MUELLER & CO., LLP

Certified Public Accountants – Business & Financial Advisors

ASSURANCE

# ELGIN YOUTH SYMPHONY ORCHESTRA

## AUDITED FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2020 AND 2019


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# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Elgin Youth Symphony Orchestra
Elgin, Illinois

**Report on the Financial Statements**

We have audited the accompanying financial statements of Elgin Youth Symphony Orchestra (an Illinois corporation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows and functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free of 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, 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.

**Emphasis of Matter**

As discussed in Note B of the financial statements, for the year ended June 30, 2020, Elgin Youth Symphony Orchestra adopted Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Mueller & Co., LLP

Elgin, Illinois
October 22, 2020

**ELGIN YOUTH SYMPHONY ORCHESTRA**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2020 AND 2019**

**ASSETS**

| | | 2020 | 2019 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents | $ | 182,744 | 128,086 |
| Investments - without donor restrictions | | 197,301 | 193,178 |
| Accounts receivable | | 7,021 | 1,786 |
| Unconditional promises to give | | - | 6,000 |
| Prepaid expenses | | 1,836 | 2,244 |
| | | 388,902 | 331,294 |
| **PROPERTY AND EQUIPMENT:** | | | |
| Property and equipment, at cost | | 36,307 | 36,307 |
| Less: Accumulated depreciation | | (35,224) | (33,900) |
| | | 1,083 | 2,407 |
| **OTHER ASSETS:** | | | |
| Investments - restricted | | 55,253 | 53,553 |
| Investments - endowment | | 36,832 | 34,848 |
| Sheet music, net | | 4,086 | 4,317 |
| | | 96,171 | 92,718 |
| **TOTAL ASSETS** | $ | 486,156 | 426,419 |

**LIABILITIES AND NET ASSETS**

| | | 2020 | 2019 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Accounts payable | $ | 1,257 | 6,472 |
| Payroll liabilities | | 3,364 | 5,354 |
| Bank card liabilities | | 829 | 1,502 |
| Deferred revenue | | 11,845 | - |
| Paycheck Protection Program loan liability | | 96,805 | - |
| | | 114,100 | 13,328 |
| **NET ASSETS:** | | | |
| Without donor restrictions | | | |
| Undesignated | | 229,431 | 260,427 |
| Board designated | | 24,699 | 25,568 |
| With donor restrictions | | 117,926 | 127,096 |
| | | 372,056 | 413,091 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ | 486,156 | 426,419 |

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

# ELGIN YOUTH SYMPHONY ORCHESTRA

## STATEMENTS OF ACTIVITIES

## YEARS ENDED JUNE 30, 2020 AND 2019

| | | 2020 | | | 2019 | |
|---|---|---|---|---|---|---|
| | WITHOUT DONOR RESTRICTION | WITH DONOR RESTRICTION | TOTAL | WITHOUT DONOR RESTRICTION | WITH DONOR RESTRICTION | TOTAL |
| **Support and revenue:** | | | | | | |
| Contributions | $ 132,340 | - | 132,340 | 159,895 | 25,000 | 184,895 |
| In-kind contributions | 206,825 | - | 206,825 | 241,259 | - | 241,259 |
| Grants | 95,050 | - | 95,050 | 78,282 | - | 78,282 |
| Program fees | 294,172 | - | 294,172 | 304,348 | - | 304,348 |
| Performance income | 46,593 | - | 46,593 | 70,702 | - | 70,702 |
| Fundraiser income | 43,485 | - | 43,485 | 48,725 | - | 48,725 |
| Investment income | 4,973 | 3,957 | 8,930 | 5,685 | 2,573 | 8,258 |
| | 823,438 | 3,957 | 827,395 | 908,896 | 27,573 | 936,469 |
| Net assets released from restrictions | 13,127 | (13,127) | - | 29,865 | (29,865) | - |
| Total support and revenue | 836,565 | (9,170) | 827,395 | 938,761 | (2,292) | 936,469 |
| **Expenses:** | | | | | | |
| Program services | 590,222 | - | 590,222 | 648,480 | - | 648,480 |
| Management and general | 208,007 | - | 208,007 | 190,357 | - | 190,357 |
| Fundraising | 70,201 | - | 70,201 | 81,786 | - | 81,786 |
| Total expenses | 868,430 | - | 868,430 | 920,623 | - | 920,623 |
| Change in net assets | (31,865) | (9,170) | (41,035) | 18,138 | (2,292) | 15,846 |
| Net assets, beginning of year | 285,995 | 127,096 | 413,091 | 267,857 | 129,388 | 397,245 |
| Net assets, end of year | $ 254,130 | 117,926 | 372,056 | 285,995 | 127,096 | 413,091 |

