

**Traverse Symphony Orchestra**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

August 31, 2019 and 2018

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Traverse Symphony Orchestra

We have audited the accompanying financial statements of *Traverse Symphony Orchestra* (the "Orchestra"), which comprise the statements of financial position as of August 31, 2019 and 2018, and the related statements of activities 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 Orchestra'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 Orchestra'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 Traverse Symphony Orchestra as of August 31, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Note A to the financial statements, the Orchestra adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* for the years ended August 2019 and 2018. Our opinion is not modified with respect to this matter.

*Dennis, Gartland & Niergarth*

January 17, 2020

# Traverse Symphony Orchestra

## STATEMENTS OF FINANCIAL POSITION

August 31,

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 43,882	\$ 35,169
Accounts receivable	77,232	97,710
Pledges receivable	92,710	6,950
Prepaid expenses	<u>32,467</u>	<u>49,368</u>
Total current assets	246,291	189,197
<b>PROPERTY AND EQUIPMENT, net</b>	<u>2,450</u>	<u>4,372</u>
<b>OTHER ASSETS</b>		
Investments	<u>459,477</u>	<u>432,548</u>
Total assets	<u><u>\$ 708,218</u></u>	<u><u>\$ 626,117</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 40,217	\$ 18,549
Line of credit	145,000	95,000
Deferred revenue	<u>172,403</u>	<u>167,832</u>
Total liabilities	<u>357,620</u>	<u>281,381</u>
<b>NET ASSETS</b>		
Net (deficit) assets without donor restrictions		
Undesignated	(198,959)	(112,165)
Board designated	<u>190,781</u>	<u>194,512</u>
Total net assets without donor restrictions	(8,178)	82,347
Net assets with donor restrictions		
Endowments - time and purpose	43,176	46,789
Endowments - perpetual in nature	250,600	215,600
Endowment pledges - perpetual in nature	<u>65,000</u>	<u>-</u>
Total net assets with donor restrictions	<u>358,776</u>	<u>262,389</u>
Total net assets	<u>350,598</u>	<u>344,736</u>
Total liabilities and net assets	<u><u>\$ 708,218</u></u>	<u><u>\$ 626,117</u></u>

The accompanying notes are an integral part of these financial statements.

# Traverse Symphony Orchestra

## STATEMENT OF ACTIVITIES

Year Ended August 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES, GAINS AND SUPPORT</b>			
Support			
Annual fund	\$ 244,647	\$ -	\$ 244,647
Endowment and grants	44,073	100,000	144,073
Sponsorship	50,490	-	50,490
Fundraising events, net of direct expenses of \$59,691	82,916	-	82,916
Performances	201,294	-	201,294
Advertising, tuition and contracted services	35,949	-	35,949
Interest, dividends, realized and unrealized gains/(losses), net of investments fees of \$3,615	(16,709)	9,371	(7,338)
Assets released from restrictions	<u>12,984</u>	<u>(12,984)</u>	<u>-</u>
Total revenue, gains and support	<u>655,644</u>	<u>96,387</u>	<u>752,031</u>
<b>EXPENSES</b>			
Program services	593,581	-	593,581
Management and general	99,656	-	99,656
Fundraising	<u>52,932</u>	<u>-</u>	<u>52,932</u>
Total expenses	<u>746,169</u>	<u>-</u>	<u>746,169</u>
<b>CHANGE IN NET ASSETS</b>	(90,525)	96,387	5,862
<b>NET ASSETS, beginning of year</b>	<u>82,347</u>	<u>262,389</u>	<u>344,736</u>
<b>NET (DEFICIT) ASSETS, end of year</b>	<u><u>\$ (8,178)</u></u>	<u><u>\$ 358,776</u></u>	<u><u>\$ 350,598</u></u>

The accompanying notes are an integral part of these financial statements.

