

Traverse Symphony Orchestra

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

August 31, 2020 and 2019

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Business Advisors Since 1973

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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, 2020 and 2019, 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.

Board of Directors
Traverse Symphony Orchestra

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, 2020 and 2019, 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.

Dennis, Gartland & Niergarth

January 26, 2021

Traverse Symphony Orchestra

STATEMENTS OF FINANCIAL POSITION

August 31,

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 83,256	\$ 43,882
Accounts receivable	7,032	77,232
Pledges receivable	66,859	92,710
Prepaid expenses	<u>4,422</u>	<u>32,467</u>
Total current assets	161,569	246,291
PROPERTY AND EQUIPMENT, net	7,973	2,450
OTHER ASSETS		
Investments	<u>471,878</u>	<u>459,477</u>
Total assets	<u><u>\$ 641,420</u></u>	<u><u>\$ 708,218</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 15,550	\$ 40,217
Line of credit	231,279	145,000
Deferred revenue	10,600	172,403
Current portion of long-term debt	<u>2,151</u>	<u>-</u>
Total current liabilities	259,580	357,620
LONG-TERM LIABILITIES		
Long-term debt, less current portion	<u>5,003</u>	<u>-</u>
Total liabilities	264,583	357,620
NET ASSETS		
Net (deficit) assets without donor restrictions		
Undesignated	(170,197)	(198,959)
Board designated	<u>102,760</u>	<u>190,781</u>
Total net deficit without donor restrictions	<u>(67,437)</u>	<u>(8,178)</u>
Net assets with donor restrictions		
Endowments - time and purpose	72,414	43,176
Endowments - perpetual in nature	315,600	250,600
Endowment pledges - perpetual in nature	<u>56,260</u>	<u>65,000</u>
Total net assets with donor restrictions	<u>444,274</u>	<u>358,776</u>
Total net assets	<u>376,837</u>	<u>350,598</u>
Total liabilities and net assets	<u><u>\$ 641,420</u></u>	<u><u>\$ 708,218</u></u>

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

Traverse Symphony Orchestra

STATEMENT OF ACTIVITIES

Year Ended August 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES, GAINS AND SUPPORT			
Support			
Annual fund	\$ 248,476	\$ -	\$ 248,476
Endowment and grants	88,555	56,260	144,815
Sponsorship	52,107	-	52,107
Performances	163,909	-	163,909
Advertising, tuition and contracted services	27,702	-	27,702
Interest, dividends, realized and unrealized gains, net of investments fees of \$4,423	8,418	32,751	41,169
Assets released from restrictions	<u>3,513</u>	<u>(3,513)</u>	<u>-</u>
Total revenue, gains and support	<u>592,680</u>	<u>85,498</u>	<u>678,178</u>
EXPENSES			
Program services	424,342	-	424,342
Management and general	159,941	-	159,941
Fundraising	<u>67,656</u>	<u>-</u>	<u>67,656</u>
Total expenses	<u>651,939</u>	<u>-</u>	<u>651,939</u>
CHANGE IN NET (DEFICIT) ASSETS	(59,259)	85,498	26,239
NET (DEFICIT) ASSETS, beginning of year	<u>(8,178)</u>	<u>358,776</u>	<u>350,598</u>
NET (DEFICIT) ASSETS, end of year	<u>\$ (67,437)</u>	<u>\$ 444,274</u>	<u>\$ 376,837</u>

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

Traverse Symphony Orchestra

STATEMENT OF ACTIVITIES

Year Ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND SUPPORT			
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 investment fees of \$3,615	(16,709)	9,371	(7,338)
Assets released from restrictions	12,984	(12,984)	-
Total revenue, gains and support	655,644	96,387	752,031
EXPENSES			
Program services	593,581	-	593,581
Management and general	99,656	-	99,656
Fundraising	52,932	-	52,932
Total expenses	746,169	-	746,169
CHANGE IN NET ASSETS	(90,525)	96,387	5,862
NET ASSETS , beginning of year	82,347	262,389	344,736
NET (DEFICIT) ASSETS , end of year	\$ (8,178)	\$ 358,776	\$ 350,598

