

MEMPHIS SYMPHONY ORCHESTRA, INC.

FINANCIAL STATEMENTS

June 30, 2018 and 2017



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Memphis Symphony Orchestra, Inc.

We have audited the accompanying financial statements of Memphis Symphony Orchestra, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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 audit 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 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 Memphis Symphony Orchestra, Inc. as of June 30, 2018 and 2017, 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 Regarding Prior Period Restatement

As described in Note 7 to the financial statements, certain corrections of amounts previously reported in the financial statements for the year ended June 30, 2017 were made during the fiscal year ended June 30, 2018, and beginning net assets have been restated for these corrections. Our opinion is not modified with respect to that matter.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 13, 2018

MEMPHIS SYMPHONY ORCHESTRA, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>
Cash and cash equivalents	\$ 974,690	\$ 988,506
Unconditional promises to give, net of allowance	145,019	116,753
Accounts receivable - other	20,763	25,314
Prepaid expenses	14,582	16,822
Property and equipment, net	433,018	444,055
Cash surrender value of life insurance	40,099	39,302
Other assets	17,513	16,626
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,645,684</u>	<u>\$ 1,647,378</u>
	<u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable	\$ 14,554	\$ 124,169
Accrued compensation	22,242	39,240
Funds held for others	69,500	29,500
Deferred revenue	367,909	302,290
Total liabilities	<u>474,205</u>	<u>495,199</u>
Net Assets		
Unrestricted	1,099,491	1,114,494
Temporarily restricted	71,988	37,685
Total net assets	<u>1,171,479</u>	<u>1,152,179</u>
Total liabilities and net assets	<u>\$ 1,645,684</u>	<u>\$ 1,647,378</u>

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

MEMPHIS SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions and sponsorships	\$ 1,122,120	\$ 40,032	\$ 1,162,152
In-kind contributions	113,947	-	113,947
Other fundraising income	6,537	-	6,537
Grants	1,829,890	-	1,829,890
Concert tickets and subscription sales	1,195,322	-	1,195,322
Interest and dividend income	1,091	-	1,091
Other income	32,287	-	32,287
Net assets released from restrictions	5,729	(5,729)	-
Total support and revenue	<u>4,306,923</u>	<u>34,303</u>	<u>4,341,226</u>
Expenses			
Program Services			
Artistic engagement	3,092,078	-	3,092,078
Marketing	458,899	-	458,899
Total program services	<u>3,550,977</u>	<u>-</u>	<u>3,550,977</u>
Support Services			
Fundraising	365,532	-	365,532
General and administrative	405,417	-	405,417
Total support services	<u>770,949</u>	<u>-</u>	<u>770,949</u>
Total expenses	<u>4,321,926</u>	<u>-</u>	<u>4,321,926</u>
Change in net assets	(15,003)	34,303	19,300
Net assets at beginning of year	<u>1,114,494</u>	<u>37,685</u>	<u>1,152,179</u>
Net assets at end of year	<u>\$ 1,099,491</u>	<u>\$ 71,988</u>	<u>\$ 1,171,479</u>

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

MEMPHIS SYMPHONY ORCHESTRA, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017 (As Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions and sponsorships	\$ 757,560	\$ -	\$ 757,560
In-kind contributions	152,701	-	152,701
Other fundraising income	2,213	-	2,213
Grants	556,813	48,900	605,713
Concert tickets and subscription sales	962,296	-	962,296
Interest and dividend income	1,058	-	1,058
Other income	27,942	-	27,942
Loss on uncollectible promises to give	-	(282,230)	(282,230)
Net assets released from restrictions	527,728	(527,728)	-
Total support and revenue	<u>2,988,311</u>	<u>(761,058)</u>	<u>2,227,253</u>
Expenses			
Program Services			
Artistic engagement	2,943,463	-	2,943,463
Marketing	574,278	-	574,278
Total program services	<u>3,517,741</u>	<u>-</u>	<u>3,517,741</u>
Support Services			
Fundraising	405,021	-	405,021
General and administrative	253,491	-	253,491
Total support services	<u>658,512</u>	<u>-</u>	<u>658,512</u>
Total expenses	<u>4,176,253</u>	<u>-</u>	<u>4,176,253</u>
Change in net assets	(1,187,942)	(761,058)	(1,949,000)
Net assets at beginning of year	<u>2,302,436</u>	<u>798,743</u>	<u>3,101,179</u>
Net assets at end of year	<u>\$ 1,114,494</u>	<u>\$ 37,685</u>	<u>\$ 1,152,179</u>