# Traverse Symphony Orchestra

## STATEMENT OF ACTIVITIES

Year Ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS AND SUPPORT</b>			
Support			
Annual fund	\$ 232,252	\$ -	\$ 232,252
Endowment and grants	82,900	-	82,900
Sponsorship	66,338	-	66,338
Fundraising events, net of direct expenses of \$23,645	72,884	-	72,884
Performances	191,095	-	191,095
Advertising, tuition and contracted services	36,633	-	36,633
Interest, dividends, realized and unrealized gains/(losses), net of investment fees of \$4,669	(6,167)	20,593	14,426
Assets released from restrictions	12,395	(12,395)	-
Total revenue, gains and support	688,330	8,198	696,528
<b>EXPENSES</b>			
Program services	587,663	-	587,663
Management and general	117,271	-	117,271
Fundraising	56,327	-	56,327
Total expenses	761,261	-	761,261
<b>CHANGE IN NET ASSETS</b>	(72,931)	8,198	(64,733)
<b>NET ASSETS, beginning of year</b>	155,278	254,191	409,469
<b>NET ASSETS, end of year</b>	\$ 82,347	\$ 262,389	\$ 344,736

The accompanying notes are an integral part of these financial statements.

# Traverse Symphony Orchestra

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2019

	Program Services	Management and General	Fundraising	Total
Wages and salaries	\$ 71,212	\$ 22,851	\$ 46,834	\$ 140,897
Payroll taxes	5,485	2,855	3,628	11,968
Employee benefits	6,875	926	2,470	10,271
Concert expenses	357,477	-	34,495	391,972
Orchestra personnel	89,167	-	-	89,167
Advertising and promotion	58,102	-	2,142	60,244
Fundraising	-	-	19,608	19,608
Office building lease	-	16,500	-	16,500
Interest	-	11,637	-	11,637
Accounting	-	8,500	-	8,500
Development	3,341	-	3,203	6,544
Insurance	-	4,754	-	4,754
Bad debt	-	4,719	-	4,719
Investment fees	-	3,615	-	3,615
Information technology	-	3,240	-	3,240
Telephone	-	3,158	-	3,158
Worker's compensation	-	2,963	-	2,963
Equipment leases	-	2,592	-	2,592
Parking	-	2,496	-	2,496
Dues and subscriptions	-	2,456	-	2,456
Postage	-	1,963	230	2,193
Depreciation	1,922	-	-	1,922
Office expenses	-	1,743	13	1,756
Storage	-	1,632	-	1,632
Internet	-	1,217	-	1,217
Payroll service	-	903	-	903
Miscellaneous	-	2,551	-	2,551
Total expense by function	593,581	103,271	112,623	809,475
Less expenses included with revenues on the statement of activities				
Investment fees	-	(3,615)	-	(3,615)
Direct fundraising event expenses	-	-	(59,691)	(59,691)
Total expenses included in the expense section of the statement of activities	\$ 593,581	\$ 99,656	\$ 52,932	\$ 746,169

The accompanying notes are an integral part of these financial statements.



# Traverse Symphony Orchestra

## STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2018

	Program Services	Management and General	Fundraising	Total
Wages and salaries	\$ 74,008	\$ 46,711	\$ 49,428	\$ 170,147
Payroll taxes	6,234	4,022	4,196	14,452
Employee benefits	6,088	3,127	2,703	11,918
Concert expenses	337,119	-	-	337,119
Orchestra personnel	88,825	-	-	88,825
Advertising and promotion	66,211	-	-	66,211
Fundraising	-	-	17,154	17,154
Office building lease	-	16,500	-	16,500
Development	7,043	-	6,491	13,534
Accounting	-	8,500	-	8,500
Interest	-	5,457	-	5,457
Investment fees	-	4,669	-	4,669
Insurance	-	4,624	-	4,624
Worker's compensation	-	3,119	-	3,119
Information technology	-	3,035	-	3,035
Parking	-	2,881	-	2,881
Dues and subscriptions	-	2,725	-	2,725
Equipment leases	-	2,639	-	2,639
Telephone	-	2,595	-	2,595
Office expenses	-	2,366	-	2,366
Depreciation	2,135	-	-	2,135
Postage	-	2,080	-	2,080
Storage	-	1,536	-	1,536
Internet	-	1,164	-	1,164
Payroll service	-	724	-	724
Miscellaneous	-	3,466	-	3,466
Total expense by function	587,663	121,940	79,972	789,575
Less expenses included with revenues on the statement of activities				
Investment fees	-	(4,669)	-	(4,669)
Direct fundraising event expenses	-	-	(23,645)	(23,645)
Total expenses included in the expense section of the statement of activities	\$ 587,663	\$ 117,271	\$ 56,327	\$ 761,261

