</u>	<u>5,718,132</u>	<u>(168,326)</u>	<u>(1,356,486)</u>	<u>(1,524,812)</u>	<u>4,193,320</u>
Expenses:							
Program services	3,271,882	-	3,271,882	-	-	-	3,271,882
General and administrative	721,879	-	721,879	-	-	-	721,879
Fundraising	439,283	-	439,283	-	-	-	439,283
Total expenses	<u>4,433,044</u>	<u>-</u>	<u>4,433,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,433,044</u>
Change in net assets	297,933	987,155	1,285,088	(168,326)	(1,356,486)	(1,524,812)	(239,724)
Net assets, beginning of year	<u>641,923</u>	<u>1,696,341</u>	<u>2,338,264</u>	<u>856,430</u>	<u>10,996,175</u>	<u>11,852,605</u>	<u>14,190,869</u>
Net assets, end of year	<u>\$ 939,856</u>	<u>\$ 2,683,496</u>	<u>\$ 3,623,352</u>	<u>\$ 688,104</u>	<u>\$ 9,639,689</u>	<u>\$ 10,327,793</u>	<u>\$ 13,951,145</u>

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2023

	Program services	General and administrative	Fundraising	Total
Salaries, wages, and fringe benefits	\$ 2,627,345	\$ 448,250	\$ 399,165	\$ 3,474,760
Contracted services	997,372	22,301	23,786	1,043,459
Marketing	269,878	-	22,094	291,972
Depreciation	56,918	26,318	6,845	90,081
Occupancy	267,357	26,661	15,492	309,510
Professional services	-	18,080	-	18,080
Licenses, fees and dues	129,301	17,260	3,617	150,178
Bad debt expense (recovery)	2,650	-	(7,802)	(5,152)
Equipment	184,624	5,309	3,355	193,288
Interest	-	10,759	-	10,759
Other	29,421	10,103	15,494	55,018
Insurance	35,387	772	514	36,673
Total expenses, per Statement of Activities	<u>4,600,253</u>	<u>585,813</u>	<u>482,560</u>	<u>5,668,626</u>
Direct donor benefit, netted against fundraising event revenue	<u>-</u>	<u>-</u>	<u>113,137</u>	<u>113,137</u>
Total functional expenses	<u>\$ 4,600,253</u>	<u>\$ 585,813</u>	<u>\$ 595,697</u>	<u>\$ 5,781,763</u>

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2022

	Program services	General and administrative	Fundraising	Total
Salaries, wages, and fringe benefits	\$ 2,107,856	\$ 477,095	\$ 160,441	\$ 2,745,392
Contracted services	542,652	58,566	206,401	807,619
Marketing	161,156	-	23,948	185,104
Depreciation	72,925	18,710	4,867	96,502
Occupancy	201,306	30,542	7,944	239,792
Professional services	-	45,650	-	45,650
Licenses, fees and dues	64,912	31,120	3,418	99,450
Bad debt expense (recovery)	3,071	-	20,030	23,101
Equipment	66,785	23,514	2,818	93,117
Interest	-	16,242	-	16,242
Other	24,049	19,177	8,995	52,221
Insurance	27,170	1,263	421	28,854
Total expenses, per Statement of Activities	<u>3,271,882</u>	<u>721,879</u>	<u>439,283</u>	<u>4,433,044</u>
Direct donor benefit, netted against fundraising event revenue	<u>-</u>	<u>-</u>	<u>17,098</u>	<u>17,098</u>
Total functional expenses	<u>\$ 3,271,882</u>	<u>\$ 721,879</u>	<u>\$ 456,381</u>	<u>\$ 4,450,142</u>

