

Symphony San Jose

Financial Statements
and Single Audit Reports and Schedules

June 30, 2022 and 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Symphony San Jose
San Jose, California

Opinion

We have audited the accompanying financial statements of Symphony San Jose (the "Symphony"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Symphony San Jose as of June 30, 2022 and 2021, 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.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Symphony San Jose and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Symphony San Jose's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Symphony San Jose's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Symphony San Jose's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2023, on our consideration of the Symphony's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Symphony's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Symphony's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Armanino LLP".

Armanino^{LLP}
San Jose, California

January 25, 2023

Symphony San Jose
Statements of Financial Position
June 30, 2022 and 2021

| | 2022 | 2021 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 544,234 | \$ 587,441 |
| Accounts receivable | 13,462 | 17,072 |
| Contributions receivable | 523,666 | - |
| Prepaid expenses | <u>28,651</u> | <u>58,935</u> |
| Total current assets | <u>1,110,013</u> | <u>663,448</u> |
| Property and equipment, net | <u>158,291</u> | <u>49,358</u> |
| Other assets | | |
| Board designated endowment investments | 897,545 | 989,281 |
| Donor restricted endowment investments | <u>1,961,948</u> | <u>2,272,693</u> |
| Total other assets | <u>2,859,493</u> | <u>3,261,974</u> |
| Total assets | <u>\$ 4,127,797</u> | <u>\$ 3,974,780</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable | \$ 32,506 | \$ 5,850 |
| Accrued liabilities | 77,304 | 32,254 |
| Deferred revenue | 300,680 | 364,010 |
| Deferred rent | <u>8,433</u> | <u>-</u> |
| Total current liabilities | <u>418,923</u> | <u>402,114</u> |
| Net assets | | |
| Without donor restrictions | | |
| Undesignated | 831,381 | 290,692 |
| Board designated endowment | <u>897,545</u> | <u>989,281</u> |
| Total without donor restrictions | <u>1,728,926</u> | <u>1,279,973</u> |
| With donor restrictions | | |
| Donor restricted for a specified purpose | 18,000 | 20,000 |
| Donor restricted endowment | <u>1,961,948</u> | <u>2,272,693</u> |
| Total with donor restrictions | <u>1,979,948</u> | <u>2,292,693</u> |
| Total net assets | <u>3,708,874</u> | <u>3,572,666</u> |
| Total liabilities and net assets | <u>\$ 4,127,797</u> | <u>\$ 3,974,780</u> |

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

Symphony San Jose
Statements of Activities
For the Years Ended June 30, 2022 and 2021