The accompanying notes are an integral part of these financial statements.

# Traverse Symphony Orchestra

## STATEMENTS OF CASH FLOW

Years Ended August 31,

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,862	\$ (64,733)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,922	2,135
Realized and unrealized gain on investments	2,503	(8,357)
Changes in operating assets and liabilities		
Accounts receivable	20,478	(25,453)
Pledges receivable	(85,760)	-
Prepaid expenses	16,901	(3,483)
Accounts payable and accrued expenses	21,668	(10,624)
Deferred revenue	<u>4,571</u>	<u>(10,308)</u>
Net cash from operating activities	<u>(11,855)</u>	<u>(120,823)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	17,627	16,847
Purchase of investments, net of fees	(47,059)	(16,172)
Acquisition of property and equipment	<u>-</u>	<u>(5,000)</u>
Net cash flows from investing activities	<u>(29,432)</u>	<u>(4,325)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings on line of credit	<u>50,000</u>	<u>95,000</u>
<b>NET CHANGE IN CASH</b>	8,713	(30,148)
Cash and cash equivalents, beginning of year	<u>35,169</u>	<u>65,317</u>
Cash and cash equivalents, end of year	<u>\$ 43,882</u>	<u>\$ 35,169</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 11,637</u>	<u>\$ 5,457</u>

The accompanying notes are an integral part of these financial statements.

# Traverse Symphony Orchestra

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Business Activity*

Traverse Symphony Orchestra (the "Orchestra") is organized to promote and increase the musical knowledge and music appreciation of the public, especially in the Grand Traverse area of Michigan and surrounding region, through educational activities and musical performances.

#### *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions and restrictions imposed by specific fund agreements. Accordingly, under FASB ASU 2016-14, net assets of the Orchestra and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** - Net assets that are not subject to or are no longer subject to donor-imposed stipulations.

**Net Assets With Donor Restrictions** - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

#### *Support*

Annual campaign contributions and grants are generally net assets without donor restrictions unless specifically restricted by the donor. Unconditional promises to give are recorded at the time the promise is made at their net realizable value. The majority of the promises to give are received from a broad base of Grand Traverse Region contributors as a result of the annual campaign.

Grants and other contributions of cash and other assets are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Orchestra has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

***Revenue***

Earned revenue comprises performances, sponsorships, program advertising, concession sales, and Civic Ensemble fees and tuition. Earned revenue is reported as net assets without donor restrictions at the time goods and services are delivered.

***Cash and Cash Equivalents***

For the purposes of the statement of cash flow, the Orchestra considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

***Investments***

Investments are reported at fair value. All amounts are uninsured and are subject to market fluctuations. Realized and unrealized gains and losses and other investment earnings are included in the statements of activities as changes in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

***Pledges Receivable***

Unconditional promises to give are stated at the amount management expects to collect from balances outstanding. All amounts are expected to be received within one year. Management has reviewed the balances that comprise the various categories of promises to give and has assessed the collectibility of such balances. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made. For the years ended August 31, 2019 and 2018, there were no pledges deemed uncollectible.

***Allowance for Doubtful Accounts***

The Orchestra considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded.