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

**ELGIN YOUTH SYMPHONY ORCHESTRA**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2020 AND 2019**

| | | 2020 | 2019 |
|---|---|---|---|
| **Operating activities:** | | | |
| Change in net assets | $ | (41,035) | 15,846 |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities: | | | |
| Contributions restricted for long-term purposes | | - | (25,000) |
| Depreciation and amortization expense | | 1,555 | 2,399 |
| Net realized and unrealized gains on investments | | (4,557) | (4,085) |
| Change in: | | | |
| Accounts receivable | | (5,235) | 373 |
| Unconditional promises to give | | 6,000 | 8,490 |
| Prepaid expenses | | 408 | 356 |
| Accounts payable | | (5,215) | 6,419 |
| Payroll liabilities | | (1,990) | 22 |
| Bank card liabilities | | (673) | (970) |
| Deferred revenue | | 11,845 | - |
| Net cash provided by (used by) operating activities | | (38,897) | 3,850 |
| **Investing activities:** | | | |
| Proceeds from sale of investments | | 3,279 | 22,545 |
| Purchase of investments | | (6,529) | (54,797) |
| Net cash used by financing activities | | (3,250) | (32,252) |
| **Financing activities:** | | | |
| Proceeds from Paycheck Protection Program loan | | 96,805 | - |
| Proceeds from contributions restricted for investment in permanent endowment | | - | 25,000 |
| Net cash provided by financing activities | | 96,805 | 25,000 |
| **Net increase (decrease) in cash and cash equivalents** | | 54,658 | (3,402) |
| **Cash and cash equivalents, beginning of year** | | 128,086 | 131,488 |
| **Cash and cash equivalents, end of year** | $ | 182,744 | 128,086 |

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

**ELGIN YOUTH SYMPHONY ORCHESTRA**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**YEARS ENDED JUNE 30, 2020 AND 2019**

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | | SUPPORTING SERVICES | | | | SUPPORTING SERVICES | | |
| | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL EXPENSES | PROGRAM SERVICES | MANAGEMENT AND GENERAL | FUNDRAISING | TOTAL EXPENSES |
| Amortization | $ 231 | - | - | 231 | 233 | - | - | 233 |
| Artistic personnel | 117,465 | 1,042 | - | 118,507 | 219,640 | 125 | - | 219,765 |
| Awards | 1,365 | - | 1,400 | 2,765 | 50 | 214 | 4,125 | 4,389 |
| Bad debt expense | - | 2,300 | - | 2,300 | - | 260 | - | 260 |
| Bank charges | 5,121 | 9,551 | 550 | 15,222 | 1,693 | 13,712 | 1,105 | 16,510 |
| Board development | - | - | - | - | - | 3,500 | - | 3,500 |
| Contributions | - | - | 1,137 | 1,137 | - | - | 10,139 | 10,139 |
| Depreciation | 1,067 | 257 | - | 1,324 | 1,929 | 235 | - | 2,164 |
| Dues and subscriptions | - | 3,281 | 175 | 3,456 | - | 680 | 735 | 1,415 |
| Fundraising material | - | - | 3,900 | 3,900 | - | - | 3,200 | 3,200 |
| Insurance | - | 10,619 | - | 10,619 | - | 10,189 | - | 10,189 |
| Marketing and advertising | 553 | 5,906 | - | 6,459 | 22,933 | 12,128 | 4,052 | 39,113 |
| Meetings and conferences | - | 177 | - | 177 | 345 | 62 | - | 407 |
| Occupancy and rental | 234,205 | 13,735 | - | 247,940 | 239,950 | 19,536 | - | 259,486 |
| Office expense | 10,179 | 7,589 | 126 | 17,894 | 15,914 | 4,842 | 659 | 21,415 |
| Payroll expense | 166,634 | 85,727 | 53,958 | 306,319 | 86,521 | 70,000 | 50,155 | 206,676 |
| Payroll taxes | 17,519 | 8,040 | 4,389 | 29,948 | 18,265 | 5,954 | 4,152 | 28,371 |
| Postage and shipping | 1,296 | 1,905 | 450 | 3,651 | 479 | 2,031 | 421 | 2,931 |
| Printing expense | 6,594 | 4,709 | 58 | 11,361 | 13,275 | 670 | 375 | 14,320 |
| Professional fees | 1,974 | 48,175 | 4,058 | 54,207 | 234 | 40,302 | 2,668 | 43,204 |
| Program expenses | 3,642 | - | - | 3,642 | 4,574 | - | - | 4,574 |
| Telephone and internet | - | 4,994 | - | 4,994 | - | 5,917 | - | 5,917 |
| Tuition and camp expenses | 22,377 | - | - | 22,377 | 22,445 | - | - | 22,445 |
| | $ 590,222 | 208,007 | 70,201 | 868,430 | 648,480 | 190,357 | 81,786 | 920,623 |

