

ELGIN YOUTH SYMPHONY ORCHESTRA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2018 AND 2017

ELGIN YOUTH SYMPHONY ORCHESTRA

**FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Elgin Youth Symphony Orchestra
60 South Grove Avenue, Floor 2
Elgin, Illinois 60120

We have audited the accompanying financial statements of Elgin Youth Symphony Orchestra (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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 audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Elgin Youth Symphony Orchestra as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Elgin Youth Symphony Orchestra's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PORTE BROWN LLC
Certified Public Accountants

A handwritten signature in cursive script that reads "Porte Brown LLC". The signature is written in black ink and is positioned above a horizontal line.

Elk Grove Village, Illinois
December 17, 2018

ELGIN YOUTH SYMPHONY ORCHESTRA

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 131,488	\$ 131,108
Investments	137,471	124,172
Accounts receivable	2,159	11,613
Unconditional promises to give, current portion	8,490	7,830
Prepaid expenses	2,600	1,500
	<u>282,208</u>	<u>276,223</u>
FIXED ASSETS		
Property and equipment	68,015	68,015
Less: Accumulated depreciation	<u>(63,442)</u>	<u>(61,798)</u>
	<u>4,573</u>	<u>6,217</u>
OTHER ASSETS		
Unconditional promises to give, long term	6,000	16,160
Investments - restricted	75,636	69,627
Investments - endowment	32,135	30,993
Sheet music, net	<u>4,550</u>	<u>7,370</u>
	<u>118,321</u>	<u>124,150</u>
TOTAL ASSETS	<u><u>\$ 405,102</u></u>	<u><u>\$ 406,590</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 53	\$ 3,349
Payroll liabilities	5,332	4,042
Bank card liabilities	<u>2,472</u>	<u>1,989</u>
	<u>7,857</u>	<u>9,380</u>
NET ASSETS		
Unrestricted	267,857	272,601
Temporarily restricted	97,361	97,732
Permanently restricted	<u>32,027</u>	<u>26,877</u>
	<u>397,245</u>	<u>397,210</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 405,102</u></u>	<u><u>\$ 406,590</u></u>

The accompanying notes are an integral part of these financial statements

ELGIN YOUTH SYMPHONY ORCHESTRA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(with summarized information for the year ended June 30, 2017)

	2018			Total	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
SUPPORT AND REVENUE					
Contributions	\$ 125,184	\$ -	\$ 5,150	\$ 130,334	\$ 149,414
In-kind contributions	228,435	-	-	228,435	270,227
Grants	59,340	-	-	59,340	56,044
Program fees	311,523	-	-	311,523	319,976
Performance income	79,068	-	-	79,068	78,739
Fundraiser income	42,668	-	-	42,668	47,719
Interest and dividend income	2,840	1,876	-	4,716	3,996
Unrealized gain on investments	7,971	6,356	-	14,327	23,772
Realized gain on investments	1,620	897	-	2,517	216
	<u>858,649</u>	<u>9,129</u>	<u>5,150</u>	<u>872,928</u>	<u>950,103</u>
Net assets released from restrictions	9,500	(9,500)	-	-	-
	<u>868,149</u>	<u>(371)</u>	<u>5,150</u>	<u>872,928</u>	<u>950,103</u>
EXPENSES					
Program services	619,054	-	-	619,054	640,118
Support services	199,438	-	-	199,438	168,074
Fundraising	54,401	-	-	54,401	45,243
	<u>872,893</u>	<u>-</u>	<u>-</u>	<u>872,893</u>	<u>853,434</u>
CHANGE IN NET ASSETS	(4,744)	(371)	5,150	35	96,669
NET ASSETS, BEGINNING OF YEAR	<u>272,601</u>	<u>97,732</u>	<u>26,877</u>	<u>397,210</u>	<u>300,541</u>
NET ASSETS, END OF YEAR	<u>\$ 267,857</u>	<u>\$ 97,361</u>	<u>\$ 32,027</u>	<u>\$ 397,245</u>	<u>\$ 397,210</u>