***Property and Equipment***

Property and equipment are stated at cost, if purchased. Purchased assets of \$1,000 or more are capitalized. Donations of property and equipment are recorded as support at estimated fair value at the time received. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Orchestra reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

***Deferred Revenue***

Deferred revenue consists of amounts received in advance related to future season performances. The amounts are recognized as the performances occur.

***Advertising***

All advertising costs have been treated as expenses by the Orchestra since there was no direct response advertising. Nondirect-response advertising costs are expensed as incurred. Advertising expense was \$28,742 and \$30,255 for the years ended August 31, 2019 and 2018, respectively.

***Income Taxes***

The Internal Revenue Service has determined the Orchestra to be exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation.

The Orchestra files information returns in the U.S. Federal jurisdiction. With few exceptions, the Orchestra is no longer subject to U.S. Federal examinations by tax authorities for years before August 31, 2016.

***Reclassifications***

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

***Use of Estimates in the Preparation of Financial Statements***

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 amounts could differ from those estimates.

***Subsequent Events***

The Orchestra has evaluated subsequent events and transactions for potential recognition and disclosure through January 17, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE B - LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position, are comprised of the following at August 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 43,882	\$ 35,169
Accounts receivable	77,232	97,710
Pledges receivable	<u>92,710</u>	<u>6,950</u>
Total financial assets	213,824	139,829
Less those unavailable for general expenditures within one year, due to:		
Pledged donor contributions restricted in perpetuity	<u>(65,000)</u>	<u>-</u>
Totals	<u>\$ 148,824</u>	<u>\$ 139,829</u>

Additionally, at August 31, 2019 the Orchestra has available \$115,000 of its \$260,000 line of credit that can be drawn upon, should the need arise (see Note G), and an Endowment which provides resources for the annual operating budget (see Note E).

**NOTE C - DEPOSITS**

The Orchestra maintains its cash in bank deposit accounts at various financial institutions. The balances, at times, may exceed Federally insured limits. At August 31, 2019 and 2018, there were no amounts in excess of Federally insured limits.

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NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE D - INVESTMENTS**

Investments held by the Traverse Symphony Orchestra are stated at fair value.

Investments consist of the following at August 31:

	2019		
	Cost	Market	Accumulated Unrealized Appreciation (Depreciation)
Bond mutual funds	\$ 306,966	\$ 314,745	\$ 7,779
Equity mutual funds	132,174	144,732	12,558
Totals	<u>\$ 439,140</u>	<u>\$ 459,477</u>	<u>\$ 20,337</u>
	2018		
	Cost	Market	Accumulated Unrealized Appreciation (Depreciation)
Bond mutual funds	\$ 154,141	\$ 149,844	\$ (4,297)
Equity mutual funds	228,994	282,704	53,710
Totals	<u>\$ 383,135</u>	<u>\$ 432,548</u>	<u>\$ 49,413</u>

**NOTE E - ENDOWMENTS**

The Traverse Symphony Orchestra has an investment policy which includes asset allocation targets, as well as a spending policy for endowment funds. The Orchestra expects the current policies to allow its general endowment fund to grow over the long term. This is consistent with the Orchestra's objective to maintain the purchasing power of the endowment assets, as well as to provide additional real growth through investment return.

To achieve that objective, the Orchestra has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which includes cash, cash equivalents and equity and debt securities, that are intended to result in a consistent inflation-protected rate of return. Accordingly, the 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.

## NOTES TO FINANCIAL STATEMENTS- Continued

The Orchestra classifies as net assets with donor restriction in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction in perpetuity is classified as net assets with donor restrictions with time and purpose restrictions until those amounts are appropriated for expenditures of the Orchestra. The Orchestra considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation or deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Orchestra, and (7) the Orchestra's investment policies.