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

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - NATURE OF OPERATIONS

Elgin Youth Symphony Orchestra (Orchestra) is a not-for-profit organization that was founded in 1976 and is the oldest and largest youth orchestra program in northwest suburbs of Chicago. The Orchestra is dedicated to creating a community of young musicians by enriching their lives and those of their families, schools, communities and beyond, through the study and performance of excellent music. The Orchestra provides music focused programming that helps young musicians to develop as leaders and philanthropists through the support of 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 the 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.

#### Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles applicable to not-for-profit organizations and in accordance with accounting principles generally accepted in the United States of America.

#### Accounting Estimates

The preparation of financial statements in accordance 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, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

#### Revenue Recognition

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 the their fair 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 that increases without donor restrictions and with donor restrictions net assets. It also requires recognition of the expiration of donor-imposed restrictions in the period in which the restrictions expire.

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### Revenue Recognition, Continued

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.

Grant revenues are recognized in the fiscal year in which they are awarded

Fundraising revenues are recognized when the events are held.

### Contributions

Contributions and promises to contribute are recognized as income when received or when they become unconditional promises to give.

All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions for which restrictions are met in the same accounting period are recorded as net assets without restrictions.

### In-kind Contributions

Volunteers contribute significant amounts of time to our program services, management and general and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation.

Contributions in-kind received consisted of:

| | | 2020 | 2019 |
|---|---|---|---|
| Contributed services: | | | |
| Use of facilities | $ | 206,825 | 208,534 |
| Marketing and design | | - | 32,725 |
| | $ | 206,825 | 241,259 |

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### Functional Expenses

The costs of program, management and general and fundraising activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and management and general and fundraising.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. For expenses that are not directly attributable to a function, they are allocated on the basis of estimates of time and effort.

### Cash and Cash Equivalents

The Orchestra considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Accounts Receivable

The Orchestra carries its accounts receivable at the outstanding principal balance adjusted for the allowance for doubtful accounts. The allowance for doubtful accounts is estimated based on the length of time the receivables are outstanding and the anticipated future collectible amounts based on historical experience. Accounts deemed uncollectible are charged to the allowance for doubtful accounts. No allowance was deemed necessary as of June 30, 2020 and 2019.

### 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. Realized gains and losses are recognized using the average cost method.

### Property and Equipment

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

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment, Continued

Major classifications of property and equipment are summarized below:

| | | 2020 | 2019 |
|---|---|---|---|
| Instruments | $ | 23,929 | 23,929 |
| Equipment | | 12,378 | 12,378 |
| | $ | 36,307 | 36,307 |

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.

Amortization of Sheet Music

Amortization of sheet music is computed using the straight-line method over the life of the sheet music. The estimated life of sheet music is sixty years.

Net Assets

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

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions. The board of directors of the Orchestra (Board) may designate, from time to time, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### Net Assets, Continued

Net assets with donor restrictions are restricted for the following purposes or periods for the years ended June 30, 2020 and 2019:

| | | 2020 | 2019 |
|---|---|---|---|
| Purpose restricted – donor restricted investment | $ | 55,253 | 53,553 |
| Unappropriated endowment earnings | | 5,646 | 10,516 |
| Time restricted | | - | 6,000 |
| Perpetual restrictions | | 57,027 | 57,027 |
| | $ | 117,926 | 127,096 |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30, 2020 and 2019:

| | | 2020 | 2019 |
|---|---|---|---|
| Sponsorships and fees | $ | 7,127 | 21,375 |
| Time restrictions expired or surrendered | | 6,000 | 8,490 |
| | $ | 13,127 | 29,865 |

### 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 provisions of ASC Topic 740, *Income Taxes*, related 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 for the years ended June 30, 2020 and 2019.