The accompanying notes are an integral part of these financial statements

ELGIN YOUTH SYMPHONY ORCHESTRA

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

(with summarized information for the year ended June 30, 2017)

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising Services</u>	<u>2018 Total</u>	<u>2017 Total</u>
Amortization	\$ 2,820	\$ -	\$ -	\$ 2,820	\$ 3,707
Artistic personnel	207,871	250	1,285	209,406	105,484
Awards	145	-	4,074	4,219	4,124
Bad debt expense	18,082	-	-	18,082	23,110
Bank charges	-	9,934	202	10,136	8,939
Depreciation	295	1,350	-	1,645	2,412
Development	905	2,365	-	3,270	281
Dues and subscriptions	1,068	-	-	1,068	890
Insurance	-	7,691	-	7,691	9,689
Investment expenses	1,644	-	-	1,644	1,453
Marketing	-	24,962	-	24,962	28,237
Materials and supplies	-	-	25,398	25,398	26,148
Meetings and conferences	1,634	42	70	1,746	10,690
Occupancy and rental	226,203	6,253	-	232,456	273,586
Office expense	6,177	52,744	433	59,354	6,038
Payroll expense	97,100	74,450	18,750	190,300	220,081
Payroll taxes	17,485	6,152	2,113	25,750	19,275
Postage and shipping	340	1,597	-	1,937	2,560
Printing expense	3,924	1,128	626	5,678	9,473
Professional fees	-	4,201	1,450	5,651	44,165
Program expenses	7,349	-	-	7,349	5,813
Repairs and maintenance	-	-	-	-	7,174
Telephone	-	6,319	-	6,319	4,614
Tuition and camp expenses	26,012	-	-	26,012	35,491
	<u>\$ 619,054</u>	<u>\$ 199,438</u>	<u>\$ 54,401</u>	<u>\$ 872,893</u>	<u>\$ 853,434</u>

The accompanying notes are an integral part of these financial statements

ELGIN YOUTH SYMPHONY ORCHESTRA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ 35	\$ 96,669
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Contributions restricted for long-term purposes	(5,150)	(7,497)
Depreciation and amortization expense	4,465	6,119
Gain on investments	(16,844)	(23,988)
Change in:		
Accounts receivable	9,454	2,299
Contributions receivable	-	415
Miscellaneous receivable	-	487
Unconditional promises to give	9,500	15,978
Prepaid expenses	(1,100)	(1,500)
Accounts payable	(3,296)	(5,999)
Payroll liabilities	1,290	(1,181)
Bank card liabilities	483	966
Deferred revenue	-	(22,119)
Net cash (used) provided by operating activities	(1,163)	60,649
INVESTING ACTIVITIES		
Proceeds from sale of investments	60,075	30,801
Purchase of investments	(63,682)	(39,288)
Net cash used for investing activities	(3,607)	(8,487)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for investment in permanent endowment	5,150	7,497
Net cash provided by financing activities	5,150	7,497
NET INCREASE IN CASH AND CASH EQUIVALENTS	380	59,659
BEGINNING CASH AND CASH EQUIVALENTS	131,108	71,449
ENDING CASH AND CASH EQUIVALENTS	\$ 131,488	\$ 131,108
SUPPLEMENTAL INFORMATION TO CASH FLOWS		
Noncash investing activities:		
Unrealized gain on investments	\$ 14,327	\$ 23,772

The accompanying notes are an integral part of these financial statements

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION

Elgin Youth Symphony Orchestra (the “Orchestra”) is an Illinois not-for-profit corporation whose mission is to create a community of young musicians, enriching their lives and the lives of their families, schools, communities, and beyond, through the study and performance of excellent music. The Orchestra’s support comes primarily from tuition fees, performance income, grants, foundations, and other public contributions.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Orchestra’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

FINANCIAL STATEMENT PRESENTATION

In accordance with FASB ASC 958-205, “Not-for-Profit Entities Presentation of Financial Statements,” the Orchestra reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classes are based on the existence or absence of donor-imposed restrictions.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Orchestra’s financial statements for the year ended June 30, 2017 from which the summarized information was derived.