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF CASH FLOWS
Year ended June 30, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Cash flows from operating activities:			
Change in net assets	\$ (103,290)	\$ 581,695	\$ 478,405
Adjustment to reconcile change in net assets to net cash provided by operating activities:			
Write-off of uncollectible contribution receivable	-	10,435	10,435
Discount on unconditional promises to give	-	3,645	3,645
Contributions restricted to endowment	-	(147,500)	(147,500)
Endowment net investment (return)	(178,339)	(297,091)	(475,430)
Change in value of interest in remainder trust	-	(475,157)	(475,157)
Depreciation expense	90,081	-	90,081
Loss on disposal of property and equipment	3,375	-	3,375
Changes in operating assets and liabilities:			
Accounts receivable - admissions	6,617	-	6,617
Government grants receivable	142,803	-	142,803
Contributions receivable	7,837	196,240	204,077
Prepaid expenses and deposits	692	-	692
Bequests receivable	295,000	(45,000)	250,000
Other assets	(12,008)	-	(12,008)
Accounts payable and accrued expenses	75,509	-	75,509
Deferred revenue	30,785	-	30,785
Net cash provided by (used in) operating activities	<u>359,062</u>	<u>(172,733)</u>	<u>186,329</u>
Cash flows from investing activities:			
Purchase of property and equipment	(170,719)	-	(170,719)
Purchase of certificates of deposit	(500,000)	-	(500,000)
Proceeds from the sale of operating investments	301,271	-	301,271
(Addition to)/withdrawal from endowment	80,286	113,339	193,625
Net cash provided by (used in) investing activities	<u>(289,162)</u>	<u>113,339</u>	<u>(175,823)</u>
Cash flows from financing activities:			
Collection of contributions - endowment	-	147,500	147,500
Net borrowings (repayments) of line of credit	-	-	-
Principal payments on notes payable	(42,174)	-	(42,174)
Net cash provided by (used in) financing activities	<u>(42,174)</u>	<u>147,500</u>	<u>105,326</u>
Net change in cash and cash equivalents	27,726	88,106	115,832
Cash and cash equivalents, beginning of year	<u>1,245,003</u>	<u>250,291</u>	<u>1,495,294</u>
Cash and cash equivalents, end of year	<u>\$ 1,272,729</u>	<u>\$ 338,397</u>	<u>\$ 1,611,126</u>
Supplemental cash flow information - Note 16			

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
STATEMENT OF CASH FLOWS
Year ended June 30, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Cash flows from operating activities:			
Change in net assets	\$ 1,285,088	\$ (1,524,812)	\$ (239,724)
Adjustment to reconcile change in net assets to net cash provided by operating activities:			
Write-off of uncollectible contribution receivable	-	6,435	6,435
Discount on unconditional promises to give	-	10,296	10,296
Contributions restricted to endowment	-	(6,520)	(6,520)
Endowment net investment (return)	298,960	529,331	828,291
Change in value of interest in remainder trust	-	1,362,990	1,362,990
Depreciation expense	96,502	-	96,502
Loss on disposal of property and equipment	-	-	-
Changes in operating assets and liabilities:			
Accounts receivable - admissions	(32,151)	-	(32,151)
Government grants receivable	(3,012)	-	(3,012)
Contributions receivable	(6,763)	(622,798)	(629,561)
Prepaid expenses and deposits	(78,687)	-	(78,687)
Bequests receivable	1,032,032	29,140	1,061,172
Other assets	-	-	-
Accounts payable and accrued expenses	33,697	-	33,697
Deferred revenue	163,576	-	163,576
Net cash provided by (used in) operating activities	<u>2,789,242</u>	<u>(215,938)</u>	<u>2,573,304</u>
Cash flows from investing activities:			
Purchase of property and equipment	(61,703)	-	(61,703)
Purchase of certificates of deposit	(300,302)	-	(300,302)
Proceeds from the sale of operating investments	300,000	-	300,000
(Addition to)/withdrawal from endowment	<u>(2,331,910)</u>	<u>(1,555,602)</u>	<u>(3,887,512)</u>
Net cash provided by (used in) investing activities	<u>(2,393,915)</u>	<u>(1,555,602)</u>	<u>(3,949,517)</u>
Cash flows from financing activities:			
Collection of contributions - endowment	-	6,520	6,520
Net borrowings (repayments) of line of credit	(300,000)	-	(300,000)
Principal payments on notes payable	<u>(39,417)</u>	<u>-</u>	<u>(39,417)</u>
Net cash provided by (used in) financing activities	<u>(339,417)</u>	<u>6,520</u>	<u>(332,897)</u>
Net change in cash and cash equivalents	55,910	(1,765,020)	(1,709,110)
Cash and cash equivalents, beginning of year	<u>1,189,093</u>	<u>2,015,311</u>	<u>3,204,404</u>
Cash and cash equivalents, end of year	<u>\$ 1,245,003</u>	<u>\$ 250,291</u>	<u>\$ 1,495,294</u>

Supplemental cash flow information - Note 16

See Accompanying Notes.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 1 – Organization

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

NOTE 2 – Summary of significant accounting policies

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.