The Orchestra has evaluated the tax positions taken for all open tax years. Currently, the 2016, 2017 and 2018 tax years are open and subject to examination by the Internal Revenue Service; however, the Orchestra is not currently under audit nor has the Orchestra been contacted by this jurisdiction.

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### Advertising

Advertising costs are expensed as incurred. Advertising expense was $4,586 and $35,061 for the years ended June 30, 2020 and 2019, respectively, and is included with marketing and advertisement on the statements of functional expenses.

### Going Concern Evaluation

In accordance with accounting principles generally accepted in the United States of America, management performed an evaluation to determine if adverse conditions or events, considered in the aggregate, raise substantial doubt about the Orchestra's ability to continue as a going concern for the one-year period from the date the financial statements are available to be issued. Management's assessment did not identify any conditions or events raising substantial doubt about the Orchestra's ability to continue as a going concern for the period from October 22, 2020 to October 22, 2021.

### Change in Accounting Principle – Contributions Received and Made

In June 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made as of January 1, 2019. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. It also requires determining if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. In 2020, the Orhestra adopted ASU No. 2018-08 and has adjusted the presentation in these financial statements accordingly. ASU No. 2018-08 has been applied using the modified prospective method.

### New Accounting Standard – Revenue from Contracts

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU No. 2014-09 provides for a single five-step model to be applied to all revenue contracts with customers. ASU No. 2014-09 also requires additional financial statement disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2019. The Orchestra is currently evaluating the methods of adoption allowed by ASU No. 2014-09 and the effect that ASU No. 2014-09 is expected to have on its financial position, results of operations, cash flows and related disclosures.

## NOTE B - SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### New Accounting Standard – Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting about leasing transactions. ASU No. 2016-02 requires that leased assets be recognized as assets on the statement of financial position and the liabilities for the obligations under the lease also be recognized on the statement of financial position. ASU No. 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The required disclosures include qualitative and quantitative requirements. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021. The Orchestra is currently evaluating the methods of adoption allowed by ASU No. 2016-02 and the effect that ASU No. 2016-02 is expected to have on its financial position, results of operations, cash flows and related disclosures.

### Subsequent Events

Subsequent events have been evaluated by management through October 22, 2020, the date that the financial statements were available for issue.

## NOTE C - LIQUIDITY AND AVAILABILITY

The Orchestra regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Orchestra considers all expenditures related to its ongoing program activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of June 30, 2020 and 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

| | | 2020 | 2019 |
|---|---|---|---|
| Financial assets at year-end: | | | |
| Cash and cash equivalents | $ | 182,744 | 128,086 |
| Investments | | 289,386 | 281,579 |
| Accounts receivable | | 7,021 | 1,786 |
| Unconditional promise to give | | - | 6,000 |
| | $ | 479,151 | 417,451 |

## NOTE C - LIQUIDITY AND AVAILABILITY, CONTINUED

| | | | |
|---|---|---|---|
| Less: amounts not available for general expenditures within one year, due to: | | | |
| Board designated | | 24,699 | 25,568 |
| Donor-restricted for a specific purpose | | 60,899 | 64,069 |
| Perpetual restrictions | | 57,027 | 57,027 |
| | | 142,625 | 146,664 |
| Financial assets available to meet cash needs for general expenditures within one year | $ | 332,526 | 270,787 |

The Orchestra's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. As of June 30, 2020, donor-restricted endowment funds are not available for general expenditure.

The Orchestra's goal is to maintain available financial assets sufficient to meet 60 days of general operating expenditures. To meet obligations and cash liquidity needs, the Orchestra maintains a revolving line of credit (Note G). The purpose of the line of credit is to cover working capital expenses while waiting to collect receivables.

## NOTE D - 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, 2020 and 2019.

## NOTE E - 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 year. At June 30, 2020 and 2019, the total unconditional promises to give balance was $0 and $6,000, respectively.