| | 2022 | | | 2021 | | |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Support and revenue | | | | | | |
| Support | | | | | | |
| Contributions - individuals | \$ 1,203,010 | \$ 10,000 | \$ 1,213,010 | \$ 700,957 | \$ 20,000 | \$ 720,957 |
| Contributions - government | 1,076,562 | - | 1,076,562 | 361,300 | - | 361,300 |
| Contributions - city | 204,439 | - | 204,439 | 192,618 | - | 192,618 |
| Contributions - foundations | 198,947 | - | 198,947 | 53,572 | - | 53,572 |
| Contributions - corporations | 77,500 | - | 77,500 | 56,085 | - | 56,085 |
| Contributions - in-kind | 12,735 | - | 12,735 | - | - | - |
| Contributions - endowments | - | - | - | - | 450,000 | 450,000 |
| Total support | <u>2,773,193</u> | <u>10,000</u> | <u>2,783,193</u> | <u>1,364,532</u> | <u>470,000</u> | <u>1,834,532</u> |
| Revenue | | | | | | |
| Performance fees | 176,895 | - | 176,895 | 1,968 | - | 1,968 |
| Subscription ticket sales | 415,357 | - | 415,357 | - | - | - |
| Single ticket sales | 353,917 | - | 353,917 | - | - | - |
| Other income | 38,090 | - | 38,090 | 1,678 | - | 1,678 |
| Investment income (losses), net | (91,736) | (210,745) | (302,481) | 151,904 | 330,528 | 482,432 |
| Losses on disposal of property and equipment | - | - | - | (10,477) | - | (10,477) |
| Total revenue | <u>892,523</u> | <u>(210,745)</u> | <u>681,778</u> | <u>145,073</u> | <u>330,528</u> | <u>475,601</u> |
| Total support and revenue | <u>3,665,716</u> | <u>(200,745)</u> | <u>3,464,971</u> | <u>1,509,605</u> | <u>800,528</u> | <u>2,310,133</u> |
| Net assets released from restriction | <u>112,000</u> | <u>(112,000)</u> | <u>-</u> | <u>97,000</u> | <u>(97,000)</u> | <u>-</u> |
| Total support, revenue, and net assets released from restriction | <u>3,777,716</u> | <u>(312,745)</u> | <u>3,464,971</u> | <u>1,606,605</u> | <u>703,528</u> | <u>2,310,133</u> |
| Functional expenses | | | | | | |
| Program services | <u>2,812,156</u> | <u>-</u> | <u>2,812,156</u> | <u>630,189</u> | <u>-</u> | <u>630,189</u> |
| Support services | | | | | | |
| Management and general | 432,936 | - | 432,936 | 264,997 | - | 264,997 |
| Fundraising | <u>83,671</u> | <u>-</u> | <u>83,671</u> | <u>97,762</u> | <u>-</u> | <u>97,762</u> |
| Total support services | <u>516,607</u> | <u>-</u> | <u>516,607</u> | <u>362,759</u> | <u>-</u> | <u>362,759</u> |
| Total functional expenses | <u>3,328,763</u> | <u>-</u> | <u>3,328,763</u> | <u>992,948</u> | <u>-</u> | <u>992,948</u> |
| Change in net assets | 448,953 | (312,745) | 136,208 | 613,657 | 703,528 | 1,317,185 |
| Net assets, beginning of year | <u>1,279,973</u> | <u>2,292,693</u> | <u>3,572,666</u> | <u>666,316</u> | <u>1,589,165</u> | <u>2,255,481</u> |
| Net assets, end of year | <u>\$ 1,728,926</u> | <u>\$ 1,979,948</u> | <u>\$ 3,708,874</u> | <u>\$ 1,279,973</u> | <u>\$ 2,292,693</u> | <u>\$ 3,572,666</u> |

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

Symphony San Jose
Statement of Functional Expenses
For the Year Ended June 30, 2022

| | Program Services | Support Services | | Total Support Services | Total |
|-------------------------------------|---------------------|---------------------------|------------------|---------------------------|---------------------|
| | | Management and General | Fundraising | | |
| Salaries and related expenses | | | | | |
| Salaries | \$ 1,496,068 | \$ 119,019 | \$ 60,781 | \$ 179,800 | \$ 1,675,868 |
| Payroll taxes | 182,425 | 9,025 | 5,038 | 14,063 | 196,488 |
| Benefits | 126,864 | 9,753 | 1,257 | 11,010 | 137,874 |
| Worker's compensation | 17,065 | 158 | 255 | 413 | 17,478 |
| Total salaries and related expenses | <u>1,822,422</u> | <u>137,955</u> | <u>67,331</u> | <u>205,286</u> | <u>2,027,708</u> |
| Production expense | 445,852 | 263 | 150 | 413 | 446,265 |
| Professional fees | 17,396 | 145,300 | - | 145,300 | 162,696 |
| Marketing/advertising | 161,486 | - | - | - | 161,486 |
| Occupancy | 67,354 | 83,428 | - | 83,428 | 150,782 |
| Contract labor | 150,500 | - | - | - | 150,500 |
| Box office expense | 56,131 | - | - | - | 56,131 |
| Office expense | 78 | 38,658 | 846 | 39,504 | 39,582 |
| Depreciation | 33,720 | 3,699 | - | 3,699 | 37,419 |
| Donor cultivation/recognition | 22,000 | - | 15,344 | 15,344 | 37,344 |
| Insurance | 7,202 | 22,083 | - | 22,083 | 29,285 |
| Travel | 28,015 | 800 | - | 800 | 28,815 |
| Interest | - | 750 | - | 750 | 750 |
| | <u>\$ 2,812,156</u> | <u>\$ 432,936</u> | <u>\$ 83,671</u> | <u>\$ 516,607</u> | <u>\$ 3,328,763</u> |