Accounts and grants receivable

Accounts receivable consist of amounts due for scheduled community events and scheduled performances. Grants receivable consist of governmental 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 either June 30, 2023 or 2022.

Promises to give

The Society records unconditional promises to give (contributions receivable) that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Society determines the allowance for uncollectable promises to give 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. Promises to give are written off when deemed uncollectable.

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 noncurrent.

Investments

Investments in marketable securities with readily determinable fair values are stated at their fair values in the statements of financial position. Net investment income/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Certificates of deposits (CDs) are other investments that are not a debt security. CDs 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.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 2 – Summary of significant accounting policies – continued

Property and equipment

Purchased property and equipment in excess of \$5,000 is capitalized at cost. Donated property and equipment is recorded at fair value at the date of the donation. The cost of repairs and maintenance is charged to expense in the year incurred. Depreciation is computed 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

The Society reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The Society has determined that there were no indicators of asset impairment as of either June 30, 2023 or 2022.

Fund accounting and net asset classifications

To ensure observance of limitations and restrictions placed on the use of resources available to the Society, the financial records of the Society are maintained on the accrual basis of accounting utilizing “fund accounting” and by applying the provisions of the State of Arizona’s Management of Charitable Funds Act to endowment funds. Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specific activities and objectives. Separate accounts are maintained for each fund.

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 restrictions. The Board of Trustees has designated, from net assets without donor restrictions, net assets for a board-designated quasi-endowment and a board-designated operating reserve.

Net assets with donor restrictions – Net assets subject to donor (or grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the 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. 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.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 2 – Summary of significant accounting policies – continued

Endowments

The Society's endowment consists of eleven donor-restricted funds established for a variety of purposes, and one quasi-endowment of net assets without donor restrictions, designated by the Board of Trustees. 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.

The State of Arizona adopted the Management of Charitable Funds Act (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 donor-restricted endowment funds.

The accumulated investment earnings on donor-restricted funds are 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 and other applicable law.

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

- (1) The duration and preservation of the fund
- (2) The purposes of the Society 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 Society
- (7) The investment policies of the Society

Revenue and revenue recognition

Season ticket revenue is recognized during the related concert season. Season ticket revenue collected prior to year-end and applicable to the following season is recorded as deferred revenue. Payments received prior to year-end for future community contract engagements are recorded as deferred revenue, and the related contract income is recognized as the contract engagements are performed.

Fundraising events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Society recognizes fundraising events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Society recognizes the contribution element of fundraising event revenue immediately, unless there is a right of return if the special event does not take place.

All goods and services are transferred at a point in time.

The Society recognizes contributions when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Consequently, at June 30, 2023 and 2022, conditional grants totaling \$0 and \$36,650, respectively, have not been recognized as revenue in the accompanying financial statements.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 2 – Summary of significant accounting policies – continued

In-kind contributions

Contributed nonfinancial assets include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. The Society does not sell donated gifts-in-kind. Contributed goods are recorded at fair value at the date of donation. Any contributions of such goods or services received during the years ended June 30, 2023 and 2022 were not material to the financial statements taken as a whole.

Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although the Society's volunteers contribute significant amounts of time to program services, administration and fundraising activities, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles.

Functional allocation of expenses

The Society allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified to a specific functional area are allocated directly according to their natural classification. Certain other expenses are allocated among the program services and supporting services benefited. Allocation methodologies include a time study for certain employee wages split between program and support services, allocations by square footage occupied for shared building and depreciation expenses, full-time equivalent (FTE) allocation of services, equipment and supplies used, and a headcount allocation of insurance expenses. Wages and contracted expenses for accounting, payroll, human resources, and professional services remain in the General and Administrative functional area and are not allocated to programs.

Advertising

The Society does not participate in direct-response advertising which requires the capitalization and amortization of related costs. For the years ended June 30, 2023 and 2022 advertising costs totaled \$221,826 and \$113,563, respectively, included in marketing expense in the accompanying statements of functional expenses.

Operating leases

The Society leases certain office equipment at various terms under long-term non-cancelable operating lease agreements. The leases expire at various dates through 2028. In addition, the equipment operating lease agreement requires the Society to pay usage fees.