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

Traverse Symphony Orchestra

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2020

	Program Services	Management and General	Fundraising	Total
Wages and salaries	\$ 67,118	\$ 72,521	\$ 52,072	\$ 191,711
Payroll taxes	4,414	4,769	3,424	12,607
Employee benefits	4,520	1,199	1,218	6,937
Concert expenses	213,953	-	538	214,491
Orchestra personnel	80,376	-	-	80,376
Advertising and promotion	46,180	-	4,433	50,613
Office building lease	-	20,375	-	20,375
Professional services	-	17,400	-	17,400
Interest and fees	-	11,807	-	11,807
Development	4,255	-	1,796	6,051
Insurance	-	4,650	-	4,650
Investment fees	-	4,423	-	4,423
Parking	-	4,224	-	4,224
Travel	-	-	4,175	4,175
Depreciation	3,526	-	-	3,526
Bad debt	-	3,100	-	3,100
Telephone	-	2,922	-	2,922
Worker's compensation	-	2,825	-	2,825
Dues and subscriptions	-	2,731	-	2,731
Office expenses	-	2,711	-	2,711
Equipment leases	-	2,606	-	2,606
Information technology	-	2,489	-	2,489
Storage	-	257	-	257
Internet	-	1,341	-	1,341
Postage	-	939	-	939
Payroll service	-	600	-	600
Miscellaneous	-	475	-	475
Total expense by function	424,342	164,364	67,656	656,362
Less expenses included with revenues on the statement of activities				
Investment fees	-	(4,423)	-	(4,423)
Total expenses included in the expense section of the statement of activities	\$ 424,342	\$ 159,941	\$ 67,656	\$ 651,939

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 and fees	-	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

STATEMENTS OF CASH FLOW

Years Ended August 31,

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 26,239	\$ 5,862
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	3,526	1,922
Realized and unrealized (gain) loss on investments	(28,902)	2,503
Changes in operating assets and liabilities		
Accounts receivable	70,200	20,478
Pledges receivable	25,851	(85,760)
Prepaid expenses	28,045	16,901
Accounts payable and accrued expenses	(24,667)	21,668
Deferred revenue	<u>(161,803)</u>	<u>4,571</u>
Net cash from operating activities	<u>(61,511)</u>	<u>(11,855)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	100,000	17,627
Purchase of investments, net of fees	<u>(83,499)</u>	<u>(47,059)</u>
Net cash flows from investing activities	<u>16,501</u>	<u>(29,432)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(1,895)	-
Net borrowings on line of credit	<u>86,279</u>	<u>50,000</u>
Net cash from financing activities	<u>84,384</u>	<u>50,000</u>
NET CHANGE IN CASH	39,374	8,713
Cash and cash equivalents, beginning of year	<u>43,882</u>	<u>35,169</u>
Cash and cash equivalents, end of year	<u>\$ 83,256</u>	<u>\$ 43,882</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 11,807</u>	<u>\$ 11,637</u>
Non-cash investing activity:		
Property and equipment financed with long-term debt	<u>\$ 9,049</u>	<u>\$ -</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. 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 promises are made at their net realizable values. 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 are recorded at their fair values in the period received to the extent that they create or enhance nonfinancial assets, are provided by individuals possessing the required, specialized skills, and would typically need to be purchased if not provided by donation.

Revenue Recognition

As described in Note B to the financial statements, the Orchestra adopted the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, during the year ended August 31, 2020.

The Orchestra derives its revenues primarily from performances, sponsorships, program advertising, and Civic Ensemble fees and tuition. Revenues are recognized when the Orchestra satisfies its performance obligations which typically occurs at the point in time when the performance occurs or when services are rendered. Receivables related to revenues from contracts with customers are included in accounts receivable on the statements of financial position.