ESTIMATES

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

REVENUE RECOGNITION

In accordance with FASB ASC 958-605-25 “Not-for-Profit Entities Revenue Recognition” contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair market values. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met. In addition, FASB ASC 958-605 requires not-for-profit organizations to distinguish between contributions received that increase unrestricted, temporarily restricted, and permanently restricted net assets. It also requires recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

Program fees and performance income are recognized when earned. Deferred revenue consists of student fees received in advance of the next fiscal year for which the services have not yet been rendered.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IN-KIND CONTRIBUTIONS

Contributions in-kind are recognized in accordance with the provisions of FASB ASC 958-605-25, “Not-for-Profit Entities Revenue Recognition Contributions Received.” Contributed services that require a specialized skill and that the Orchestra would have paid for if not donated are recorded at the estimated fair value at the time the services are rendered.

Contributions in-kind received consisted of:

	2018	2017
Contributed services		
Use of facilities	\$ 206,825	\$ 248,000
Marketing and design	17,935	22,227
	\$ 224,760	\$ 270,227
Contributed property		
Office furniture	3,675	-
	\$ 228,435	\$ 270,227

FUNCTIONAL EXPENSES

The Orchestra allocates its expenses on a functional basis among its various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their natural expenditure classification.

CASH AND CASH EQUIVALENTS

The Orchestra considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

RECEIVABLES

Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debt expense. At June 30, 2018 and 2017, there was no balance for an allowance for uncollectible promises.

INVESTMENTS

Investment securities are stated at fair value based on quoted market prices or market prices for similar securities. Unrealized gains and losses are recognized based on the change in fair value and are reported as a component of investment income. Realized gains and losses are recognized using the average cost method and are reported as a component of investment income.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

Fixed assets are stated at cost. Depreciation is calculated on a straight-line basis over the estimated lives of the related assets. The Orchestra has adopted a policy to capitalize assets with a useful life of over one year using a \$500 threshold. Donated property and equipment are stated at the approximate fair value at the date of donation.

Major classifications of property and equipment and their respective lives are summarized below:

	<u>Lives in Years</u>	<u>2018</u>	<u>2017</u>
Instruments	7	\$ 23,929	\$ 23,929
Equipment	3-7	44,086	44,086
		<u>\$ 68,015</u>	<u>\$ 68,015</u>

Maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains and losses on dispositions of property and equipment are included in income.

NET ASSETS

Unrestricted net assets are those funds presently available for use by or on behalf of the Orchestra, including amounts available for general and administrative expenses. These unrestricted net assets may also include board-designated amounts.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Orchestra reports the support as unrestricted.

Temporarily restricted net assets are as follows:

	<u>2018</u>	<u>2017</u>
Purpose restricted - donor restricted investment	\$ 75,636	\$ 69,627
Unappropriated endowment earnings	7,235	4,115
Time restricted	14,490	23,990
	<u>\$ 97,361</u>	<u>\$ 97,732</u>

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS (Continued)

Net assets released from restrictions during the years ended June 30, 2018 and 2017 were as follows:

	2018	2017
Time restrictions expired or surrendered	\$ 9,500	\$ 21,891
	\$ 9,500	\$ 21,891

Permanently restricted net assets are as follows:

	2018	2017
Permanently restricted endowment	\$ 32,027	\$ 26,877
	\$ 32,027	\$ 26,877

INCOME TAXES

The Orchestra is a not-for-profit organization that is exempt from income taxes under Section 501(a) as described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements.

The Orchestra has adopted the provision of *ASC Topic 740, Income Taxes*, relating to the accounting for uncertainty in income taxes. The Orchestra files an annual exempt organization information return in the U.S. federal jurisdiction and Illinois state jurisdiction. Management is not aware of any uncertain tax positions.

PRIOR YEAR RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current year classifications. These changes were for presentation purposes and did not have an impact on the financial statements.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 17, 2018. This date represents the date the financial statements are available to be issued.