During the year ended June 30, 2023, the Society adopted Accounting Standards Update (ASU) No. 2016-02, *Leases*, which requires lessees to recognize leases with terms of twelve months or more on the statement of financial position and disclose key information about leasing arrangements. The Society has elected to use a modified retrospective transition approach as of the effective date of the standard (July 1, 2022), with a cumulative-effect adjustment to net assets in the amount of \$0.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 2 – Summary of significant accounting policies – continued

The weighted-average discount rate is based on the discount rate implicit in the lease. The Society has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Society has applied the risk-free rate option to the office equipment class of assets.

The Society has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. In addition, immaterial assets and liabilities are not recognized for long-term leases. Lease payments for these leases are recognized on straight-line basis.

The Society has elected the practical expedient to not separate lease and non-lease components for equipment leases.

Income tax status

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

Management of the Society considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the organization's status as a not-for-profit entity. Management believes that the Society met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax, therefore, no provision for income taxes has been provided in these financial statements. Accordingly, the Society has not filed an *Exempt Organization Business Income Tax Return* (Form 990-T) with the Internal Revenue Service (IRS) for either of the years ended June 30, 2023 or 2022.

Use of estimates

The preparation 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 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.

Fair value measurements

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset or liability. A fair value hierarchy distinguishes between market participant assumptions and the Society's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the Society's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. They include quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or inputs (interest rates, currency exchange rates, commodity rates or yield curves) that are

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 2 – Summary of significant accounting policies – continued

observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. These inputs reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Financial instruments and credit risk

The Society maintains cash in bank deposit accounts with financial institutions believed to be creditworthy. The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. At times, amounts on deposit may exceed federally insured limits. As of June 30, 2023, there was no insured cash. To date, the Society has not experienced losses in any of these accounts.

Cash and 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. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Trustees. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Board of Trustees believes that the investment policies and guidelines are prudent for the long-term welfare of the organization. Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that such changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Credit risk associated with receivables is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Trustees and others supportive of the Society's mission; however, there is a potential credit risk and accounting loss that could occur if all parties to the receivables fail to perform their obligations for the stated amounts.

Reclassifications

Certain items from the 2022 financial statements have been reclassified to conform to the 2023 financial statement presentation.

NOTE 3 – Liquidity, availability and sustainability

Trustee-designated amounts consist of funds designated by the Board as a quasi-endowment and an operating reserve. Although the Society intends to hold the board-designated endowment in perpetuity (other than amounts appropriated for expenditure as part of the Board's annual budget - See Note 10), the Board has the discretion to make these funds available for operations, if necessary, as the quasi-endowment is made up of unrestricted financial resources. The designated operating reserve is subject to internal purpose restrictions and is also made up of unrestricted financial resources.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 3 – Liquidity, availability and sustainability – continued

Endowments with donor restrictions on the use of earnings are not available for general expenditure. Earnings on endowments not restricted by donors are available for expenditure in accordance with the spending policy of the Society.

The Society maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Society maintains a line of credit in the amount of \$500,000 that can be drawn upon as needed to manage cash flow.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, follow on June 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,272,729	\$ 1,245,003
Accounts and grants receivable	250,855	400,275
Contributions receivable, current	27,627	35,464
Certificates of deposit	500,000	301,271
Bequests receivable	70,000	365,000
Investments	<u>2,141,549</u>	<u>2,043,496</u>
	4,262,760	4,390,509
Less: Trustee-designated net assets:		
Operating reserves	(587,601)	(640,000)
Quasi-endowment	<u>(2,141,549)</u>	<u>(2,043,496)</u>
	<u>(2,729,150)</u>	<u>(2,683,496)</u>
	<u>\$ 1,533,610</u>	<u>\$ 1,707,013</u>

NOTE 4 – Contributions receivable

The Society has an ongoing campaign to help raise funds for current and future symphony seasons. The balances due related to this campaign are scheduled to be paid in future years as follows at June 30, 2023:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		<u>Total</u>
		<u>Time & purpose restrictions</u>	<u>Endowment</u>	
Year ended June 30, 2024	\$ 27,627	\$ 280,500	\$ -	\$ 308,127
2025	-	240,000	-	240,000
2026	-	-	-	-
	<u>27,627</u>	<u>520,500</u>	<u>-</u>	<u>548,127</u>
Interest at 3.92%	-	(14,088)	-	(14,088)
Allowance for uncollectible amounts	-	<u>(12,000)</u>	<u>-</u>	<u>(12,000)</u>
	<u>27,627</u>	<u>494,412</u>	<u>-</u>	<u>522,039</u>
Less: current portion	<u>(27,627)</u>	<u>(280,500)</u>	<u>-</u>	<u>(308,127)</u>
Non-current portion, net	<u>\$ -</u>	<u>\$ 213,912</u>	<u>\$ -</u>	<u>\$ 213,912</u>