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, 2020 and 2019, 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 and educational programs. The amounts are recognized as the performances or programs 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 \$20,334 and \$28,742 for the years ended August 31, 2020 and 2019, 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, 2017.

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 26, 2021, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE B - REVENUE RECOGNITION TRANSITION

On September 1, 2019 the Orchestra adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Analysis of various provisions of this standard resulted in no significant changes in the way the Orchestra recognizes revenue and, therefore, no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

NOTE C - 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 83,256	\$ 43,882
Accounts receivable	7,032	77,232
Pledges receivable	<u>66,859</u>	<u>92,710</u>
Total financial assets	157,147	213,824
Less those unavailable for general expenditures within one year, due to:		
Pledged donor contributions restricted in perpetuity	<u>(56,260)</u>	<u>(65,000)</u>
Totals	<u>\$ 100,887</u>	<u>\$ 148,824</u>

Additionally, at August 31, 2020 the Orchestra has available \$28,721 of its \$260,000 line of credit that can be drawn upon, should the need arise (see Note H), and an Endowment which provides resources for the annual operating budget (see Note F).

NOTE D - 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, 2020 and 2019, there were no amounts in excess of Federally insured limits.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE E - INVESTMENTS

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

Investments consist of the following at August 31:

	<u>2020</u>		
	<u>Cost</u>	<u>Market</u>	<u>Accumulated Unrealized Appreciation</u>
Bond mutual funds	\$ 299,306	\$ 315,610	\$ 16,304
Equity mutual funds	<u>122,259</u>	<u>156,268</u>	<u>34,009</u>
Totals	<u>\$ 421,565</u>	<u>\$ 471,878</u>	<u>\$ 50,313</u>
	<u>2019</u>		
	<u>Cost</u>	<u>Market</u>	<u>Accumulated Unrealized Appreciation</u>
Bond mutual funds	\$ 306,966	\$ 314,745	\$ 7,779
Equity mutual funds	<u>132,174</u>	<u>144,732</u>	<u>12,558</u>
Totals	<u>\$ 439,140</u>	<u>\$ 459,477</u>	<u>\$ 20,337</u>

NOTE F - 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 restrictions 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 restrictions 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 designated 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, 2020 and 2019 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, 2018	\$ 194,512	\$ 46,789	\$ 215,600	\$ 456,901	
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	190,781	43,176	250,600	484,557	
Investment Returns					
Interest, dividends and capital gain distributions	5,680	11,490	-	17,170	
Realized and unrealized gains	7,641	21,261	-	28,902	
Investment fees	(1,342)	(3,513)	-	(4,855)	
Endowment contribution	-	-	65,000	65,000	
Amounts appropriated for current operations	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>(100,000)</u>	
Balance - August 31, 2020	<u>\$ 102,760</u>	<u>\$ 72,414</u>	<u>\$ 315,600</u>	<u>\$ 490,774</u>	

Endowments consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Investments	\$ 471,878	\$ 459,477
Cash and cash equivalents	<u>18,896</u>	<u>25,080</u>
Total endowments	<u>\$ 490,774</u>	<u>\$ 484,557</u>

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31:

	<u>2020</u>	<u>2019</u>
Furniture and equipment, at cost	\$ 88,694	\$ 89,321
Less accumulated depreciation	<u>(80,721)</u>	<u>(86,871)</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 7,973</u>	<u>\$ 2,450</u>

Total depreciation expense was \$3,526 and \$1,922 for the years ended August 31, 2020 and 2019, respectively.

NOTE H - 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, 2020 was 3.75%. The line of credit balance was \$231,279 and \$145,000 at August 31, 2020 and 2019, respectively. The line of credit expires on November 28, 2021 and is secured by the Orchestra's investment accounts with the bank.