NOTE C – CONCENTRATIONS

The Orchestra maintains its cash balances with a national financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There were no uninsured cash balances at June 30, 2018 and 2017.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE D – PROMISES TO GIVE

Unconditional promises to give consist of contributions that have been pledged but not yet received to the Orchestra by board members and major donors. Unconditional promises to give are expected to be collected over the next five years. At June 30, 2018 and 2017, the receivable balance was \$14,490 and \$23,990, respectively.

The following is a schedule of unconditional promises to give as of June 30, 2018.

2019	\$	8,490
2020		6,000
		6,000
	\$	14,490

NOTE E – INVESTMENTS

Investments at June 30, 2018 are as follows:

	Fair Value	Cost	Unrealized Gain/(Loss)
Depository account	\$ 7,787	\$ 7,787	\$ -
Mutual funds	14,690	14,705	(15)
ETFs and CEFs	222,765	177,491	45,274
	\$ 245,242	\$ 199,983	\$ 45,259

Investments at June 30, 2017 are as follows:

	Fair Value	Cost	Unrealized Gain/(Loss)
Depository account	\$ 17,350	\$ 17,350	\$ -
Mutual funds	11,298	11,508	(210)
ETFs and CEFs	196,144	162,872	33,272
	\$ 224,792	\$ 191,730	\$ 33,062

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE E – INVESTMENTS (Continued)

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

	2018	2017
Interest and dividends	\$ 4,716	\$ 3,996
Realized gain on sale of investments	2,517	216
Unrealized gain on investments	14,327	23,772
	\$ 21,560	\$ 27,984

NOTE F – LINE OF CREDIT

The Orchestra has a \$80,000 line of credit with a bank dated April 2016, which is subject to annual renewal and review. Interest on the line of credit is payable monthly at the 30-day LIBOR (2.090% and 1.224% at June 30, 2018 and 2017, respectively) plus 5.0% and 4.750% interest rate spread at June 30, 2018 and 2017, respectively. The line of credit is collateralized by a security agreement covering the general assets of the Orchestra. There was no outstanding balance on the line of credit at June 30, 2018 and 2017. The effective interest rate at June 30, 2018 and 2017 was 7.189% and 6.057%, respectively.

NOTE G – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

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

- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE G – FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2018 and 2017.

Mutual, money market, closed end and exchange-traded funds: Valued at the net asset value (NAV) of shares held by the Orchestra as of the end of the year.

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although 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.

Depository accounts are included in investments on the statements of financial position but are not subject to fair value under FASB ASC Topic 820.

	<u>Assets, at Fair Value, as of June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 14,690	\$ -	\$ -	\$ 14,690
ETFs and CEFs	222,765	-	-	222,765
	<u>\$ 237,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 237,455</u>

	<u>Assets, at Fair Value, as of June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 11,298	\$ -	\$ -	\$ 11,298
ETFs and CEFs	196,144	-	-	196,144
	<u>\$ 207,442</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,442</u>

NOTE H – ENDOWMENT

Interpretation of Relevant Law

The governing body has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Orchestra classifies as permanently restricted net assets (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.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Orchestra in a manner consistent with the standard of prudence prescribed by UPMIFA.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE H – ENDOWMENT (Continued)

In accordance with UPMIFA, 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 fund
- (2) The purposes of the Orchestra 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 Orchestra
- (7) The investment policies of the Orchestra.

Return Objectives and Risk Parameters

The Orchestra has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Orchestra must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that out-perform a market index based 60% on the S&P 500 index and 40% on the Lehman Brothers Corporate/Government Bond Index while assuming a moderate level of investment risk. The Orchestra expects its endowment funds, over time, to provide an average rate of return of between .25% and 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Orchestra relies on a total return strategy in which investment returns are achieved through current yield (interest and dividends). The Orchestra places a greater emphasis on fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Orchestra has a policy of appropriating for distribution each year, no more than five percent of its endowment fund's balance. In establishing this policy, the Orchestra considered the long-term expected return and preservation of principal on its endowment. Therefore, these funds may tend toward a more "conservative" investment strategy. This is consistent with the Orchestra's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund at June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 7,235	\$ 32,027	\$ 39,262
	<u>\$ -</u>	<u>\$ 7,235</u>	<u>\$ 32,027</u>	<u>\$ 39,262</u>