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 4 – Contributions receivable – continued

Contributions receivable are scheduled to be paid in future years as follows at June 30, 2022:

	Without donor restrictions	With donor restrictions		Total
		Time & purpose restrictions	Endowment	
Year ended June 30, 2023	\$ 35,464	\$ 296,200	\$ -	\$ 331,664
2024	-	243,700	-	243,700
2025	-	205,000	-	205,000
	<u>35,464</u>	<u>744,900</u>	<u>-</u>	<u>780,364</u>
Interest at 3.92%	-	(17,733)	-	(17,733)
Allowance for uncollectible amounts	<u>-</u>	<u>(22,435)</u>	<u>-</u>	<u>(22,435)</u>
	35,464	704,732	-	740,196
Less: current portion	<u>(35,464)</u>	<u>(296,200)</u>	<u>-</u>	<u>(331,664)</u>
Non-current portion, net	<u>\$ -</u>	<u>\$ 408,532</u>	<u>\$ -</u>	<u>\$ 408,532</u>

See Note 11 for fair value measurements.

NOTE 5 – 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, 2023 and 2022 consist of investments in the amount of \$171,745 and \$166,236, 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 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. 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, 2023 and 2022 are \$6,427,528 and \$5,957,880, respectively, and are reported net of the estimated discount to net present value of \$1,602,566 and \$1,307,088 respectively. See Note 11 for fair value measurements.

NOTE 6 – Line of credit

The Society had a revolving line of credit with a maximum borrowing amount of \$300,000. The line of credit expired in April 20, 2023 and was not renewed. It was secured with a certificate of deposit in the amount of \$300,000. Interest was payable monthly at a fixed rate of 3.15%.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 7 – Property and equipment

Property and equipment at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Building and improvements	\$ 1,634,338	\$ 1,521,339
Concert equipment	272,551	333,140
Computer equipment and software	99,821	128,132
Office furniture and equipment	11,626	19,848
Musical instruments	371,222	371,814
Music library	173,046	163,898
	<u>2,562,604</u>	<u>2,538,171</u>
Less: accumulated depreciation	<u>(1,906,642)</u>	<u>(1,959,472)</u>
	<u>\$ 655,962</u>	<u>\$ 578,699</u>

NOTE 8 – Note payable

The Society has a note payable to a bank collateralized by the Society's building. In January 2022, the variable interest rate was modified to a fixed interest rate of 3.99% per annum. Payments are due in monthly installments of \$4,411. Final payment is due in July 2028. The outstanding balance at June 30, 2023 and 2022 was \$242,935 and \$285,109, respectively. Required principal payments on the note payable are as follows:

Year ending June 30, 2024	\$	43,887
2025		45,720
2026		47,605
2027		49,567
2028		56,156
		<u>242,935</u>
Less: current portion		<u>(43,887)</u>
Non-current portion	\$	<u>199,048</u>

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 9 – Net assets with donor restrictions

Net assets with donor restrictions were as follows for the year ended June 30, 2023:

	Beginning balance	Contributions/	Net investment income (loss)	Releases	Ending balance
Specified purpose:					
Concert sponsorship	\$ 125,000	\$ 25,000	\$ -	\$ (125,000)	\$ 25,000
Cotillion Ball	19,000	30,000	-	(19,000)	30,000
Capital repairs	31,000	-	-	(25,000)	6,000
Other	15,732	2,000	-	(15,733)	1,999
	<u>190,732</u>	<u>57,000</u>	<u>-</u>	<u>(184,733)</u>	<u>62,999</u>
Timing -					
Future symphony seasons	<u>686,633</u>	<u>180,080</u>	<u>-</u>	<u>(268,100)</u>	<u>598,613</u>
Endowments:					
Subject to appropriation and expenditure (purpose):					
Accumulated earnings on endowment gifts	(189,261)	-	297,091	(122,300)	(14,470)
Not subject to spending policy and appropriation:					
Gifts - investments	3,515,573	147,500	-	-	3,663,073
Gifts - beneficial interest In trusts	6,124,116	-	475,157	-	6,599,273
	<u>9,639,689</u>	<u>147,500</u>	<u>475,157</u>	<u>-</u>	<u>10,262,346</u>
Total endowments	<u>9,450,428</u>	<u>147,500</u>	<u>772,248</u>	<u>(122,300)</u>	<u>10,247,876</u>
	<u>\$ 10,327,793</u>	<u>\$ 384,580</u>	<u>\$ 772,248</u>	<u>\$ (575,133)</u>	<u>\$ 10,909,488</u>