## NOTE F - INVESTMENTS

Investments at June 30, 2020 are as follows:

| | | Fair Value | Cost | Unrealized Gain (Loss) |
|---|---|---|---|---|
| Assets: | | | | |
| Depository account | $ | 12,845 | 12,845 | - |
| Funds held by third party trustee | | 50,541 | 50,541 | - |
| Mutual funds | | 26,122 | 26,359 | ( 237) |
| ETFs and CEFs | | 199,878 | 150,447 | 49,431 |
| | $ | 289,386 | 240,192 | 49,194 |

Investments at June 30, 2019 are as follows:

| | | Fair Value | Cost | Unrealized Gain |
|---|---|---|---|---|
| Assets: | | | | |
| Depository account | $ | 9,572 | 9,572 | - |
| Funds held by third party trustee | | 51,135 | 51,135 | - |
| Mutual funds | | 62,927 | 55,105 | 7,822 |
| ETFs and CEFs | | 157,945 | 125,418 | 32,527 |
| | $ | 281,579 | 241,230 | 40,349 |

## NOTE G - LINE OF CREDIT

The Orchestra has an $80,000 unsecured line of credit which has no expiration date or required annual renewal requirements and bears interest at 3.25%. No balance was owed as of June 30, 2020 or 2019 under this line of credit agreement. All financial covenants were met or waived for the year ended June 30, 2020.

## NOTE H - FAIR VALUE MEASUREMENTS

Accounting standards generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

**NOTE H - FAIR VALUE MEASUREMENTS, CONTINUED**

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as:

- 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 June 30, 2020 and 2019.

Equities and fixed income mutual funds: Valued at the closing price as reported by the fund. Mutual funds held by the Orchestra are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

Exchange traded funds (ETF) and closed end funds (CEF): Valued at the closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price.

Funds held by third party trustee: Fair value is measured at the NAV per share based on the fair value of the underlying investments.

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 management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTE H - FAIR VALUE MEASUREMENTS, CONTINUED

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

The following table sets forth by level, within the fair value hierarchy, the Orchestra's assets at fair value as of June 30, 2020 and 2019:

| | Assets at Fair Value as of June 30, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Mutual funds | $ 26,122 | - | - | 26,122 |
| ETFs and CEFs | 199,878 | - | - | 199,878 |
| Total assets in the Fair value hierarchy | $ 226,000 | - | - | 226,000 |
| Asset measured at NAV[(a)] | | | | 50,541 |
| | | | $ | 276,541 |

| | Assets at Fair Value as of June 30, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Mutual funds | $ 62,927 | - | - | 62,927 |
| ETFs and CEFs | 157,945 | - | - | 157,945 |
| Total assets in the Fair value hierarchy | $ 220,872 | - | - | 220,872 |
| Asset measured at NAV[(a)] | | | | 51,135 |
| | | | $ | 272,007 |

[(a)] In accordance with subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

For the years ended June 30, 2020 and 2019, there were no significant transfers between Levels 1 and 2 and no transfers in or out of Level 3.

## NOTE H - FAIR VALUE MEASUREMENTS, CONTINUED

**Investments Measured Using the NAV per Share Practical Expedient**

The following table summarizes investments measured at fair value based on the NAV per share practical expedient as of June 30, 2020 and 2019:

| June 30, 2020 | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Funds held by third-party trustee | $ 50,541 | N/A | N/A | N/A |

| June 30, 2019 | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Funds held by third-party trustee | $ 51,135 | N/A | N/A | N/A |

## NOTE I - ENDOWMENT

The Orchestra's endowment consists of funds established by donors to provide annual funding for specific activities and general operations of the Orchestra. The endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board.

*Interpretation of Relevant Law*

The State of Illinois adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on December 31, 2009. The Board has adopted a spending policy that requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

As a result of this policy, the Orchestra retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Orchestra in a manner consistent with the standard of prudence described by UPMIFA. The Orchestra considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

## NOTE I - ENDOWMENT, CONTINUED

*Interpretation of Relevant Law, Continued*

- The duration and preservation of the fund
- The purposes of the Orchestra and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Orchestra
- 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, the endowment assets are invested in a manner that is intended to produce results that out-perform a market index based 60% on 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 both capital appreciation (realized and unrealized) and 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 5% of its endowment fund 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.

## NOTE I - ENDOWMENT, CONTINUED

*Funds with Deficiencies*

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments).