NOTE I - LONG-TERM DEBT

Long-term debt consisted of the following at August 31, 2020:

Computer installment loan, due in monthly installments of \$216 including interest at 7.125%; maturing in September 2023; secured by the underlying equipment.	\$ 7,154
Less current portion	<u>(2,151)</u>
Long-term portion	<u>\$ 5,003</u>

NOTES TO FINANCIAL STATEMENTS- Continued

The annual maturities of long-term debt are as follows:

Years Ending <u>August 31:</u>	
2021	\$ 2,151
2022	2,309
2023	2,479
2024	<u>215</u>
Total	<u>\$ 7,154</u>

Interest expense on long-term debt was \$540 and \$0 for the years ended August 31, 2020 and 2019, respectively.

NOTE J - 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.

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, 2020.

NOTES TO FINANCIAL STATEMENTS- Continued

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, 2020	Level 1	Level 2	Level 3	Total
Mutual funds				
Dodge & Cox Inc	\$ 159,472	\$ -	\$ -	\$ 159,472
Vanguard Short-Term Investment Grade	156,138	-	-	156,138
Harbor Capital Appreciation	38,275	-	-	38,275
Vanguard Value	31,825	-	-	31,825
Vanguard 500 Index	22,986	-	-	22,986
Vanguard Total Int'l Stock Index	13,989	-	-	13,989
Vanguard Small Cap Index	11,781	-	-	11,781
Vanguard Mid-Cap Index	11,099	-	-	11,099
American Europacific Growth	10,361	-	-	10,361
Vanguard Strategic	8,120	-	-	8,120
Delaware Emerging Markets	7,832	-	-	7,832
Total mutual funds	<u>\$ 471,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 471,878</u>

NOTES TO FINANCIAL STATEMENTS- Continued

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	<u>4,624</u>	<u>-</u>	<u>-</u>	<u>4,624</u>
Total mutual funds	<u>\$ 459,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 459,477</u>

NOTE K - 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 \$326,085 and \$304,880 at August 31, 2020 and 2019, 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, 2020 and 2019 were \$12,380 and \$12,073, 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>2020</u>	<u>2019</u>
Traverse Symphony Orchestra - endowments (Note F)	\$ 490,774	\$ 484,557
Community Foundation - agency endowments	<u>326,085</u>	<u>304,880</u>
Total endowments and agency endowments	<u>\$ 816,859</u>	<u>\$ 789,437</u>

Subsequent to year-end, on October 30, 2020, the Community Foundation received a gift of \$50,000 as a permanent agency endowment for the benefit of the Orchestra.

NOTES TO FINANCIAL STATEMENTS- Continued

NOTE L - SPECIAL EVENTS

The Orchestra generally conducts a gala fundraising event each year. Due to the COVID-19 pandemic, the August 2020 annual fundraiser was cancelled. A summary of the events is as follows, for the year ending August 31:

	<u>2019</u>		
	<u>The Music of John Williams</u>	<u>Raffle</u>	<u>Total</u>
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>

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

NOTE M - OFFICE BUILDING LEASE

The Orchestra leases its office facilities under a lease expiring on May 31, 2021. Monthly payments under the agreements are \$1,375 through September 30, 2019, \$2,000 through May 31, 2020 and decreases to \$1,000 through May 31, 2021. Total lease expense was \$20,375 and \$16,500 for the years ended August 31, 2020 and 2019, respectively.

NOTE N - PAYCHECK PROTECTION PROGRAM

The Orchestra received a \$37,444 loan under the Paycheck Protection Program ("PPP") administered by a Small Business Administration ("SBA")-approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Orchestra used the loan proceeds for eligible wages and met the conditions for loan forgiveness as of August 31, 2020. The Orchestra recognized \$37,444 as grant revenue for the year ended August 31, 2020.

NOTE O - RISKS AND UNCERTAINTIES

Investments

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.

COVID – 19

On March 10, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a pandemic. The Orchestra cancelled all events beginning in March and through the end of its fiscal year. The Orchestra believes it understands the risk associated with COVID-19. The Orchestra is in the process of implementing risk mitigation tactics as to the risk of the impact of COVID-19 related to the Orchestra's operations within and outside of the Orchestra. The extent to which the pandemic impacts other future operations will depend on future developments, which are highly uncertain at this time and cannot be predicted.