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 9 – Net assets with donor restrictions – continued

Net assets with donor restrictions were as follows for the year ended June 30, 2022:

	Beginning balance	Contributions/	Net investment income (loss)	Releases	Ending balance
Specified purpose:					
Concert sponsorship	\$ 54,924	\$ 125,000	\$ -	\$ (54,924)	\$ 125,000
Cotillion Ball	-	19,000	-	-	19,000
Capital repairs	6,000	25,000	-	-	31,000
Other	-	15,732	-	-	15,732
	<u>60,924</u>	<u>184,732</u>	<u>-</u>	<u>(54,924)</u>	<u>190,732</u>
Timing -					
Future symphony seasons	<u>247,118</u>	<u>686,103</u>	<u>-</u>	<u>(246,588)</u>	<u>686,633</u>
Endowments:					
Subject to appropriation and expenditure (purpose):					
Accumulated earnings on endowment gifts	548,388	-	(529,331)	(208,318)	(189,261)
Not subject to spending policy and appropriation:					
Gifts - investments	3,509,069	6,520	-	(16)	3,515,573
Gifts - beneficial interest In trusts	<u>7,487,106</u>	<u>-</u>	<u>(1,362,990)</u>	<u>-</u>	<u>6,124,116</u>
	<u>10,996,175</u>	<u>6,520</u>	<u>(1,362,990)</u>	<u>(16)</u>	<u>9,639,689</u>
Total endowments	<u>11,544,563</u>	<u>6,520</u>	<u>(1,892,321)</u>	<u>(208,334)</u>	<u>9,450,428</u>
	<u>\$ 11,852,605</u>	<u>\$ 877,355</u>	<u>\$ (1,892,321)</u>	<u>\$ (509,846)</u>	<u>\$ 10,327,793</u>

NOTE 10 – Endowments

Funds with deficiencies

The Act permits spending from underwater endowments in accordance with prudent measures required under law. Deficiencies of \$14,470 and \$189,261 were reported in net assets with donor restrictions as of June 30, 2023 and 2022, respectively.

Investment return objectives, risk parameters and strategies

The Society has adopted investment and spending policies for endowment assets with the objective of providing a predictable stream of funding to operations while also maintaining the purchasing power of the Endowment Funds over the long-term.

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, while growing the funds if possible.

The Society's goal is for its endowment assets, over time, to produce an average rate of return of at least 5% above inflation on a 5-year rolling average. Actual returns in any given year may vary from this amount. Investment risk is measured by the standard deviation of the portfolio over a three- and five-year period with a goal of no more than 12.6%.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 10 – Endowments – continued

Spending policies

The Society has a policy of appropriating for distribution each year 5% of its donor-restricted 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 and the possible effects of inflation. Unrestricted quasi-endowments generally follow the same spending policy with the purpose to support annual operations.

Loans

During the year ended June 30, 2020, one of the Society's endowment donors agreed to allow a temporary spending from their original endowment gifts for operating support. This 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, 2025 until repaid. As of June 30, 2023, none of these funds had been disbursed to operations.

Changes in endowment net assets consisted of the following for the year ended June 30, 2023:

	Without donor restrictions	With donor restrictions	Total
Balance, beginning of year	\$ 2,043,496	\$ 9,450,428	\$ 11,493,924
Contributions	-	147,500	147,500
Investment return, net	178,339	297,091	475,430
Change in value of trust	-	475,157	475,157
Appropriations/releases	(80,286)	(122,300)	(202,586)
Balance, end of year	<u>\$ 2,141,549</u>	<u>\$ 10,247,876</u>	<u>\$ 12,389,425</u>

Changes in endowment net assets consisted of the following for the year ended June 30, 2022:

	Without donor restrictions	With donor restrictions	Total
Balance, beginning of year	\$ 1,396,341	\$ 11,544,563	\$ 12,940,904
Contributions	946,115	6,520	952,635
Investment return, net	(298,960)	(529,331)	(828,291)
Change in value of trust	-	(1,362,990)	(1,362,990)
Appropriations/releases	-	(208,334)	(208,334)
Balance, end of year	<u>\$ 2,043,496</u>	<u>\$ 9,450,428</u>	<u>\$ 11,493,924</u>

Endowment fund assets consisted of the following at June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 171,197	\$ 77,658
Bequests receivable	45,000	-
Investments	5,573,955	5,292,150
Beneficial interest in trusts	6,599,273	6,124,116
	<u>\$ 12,389,425</u>	<u>\$ 11,493,924</u>

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 11 – Fair value measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ <u>5,573,955</u>	\$ <u>-</u>	\$ <u>5,573,955</u>
Beneficial interest in trusts	\$ <u>-</u>	\$ <u>6,599,273</u>	\$ <u>6,599,273</u>

The fair value of assets measured on a recurring basis at June 30, 2022 are the following:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ <u>5,292,150</u>	\$ <u>-</u>	\$ <u>5,292,150</u>
Beneficial interest in trusts	\$ <u>-</u>	\$ <u>6,124,116</u>	\$ <u>6,124,116</u>

Activity measured on a recurring basis for Level 3 investments consisted of the following for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 6,124,116	\$ 7,487,106
Change in value of trust	<u>475,157</u>	<u>(1,362,990)</u>
Balance, end of year	\$ <u>6,599,273</u>	\$ <u>6,124,116</u>

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

	<u>Level 3</u>	
	<u>2023</u>	<u>2022</u>
Assets:		
Contributions receivable	\$ <u>522,039</u>	\$ <u>740,196</u>

Valuation techniques

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. There have been no changes in the methodologies used at June 30, 2023 and 2022.

The following is a description of the valuation methodologies used for assets measured at fair value.

- *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.

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 11 – Fair value measurements – continued

- *Beneficial interests in remainder trusts*: Valued at the fair value of the underlying investments as reported by the third party.
- *Contributions receivable*: Initially valued using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

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.

NOTE 12 – 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, 2023 and 2022, the Society contributed \$17,592 and \$9,415, respectively, to the Plan.

NOTE 13 – Operating leases

Total operating lease costs for office equipment were \$26,824 and \$15,784 for the years ended June 30, 2023 and 2022, respectively. The weighted-average remaining lease term was 3.5 years at June 30, 2023. The weighted-average discount rate was 3.65% at June 30, 2023. The future minimum lease payments under noncancelable operating leases with terms greater than one year are as follows:

Year ending June 30, 2024	\$	24,588
2025		24,588
2026		24,588
2027		4,651
2028		3,488
Total lease payments		81,903
Less interest		(9,065)
	\$	72,838

NOTE 14 – Employee retention credits

The Society qualified for the Employee Retention Credit (“ERC”) during the year ended June 30, 2022. The ERC is a credit against certain payroll taxes allowed to an eligible employer for qualifying wages. It was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and further amended by the Consolidated Appropriations Act (CAA) and the American Rescue Plan (ARP). The Society recorded \$0 and \$262,719 in ERC revenue, included in government grant revenue, during the years ended June 30, 2023 and 2022, respectively, and had receivables of \$208,598 and \$264,228 related to the ERC at June 30, 2023 and 2022, respectively.

NOTE 15 – Concentrations of revenue

The Society has participated in various COVID-19 pandemic-related federal assistance programs. One-time funding from these sources was \$756,723 and \$1,220,802 for the years ended June 30, 2023 and 2022, respectively. A significant reduction in this level of support, if it were to occur, would have a

TUCSON SYMPHONY SOCIETY
NOTES TO FINANCIAL STATEMENTS – continued
June 30, 2023 and 2022

NOTE 15 – Concentrations of revenue – continued

material effect on the programs and activities of the Society. The governmental agency funding is subject to compliance audits. Assessments from these audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

NOTE 16 – Supplemental cash flow information

Cash paid for interest was \$10,759 and \$16,242 during the years ended June 30, 2023 and 2022, respectively. No cash was paid for income taxes during either of the years ended June 30, 2023 or 2022. Reinvested dividends were \$129,513 and \$54,644 during the years ended June 30, 2023 and 2022, respectively.