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

MEMPHIS SYMPHONY ORCHESTRA, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2018 and 2017

	2018	2017 (As Restated)
Cash Flows Provided By (Used For) Operating Activities:		
Change in net assets	\$ 19,300	\$ (1,949,000)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:		
Depreciation	20,616	28,082
Change in cash surrender value of life insurance	(797)	(810)
Loss on uncollectible promises to give	17,382	282,230
Loss on disposal of property and equipment	-	198
Change in Operating Assets and Liabilities:		
Unconditional promises to give	(45,648)	490,719
Accounts receivable - other	4,551	(6,780)
Prepaid expenses	2,240	30,071
Other assets	(887)	550
Accounts payable	(109,615)	49,757
Accrued compensation	(16,998)	3,753
Funds held for others	40,000	29,500
Deferred revenue	65,619	24,190
Total adjustments	(23,537)	931,460
Net cash used for operating activities	(4,237)	(1,017,540)
Cash Flows Used For Investing Activities:		
Purchases of property and equipment	(9,579)	(27,239)
Net decrease in cash and cash equivalents	(13,816)	(1,044,779)
Cash and cash equivalents at beginning of year	988,506	2,033,285
Cash and cash equivalents at end of year	\$ 974,690	\$ 988,506

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

MEMPHIS SYMPHONY ORCHESTRA, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Memphis Symphony Orchestra, Inc. (the "Symphony") is a non-profit Tennessee corporation organized as a 501(c)(3) under the Internal Revenue Code in March 1953. The Symphony is dedicated to the promotion of musical education and culture and the promotion of musical concerts throughout Memphis and the surrounding area. The Symphony is supported primarily by contributions from individuals, corporations, and foundations.

Presentation and Basis of Accounting

The financial statements of the Symphony have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the activities of Memphis Symphony Orchestra, Inc. and the Memphis Symphony Chorus. The Memphis Symphony Chorus is a performing organization which functions as an auxiliary of the Symphony.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Revenues derived from single ticket sales are recorded as deferred revenue when purchased and recognized as revenue on the performance date. Subscriptions are recorded as deferred revenue when purchased and allocated equally to each production when earned. All productions for each season are conducted within the Symphony's fiscal year.

Contributions and Unconditional Promises to Give

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending upon the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restriction. When a donor restriction expires in the same year received, revenue is recognized as unrestricted net assets.

Unconditional promises to give are recognized as revenues when received at their net realizable values. Amounts due in subsequent years are discounted to the present value of their net realizable value.

An allowance for uncollectible promises to give is recorded based upon management's estimate of uncollectible accounts determined by analysis of specific balances and a general reserve based upon the total outstanding balances. Past due balances and delinquent receivables are charged against the allowance when they are determined to be uncollectible by management.

Concentrations and Credit Risks

The Symphony's credit risks primarily relate to cash and cash equivalents and support and revenue. The Symphony maintains cash balances at various financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000 for each commercial bank.

For the year ended June 30, 2018, approximately 43% of total contributions and sponsorships and grant revenues was received from one donor. As of June 30, 2018, approximately 62% of unconditional promises to give was due from two donors, and grants receivable were due from one grantor.

For the year ended June 30, 2017, approximately 14% of total contributions and sponsorships and grant revenues was received from one donor. As of June 30, 2017, approximately 47% of unconditional promises to give was due from three donors, and grants receivable were due from one grantor.