Investments are carried at market or appraised value and realized and unrealized gains and losses are reflected in the statement of activities. Most long-term investments are held in two investment accounts. Permanent endowments and the unappropriated net appreciations of those endowments are referred to as Donor Restricted Endowments. Amounts designed by the board of directors for long-term investments are referred to as Board Designated Endowments. Market value represents quoted market prices on major stock exchanges.

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NOTES TO FINANCIAL STATEMENTS- Continued

Investment activity of the Donor Restricted Endowment and the Board Designated Endowments for each of the years ended August 31, 2019 and 2018 is set forth as follows:

	Without Donor Restrictions		With Donor Restrictions		Total
	Board Designated	Time and Purpose - Income Not Appropriated	In Perpetuity - Corpus		
Balance - September 1, 2017	\$ 188,289	\$ 38,591	\$ 215,600	\$ 442,480	
Investment Returns					
Interest, dividends and capital gain distributions	8,860	12,025	-	20,885	
Realized and unrealized gains	6,527	8,569	-	15,096	
Investment fees	(2,004)	(2,709)	-	(4,713)	
Amounts appropriated for current operations	<u>(7,160)</u>	<u>(9,687)</u>	<u>-</u>	<u>(16,847)</u>	
Balance - August 31, 2018	<u>194,512</u>	<u>46,789</u>	<u>215,600</u>	<u>456,901</u>	
Investment Returns					
Interest, dividends and capital gain distributions	6,982	9,861	-	16,843	
Realized and unrealized losses	(1,236)	(490)	-	(1,726)	
Investment fees	(1,973)	(2,861)	-	(4,834)	
Endowment contribution	-	-	35,000	35,000	
Amounts appropriated for current operations	<u>(7,504)</u>	<u>(10,123)</u>	<u>-</u>	<u>(17,627)</u>	
Balance - August 31, 2019	<u>\$ 190,781</u>	<u>\$ 43,176</u>	<u>\$ 250,600</u>	<u>\$ 484,557</u>	

Endowments consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Investments	\$ 459,477	\$ 432,548
Cash and cash equivalents	<u>25,080</u>	<u>24,353</u>
Total endowments	<u>\$ 484,557</u>	<u>\$ 456,901</u>

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE F - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment, at cost	\$ 89,321	\$ 89,321
Less accumulated depreciation	<u>(86,871)</u>	<u>(84,949)</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 2,450</u>	<u>\$ 4,372</u>

Total depreciation expense was \$1,922 and \$2,135 for the years ended August 31, 2019 and 2018, respectively.

**NOTE G - LINE OF CREDIT**

The Orchestra has a line of credit with a bank with a maximum available limit of \$260,000. Interest is charged at the prime rate plus 1/2%. The interest rate at August 31, 2019 was 5.75%. The line of credit balance was \$145,000 and \$95,000 at August 31, 2019 and 2018, respectively. The line of credit expires on November 28, 2021.

**NOTE H - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Orchestra uses 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 below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Orchestra 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.

NOTES TO FINANCIAL STATEMENTS- Continued

The asset's 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 August 31, 2019.

*Mutual funds:* Valued at the net asset value of underlying shares held on behalf of the Orchestra at year-end.

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 Orchestra 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.

The levels within the fair value hierarchy at which the Orchestra's investments are measured are as follows:

August 31, 2019	Level 1	Level 2	Level 3	Total
Mutual funds				
Dodge & Cox Inc	\$ 158,009	\$ -	\$ -	\$ 158,009
Vanguard Short-Term Investment Grade	96,274	-	-	96,274
Federated Ultrashort Bond Fund	60,462	-	-	60,462
Harbor Capital Appreciation	28,009	-	-	28,009
Vanguard Value	26,363	-	-	26,363
Oakmark Fund	25,546	-	-	25,546
Vanguard Small Cap Index	11,481	-	-	11,481
Oakmark International	11,479	-	-	11,479
American Europacific Growth	11,387	-	-	11,387
Vanguard Strategic	10,270	-	-	10,270
Delaware Emerging Markets	7,794	-	-	7,794
Vanguard Mid-Cap Index	7,779	-	-	7,779
Vanguard Total Int'l Stock Index	4,624	-	-	4,624
Total mutual funds	\$ 459,477	\$ -	\$ -	\$ 459,477