NOTE 17 – Subsequent events

Subsequent to year-end, the Society signed a note payable to a financing company in the amount of \$252,856 for the purchase of a solar system. Payments are due in monthly installments of \$1,937 for a term of 10 years beginning on the earlier of the installation date of the Solar System or 18 months from the first funding distributions to the solar installer, including interest at 4.99% per annum. A balloon payment in the amount of \$77,500 is due within two years, upon the receipt of a direct-pay tax credit.

Subsequent to year-end, the Society has entered into a revolving line of credit with a maximum borrowing amount of \$500,000. The line of credit has no stated maturity date and is secured by the Society's real property. Interest will be payable at a variable rate of 1.5% above the prime rate.

Subsequent events have been evaluated through December 14, 2023 which is the date the financial statements were available to be issued.



JENNIFER J. PHILLIPS, CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATE-
MENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Tucson Symphony Society
Tucson, Arizona

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Tucson Symphony Society (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated December 14, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Tucson Symphony Society's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tucson Symphony Society's internal control. Accordingly, I do not express an opinion on the effectiveness of Tucson Symphony Society's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses and significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tucson Symphony Society's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jennifer J. Phillips, CPA, PLLC

JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona
December 14, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
Tucson Symphony Society
Tucson, Arizona

Report on Compliance for Each Major Federal Program

Opinion on each major federal program

I have audited Tucson Symphony Society's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Tucson Symphony Society's major federal programs for the year ended June 30, 2023. Tucson Symphony Society's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In my opinion, Tucson Symphony Society complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for opinion on each major federal program

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

I am required to be independent of Tucson Symphony Society and to meet my other ethical responsibilities, in accordance with relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on compliance for each major federal program. My audit does not provide a legal determination Tucson Symphony Society's compliance with the compliance requirements referred to above.

Responsibilities of management for compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Tucson Symphony Society's federal programs.

Auditor's responsibilities for the audit of compliance

My objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an

opinion on Tucson Symphony Society's compliance based on my audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on Tucson Symphony Society's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Tucson Symphony Society's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- Obtain an understanding of Tucson Symphony Society's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Tucson Symphony Society's internal control over compliance. Accordingly, no such opinion is expressed.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that I identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during my audit I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined

Board of Trustees
Tucson Symphony Society
Page 3

above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

My audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Jennifer J. Phillips, CPA, PLLC". The signature is written in a cursive, flowing style.

JENNIFER J. PHILLIPS, CPA, PLLC

Tucson, Arizona
December 14, 2023

TUCSON SYMPHONY SOCIETY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:
 No material weaknesses identified.
 No significant deficiencies identified.

No noncompliance material to financial statements noted.

Federal awards

Internal control over major programs:
 No material weaknesses identified.
 No significant deficiencies identified.

Type of auditor’s report issued on compliance for major programs: Unmodified

No audit findings disclosed as required to be reported in accordance
with 2 CFR section 200.516(a)

Identification of major programs:

21.027 Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Auditee did not qualify as a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

TUCSON SYMPHONY SOCIETY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

Federal Grantor/Pass-through grantor Program Title	Assistance Listing number	Additional Award ID	Grant/FAIN number	Federal Expenditures
<u>U.S. Department of Treasury</u>				
<i>Passed through State of Arizona:</i>				
Coronavirus state and local fiscal recovery fund	21.027	COVID-19	GR-ARPA-102022-25	\$ 750,000
<u>National Endowment for the Humanities</u>				
<i>Passed through Arizona Commission on the Arts:</i>				
Promotion of the Arts Partnership Agreements	45.025	N/A	23763163	41,000
<u>U.S. Department of Homeland Security</u>				
<i>Passed through State of Arizona:</i>				
Disaster Grants - Public Assistance	97.036	COVID-19	FEMA-4524-DR-AZ	<u>6,723</u>
				<u>\$ 797,723</u>

NOTE 1: Basis of presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Organization under programs of federal, state and local governments for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2: Summary of significant accounting policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) The Organization has elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE 3: Other information

No amounts were paid to subrecipients, and no assistance listing numbers belonged to part of a cluster.

TUCSON SYMPHONY SOCIETY
SUMMARY OF PRIOR YEAR FINDINGS
Year ended June 30, 2023

FINDINGS/NON-COMPLIANCE

None