Accounts Receivable

Accounts receivable primarily consists of fees from program services and are non-interest bearing. At June 30, 2018 and 2017, management believes no allowance for doubtful accounts is necessary.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Symphony considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are reported at cost at the date of acquisition or fair value at the date of donation in the case of donated property. Property and equipment purchases in excess of \$1,000 with a useful life of more than one year are capitalized. Depreciation is provided over the estimated useful service lives of 3 to 15 years using the straight-line method. Music collections are capitalized and not depreciated. Repairs and maintenance costs are expensed as incurred; major renewals and leasehold improvements are capitalized. Depreciation expense for the years ended June 30, 2018 and 2017, was \$20,616 and \$28,082, respectively.

Cash Surrender Value of Life Insurance

The Symphony is the owner and beneficiary of a life insurance policy that covers the life of a donor. This life insurance policy has a cash surrender value which is reported on the statement of financial position at the value provided to the Symphony by the insurance carrier.

Net Assets

The Symphony's net assets and changes therein are classified and reported as follows:

Permanently Restricted Net Assets – Permanently restricted net assets represent contributions subject to donor-imposed stipulations to be invested in perpetuity, for which only the income may be available for operations or specific purposes. At June 30, 2018 and 2017, there were no permanently restricted net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets represent gifts or other revenues wherein donors have specified the purpose for which the net assets are to be spent or time restrictions imposed or implied by the nature of the gift. When a restriction is fulfilled,

temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unrestricted Net Assets – Unrestricted net assets are all the remaining net assets of the Symphony.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs (mainly payroll and occupancy) have been allocated among the programs and supporting services benefited.

Advertising Costs

Advertising and promotional costs are expensed as incurred and totaled \$75,182 and \$51,317, for the years ended June 30, 2018 and 2017, respectively.

Income Taxes

No provision for federal income taxes is required since the Symphony is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and has been determined to be an organization that is not a private foundation. The Symphony files an exempt organization return in the U.S. federal jurisdiction.

Income from program advertisements, which is not directly related to the Symphony's exempt purpose, is subject to taxation as unrelated business income. There was no unrelated business income tax expense for the years ended June 30, 2018 and 2017.

Recent Accounting Pronouncement

The FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

1. Net Asset Classes – Net asset classification has been reduced from three classes of net assets (unrestricted, temporarily restricted and permanently restricted) to net assets with donor restrictions and net assets without donor restrictions.
2. Expenses – Expenses by both their natural classification and their functional classification will be presented either on the face of the statement of activities, as a separate statement or in the notes to the financial statements.
3. Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
4. Presentation of Operating Cash Flows – Not-for-profit entities can continue to present the statement of cash flows using either the direct method or indirect method. The ASU removes the requirement to present or disclose the indirect method when using the direct method of reporting cash flows.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-

service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Symphony intends to adopt the new ASU guidance using the retrospective method for the year ended June 30, 2019.

In-Kind Contributions

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market value in the period received. A substantial number of volunteers have made significant contributions of their time to develop the Symphony's programs, principally through voluntary aid and various fund raising endeavors. The amounts of these contributions have not been reflected in the financial statements, as the value of these in-kind contributions is not susceptible to objective measurement or valuation.

The Symphony receives in-kind contributions which have been recorded at their fair value in the statement of activities. The corresponding expense has been allocated to the appropriate program or supporting service. In-kind contributions were comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Office rent	\$ 62,697	\$ 47,000
Artists' lodging	35,000	35,000
Food/catering	16,250	38,701
Attorney fees	-	32,000
	<u>\$ 113,947</u>	<u>\$ 152,701</u>

Date of Management's Review

The Symphony evaluated its June 30, 2018, financial statements for subsequent events through December 13, 2018, the date the financial statements were available to be issued. Other than the events described in Notes 2 and 6, the Symphony is not aware of any other subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 133,409	\$ 420,286
Due within one to five years	30,000	-
Less allowance for doubtful accounts	(18,390)	(303,533)
	<u>\$ 145,019</u>	<u>\$ 116,753</u>