There were no such deficiencies at June 30, 2020 or 2019:

Endowment net asset composition by type of fund as of June 30, 2020:

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| Board-designated endowment funds | $ 24,699 | - | 24,699 |
| Donor-restricted endowment funds | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor | - | 57,027 | 57,027 |
| Accumulated investment gains | - | 5,646 | 5,646 |
| | $ 24,699 | 62,673 | 87,372 |

Changes in endowment net assets for the year ended June 30, 2020:

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| Endowment net assets, July 1, 2019 | $ 25,568 | 67,543 | 93,111 |
| Investment return, net | 500 | 2,483 | 2,983 |
| Appropriation of endowment Assets for expenditure | (1,369) | (7,353) | (8,722) |
| Endowment net assets, June 30, 2020 | $ 24,699 | 62,673 | 87,372 |

## NOTE I - ENDOWMENT, CONTINUED

Endowment net asset composition by type of fund as of June 30, 2019:

| | | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|---|
| Board-designated endowment funds | $ | 25,568 | - | 25,568 |
| Donor-restricted endowment funds | | | | |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor | | - | 57,027 | 57,027 |
| Accumulated investment gains | | - | 10,516 | 10,516 |
| | $ | 25,568 | 67,543 | 93,111 |

Changes in endowment net assets for the year ended June 30, 2019:

| | | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|---|
| Endowment net assets, July 1, 2018 | $ | - | 39,262 | 39,262 |
| Investment return, net | | 568 | 3,281 | 3,849 |
| Contributions | | 25,000 | 25,000 | 50,000 |
| | | 25,568 | 28,281 | 53,849 |
| Endowment net assets, June 30, 2019 | $ | 25,568 | 67,543 | 93,111 |

## NOTE J - IN-RESIDENCE ENSEMBLE AGREEMENT

On July 1, 2016, the Orchestra entered into an "In-Residence Ensemble Agreement" with Elgin Community College (College). This agreement outlines the office space, rehearsal space and the use of percussion and other equipment 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 $208,534 for the years ended June 30, 2020 and 2019, respectively.

## NOTE K - OPERATING LEASES

In January 2018, the Orchestra entered into a five-year lease agreement with a non-related party for administrative office space, which expires January 30, 2023. 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 proportional share of operating costs of the building. Total rent expense was $14,759 and $20,338 for the years ended June 30, 2020 and 2019, respectively.

The aggregate future minimum lease commitment on these leases as of June 30, 2020 is as follows:

| | | |
|---|---|---|
| 2021 | $ | 13,200 |
| 2022 | | 13,200 |
| 2023 | | 7,700 |

## NOTE L - IMPACT OF COVID-19

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America. The extent of the impact of COVID-19 on the Orchestra's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on its' students, employees and vendors, all of which are uncertain and cannot be predicted. At this time, the extent to which COVID-19 may impact the Orchestra's financial condition or results of operations is uncertain.

Since March 2020, the COVID-19 pandemic has significantly impacted operational and fund raising activities, and the Orchestra expects that impact to continue throughout the current fiscal year ending June 30, 2021. Tuition revenue has been negatively impacted and EYSO is currently unable to host traditional fundraising events, meet donors in person, or generate concert ticket revenue. The Orchestra has operations in order to continue programming that meets or exceeds all COVID-19 related guidelines and best practices.

On April 16, 2020, the Orchestra received a Paycheck Protection Program (PPP) loan in the amount of $96,805 as permitted under the Coronavirus Aid, Relief and Economic Security Act. The Orchestra is to utilize the PPP loan funds to cover permitted costs such as payroll, rent, and utilities over a twenty-four-week period after the loan is made. If the PPP loan is used to cover permitted costs, the Orchestra can expect the entire balance of the PPP loan to be forgiven after the Small Business Administration (SBA) approves Orchestra's request for forgiveness. Any portion of the PPP loan not approved for forgiveness by the SBA is subject to a 1% interest rate accruing interest from the date of funding with monthly principal and interest payments due starting seven months after receipt of the PPP loan with a maturity date of April 16, 2022.

## NOTE L - IMPACT OF COVID-19, CONTINUED

Since the PPP loan is part of a government loan program, the Orchestra will recognize income on the statement of activities and changes in net assets only at the time the PPP loan forgiveness is approved by the SBA. The Orchestra intends to comply with all requirements to qualify for loan forgiveness and expects to receive such forgiveness.

## NOTE M - RECLASSIFICATIONS

Certain amounts in the 2019 financial statements have been reclassified to conform with the year 2020 presentation.