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE H – ENDOWMENT (Continued)

Endowment Net Asset Composition by Type of Fund at June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ -	\$ 4,116	\$ 26,877	\$ 30,993
	<u>\$ -</u>	<u>\$ 4,116</u>	<u>\$ 26,877</u>	<u>\$ 30,993</u>

Changes in Endowment Net Assets for the fiscal years ending June 30, 2018 and 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 01, 2016	\$ -	\$ 1	\$ 19,380	\$ 19,381
Investment return	-	3,691	-	3,691
Interest and dividends	-	424	-	424
Contributions	-	-	7,497	7,497
June 30, 2017	<u>-</u>	<u>4,116</u>	<u>26,877</u>	<u>30,993</u>
Investment return	-	2,756	-	2,756
Interest and dividends	-	363	-	363
Contributions	-	-	5,150	5,150
June 30, 2018	<u>\$ -</u>	<u>\$ 7,235</u>	<u>\$ 32,027</u>	<u>\$ 39,262</u>

NOTE I – IN-RESIDENCE ENSEMBLE AGREEMENT

On July 1, 2016, Elgin Youth Symphony Orchestra entered into an “In-Residence Ensemble Agreement” with Elgin Community College (the College). This agreement outlines various services that the College is willing to provide to the Orchestra, and what actions the Orchestra must provide the College in return. The total value of the services provided by the College was \$206,825 and \$248,000 for the years ended June 30, 2018 and 2017, respectively.

NOTE J – OPERATING LEASE

In January 2018, Elgin Youth Symphony Orchestra entered into a 5 year lease agreement with a non-related party for administrative office space. The terms of the lease provide for a monthly rent ranging from \$625 to \$1,575 through the lease term. The Orchestra is also required to pay its proportionate share of real estate taxes and operating costs of the building. The expiration date is January 30, 2023. Rent expense was \$6,253 and \$7,505 for the years ended June 30, 2018 and 2017, respectively.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE J – OPERATING LEASE (Continued)

Future minimum lease payments are as follows:

Year-ending June 30,	
2019	\$ 18,900
2020	13,200
2021	13,200
2022	13,200
2023	7,700
	<hr/>
	\$ 66,200

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS

REVENUE RECOGNITION

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) becomes effective on January 1, 2019, for calendar year non-public entities. The new guidance will replace almost all of the preexisting revenue recognition guidance. The core principle in the guidance is to “recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

There are five key steps:

- 1) Identify the contract with the customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligations
- 5) Recognize revenue when (or as) each performance obligation is satisfied

The Orchestra is currently evaluating the impact this standard will have on the financial statements when adopted.

LEASES

ASU 2016-02, Leases (Topic 842) becomes effective on January 1, 2020, for calendar-year non-public entities, but early adoption is permitted at any time. The standard requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. Generally, all leases will be captured on the balance sheet for lessees at transition, as there is no grandfathering of existing operating leases. The Orchestra is currently evaluating the impact this standard will have on the financial statements when adopted.

ELGIN YOUTH SYMPHONY ORCHESTRA
NOTES TO THE FINANCIAL STATEMENTS

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

PRESENTATION OF FINANCIAL STATEMENTS

ASU 2016-14 Not-For-Profit Entities (Topic 958) improves the presentation of financial statements of not-for-profit entities, such as charities, foundations, universities, and nonprofit health care providers, etc. This is the first major change to the not-for-profit entities financial statement model in over 20 years, which is intended to provide more useful information to donors, grantors and other users. The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. The amendments in this ASU can be adopted early.

Significant changes include going from three classes of net assets to two classes – net assets with donor restrictions and net assets without donor restrictions, as well as enhanced disclosures on board designations, qualitative and quantitative information regarding liquidity and a required functional expense detail that disclosure either in a statement of the disclosures the natural and functional classification of expenses.

The Orchestra is currently evaluating the impact this standard will have on the financial statements when adopted.