NOTES TO FINANCIAL STATEMENTS- Continued

August 31, 2018	Level 1	Level 2	Level 3	Total
Mutual funds				
Vanguard Short-Term Investment Grade	\$ 77,706	\$ -	\$ -	\$ 77,706
Dodge & Cox Inc	72,139	-	-	72,139
Harbor Capital Appreciation	56,678	-	-	56,678
Vanguard Value	55,751	-	-	55,751
Oakmark Fund	51,573	-	-	51,573
American Europacific Growth	28,215	-	-	28,215
Oakmark International	27,408	-	-	27,408
Vanguard Small Cap Index	21,335	-	-	21,335
Delaware Emerging Markets	15,114	-	-	15,114
Vanguard Strategic	13,369	-	-	13,369
Fidelity Low Priced Stock	<u>13,260</u>	<u>-</u>	<u>-</u>	<u>13,260</u>
Total mutual funds	<u>\$ 432,548</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,548</u>

**NOTE I - INTERESTS IN NET ASSETS OF COMMUNITY FOUNDATION**

The Orchestra has established agency endowment funds with the Community Foundation. Through its fundraising projects, the Orchestra accepts donations directly or encourages donors to contribute to the agency endowment funds. These funds provide income to the Orchestra in perpetuity. The market value of these agency endowment funds held by the Community Foundation was \$304,880 and \$318,709 at August 31, 2019 and 2018, respectively. Distributions to the Orchestra from the agency endowment funds are limited by the Community Foundation spending policies and are included in the statement of activities as endowment and grants. Distributions for the years ended August 31, 2019 and 2018 were \$12,073 and \$11,900, respectively. These assets are reported exclusively on the books of the Community Foundation.

Endowment and agency endowment funds consist of the following at August 31:

	<u>2019</u>	<u>2018</u>
Traverse Symphony Orchestra - endowments (Note E)	\$ 484,557	\$ 456,901
Community Foundation - agency endowments	<u>304,880</u>	<u>318,709</u>
Total endowments and agency endowments	<u>\$ 789,437</u>	<u>\$ 775,610</u>

NOTES TO FINANCIAL STATEMENTS- Continued

**NOTE J - SPECIAL EVENTS**

The Orchestra conducts an annual gala fundraising event each year. A summary of the events is as follows, for the years ending August 31:

	2019		
	The Music of John Williams	Other	Total
Gross proceeds	\$ 141,507	\$ 1,100	\$ 142,607
Direct expenses	<u>(59,691)</u>	<u>-</u>	<u>(59,691)</u>
Special events, net	<u>\$ 81,816</u>	<u>\$ 1,100</u>	<u>\$ 82,916</u>

  

	2018		
	Vaudeville Follies	Raffle	Total
Gross proceeds	\$ 82,479	\$ 14,050	\$ 96,529
Direct expenses	<u>(23,344)</u>	<u>(301)</u>	<u>(23,645)</u>
Special events, net	<u>\$ 59,135</u>	<u>\$ 13,749</u>	<u>\$ 72,884</u>

The direct expenses are included in the fundraising expenses in the schedule of functional expenses.

**NOTE K - OFFICE BUILDING LEASE**

The Orchestra leases its office facilities under a lease expiring on September 29, 2020. Monthly payments under the agreements are \$1,375 through September 30, 2019 and increases to \$2,000 through September 30, 2020. Total lease expense was \$16,500 for each of the years ended August 31, 2019 and 2018.

**NOTE L - RISKS AND UNCERTAINTIES**

The Orchestra holds investment securities that are exposed to various risks such as fluctuation in interest rate, the securities market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that 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.