As of June 30, 2018, the Symphony has a remaining conditional promise to give of \$3,500,000, provided the Symphony raises \$11,500,000 in committed pledges towards the Symphony's partnership with the University of Memphis. Subsequent to year end, the Symphony raised the additional pledges necessary to obtain the promise.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following for the years ended June 30:

	2018	2017
Office furniture and equipment	\$ 148,755	\$ 148,755
Vehicles	24,000	24,000
Concert equipment	221,732	221,732
Musical instruments	181,405	181,405
Music library	396,662	387,282
Leasehold improvements	10,884	10,884
Property and equipment, at cost	983,438	974,058
Less accumulated depreciation	(550,420)	(530,003)
Total property and equipment, net	\$ 433,018	\$ 444,055

NOTE 4 – MULTI-EMPLOYER PENSION PLAN

The Symphony is a participating employer in a multi-employer defined benefit pension plan (the "Plan") for its unionized musicians who participate in a collective bargaining agreement. The Plan generally provides retirement benefits to employees based on years of service to the Symphony. The Plan is managed by a board of trustees including contributing employers. The Symphony does not have a representative on the board of trustees. Pension contributions were \$45,033 and \$41,280 for the years ended June 30, 2018 and 2017, respectively. The Symphony's contributions to the Plan represented less than 5% of total contributions to the plan. Effective April 15, 2010, the Plan is operating under an amended rehabilitation plan.

The risk of participating in a multi-employer defined benefit plan are different from single employer plans as: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) if a participating employer stops contributing to the plan, the unfunded obligations of the Plan may be required to be borne by the remaining participating employers, and (c) if the Symphony chooses to stop participating in the Plan, a withdrawal liability to the Plan may result.

In connection with ongoing renegotiation of its collective bargaining agreement, the Symphony may discuss and negotiate for the complete or partial withdrawal from the Plan. Depending on the number of employees withdrawn in any future period and the financial condition of the multi-employer plan at the time of withdrawal, the associated withdrawal liabilities could be material to the Symphony's change in net assets in the period of the withdrawal. The Symphony has no current plans to withdraw from its multi-employer pension plan.

The following presents information about the Symphony's multi-employer pension plan as of March 31, 2018 and 2017, and for the years then ended:

Name of pension fund	American Federation of Musicians and Employer's Pension Fund	
Employer Identification Number	51-6120204	
Plan number	001	
Rehabilitation Plan status	Implemented	
Expiration of collective bargaining agreement	June 30, 2018	
	<u>2018</u>	<u>2017</u>
Actuarial value of assets	\$ 1,908,814,167	\$ 1,976,473,054
Actuarial value of liabilities	\$ 2,958,237,592	\$ 2,866,450,348
Percentage funded at end of year	64.50%	69.00%
Required employer contributions based on qualified employee gross wages	3.27%	3.27%

NOTE 5 – NET ASSETS

Net assets were temporarily restricted as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 31,988	\$ 31,956
Time restrictions	40,000	-
Various purpose restrictions	-	5,729
	<u>\$ 71,988</u>	<u>\$ 37,685</u>

NOTE 6 – GOING CONCERN

The financial statements have been prepared on a going concern basis, which assumes that the Symphony will continue for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

As of June 30, 2018, the Symphony is dependent upon a verbal commitment of \$1 million to meet budgeted operating expenses for the next fiscal year. Subsequent to year end, \$500,000 of this commitment was received. While management believes the remaining amount of the commitment will be received, uncertainty still exists as to the Symphony's ability continue its operations for the next twelve months.

NOTE 7 – PRIOR PERIOD RESTATEMENT

During 2018, the Symphony made an adjustment to correctly account for an agency transaction. Previously the Symphony recorded a gift intended to be transferred to a separate nonprofit organization as revenue, thereby causing liabilities to be understated and revenues to be overstated by \$29,500. The effect of this correction was to decrease unrestricted contributions and sponsorships and the change in unrestricted net assets, and increase funds held for others by \$29,500 as of and for the year ended June 30, 2017.