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

Symphony San Jose
Statement of Functional Expenses
For the Year Ended June 30, 2021

| | Program Services | Support Services | | Total Support Services | Total |
|-------------------------------------|---------------------|---------------------------|------------------|---------------------------|-------------------|
| | | Management and General | Fundraising | | |
| Salaries and related expenses | | | | | |
| Salaries | \$ 447,147 | \$ 115,657 | \$ 81,576 | \$ 197,233 | \$ 644,380 |
| Payroll taxes | 52,214 | 9,340 | 6,588 | 15,928 | 68,142 |
| Benefits | 31,711 | 7,381 | 5,206 | 12,587 | 44,298 |
| Worker's compensation | 2,698 | 339 | 239 | 578 | 3,276 |
| Total salaries and related expenses | <u>533,770</u> | <u>132,717</u> | <u>93,609</u> | <u>226,326</u> | <u>760,096</u> |
| Production expense | 7,704 | - | - | - | 7,704 |
| Professional fees | 1,041 | 52,707 | - | 52,707 | 53,748 |
| Marketing/advertising | 35,516 | - | - | - | 35,516 |
| Occupancy | 15 | 51,102 | - | 51,102 | 51,117 |
| Box office expense | 26,085 | - | - | - | 26,085 |
| Office expense | - | 5,117 | - | 5,117 | 5,117 |
| Depreciation | 16,372 | 1,780 | 1,780 | 3,560 | 19,932 |
| Donor cultivation/recognition | - | - | 2,373 | 2,373 | 2,373 |
| Insurance | 9,686 | 20,628 | - | 20,628 | 30,314 |
| Interest | - | 946 | - | 946 | 946 |
| | <u>\$ 630,189</u> | <u>\$ 264,997</u> | <u>\$ 97,762</u> | <u>\$ 362,759</u> | <u>\$ 992,948</u> |

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

Symphony San Jose
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|--|------------|--------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 136,208 | \$ 1,317,185 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 37,419 | 19,932 |
| Losses on disposal of property and equipment | - | 10,477 |
| Contribution restricted for long-term purpose | - | (450,000) |
| Net realized and unrealized (gains) losses on investments | 393,203 | (439,725) |
| Increase in accrued investment income | (2,030) | (1,022) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 3,610 | 21,788 |
| Contributions receivable | (523,666) | - |
| Prepaid expenses | 30,285 | (4,114) |
| Accounts payable | 26,656 | 3,915 |
| Accrued liabilities | 45,050 | (2,288) |
| Deferred revenue | (63,330) | (15,042) |
| Deferred rent | 8,433 | - |
| Net cash provided by operating activities | 91,838 | 461,106 |
| Cash flows from investing activities | | |
| Net proceeds of endowment investments cash equivalents | 38,442 | 9,966 |
| Proceeds from sale of investments | 398,972 | 368,238 |
| Purchase of investments | (426,107) | (749,888) |
| Purchase of property and equipment | (146,352) | - |
| Net cash used in investing activities | (135,045) | (371,684) |
| Cash flows from financing activities | | |
| Contribution restricted for long-term purpose | - | 450,000 |
| Net cash provided by financing activities | - | 450,000 |
| Net increase (decrease) in cash and cash equivalents | (43,207) | 539,422 |
| Cash and cash equivalents, beginning of year | 587,441 | 48,019 |
| Cash and cash equivalents, end of year | \$ 544,234 | \$ 587,441 |

Supplemental disclosure of cash flow information

| | | |
|--|--------|--------|
| Cash paid during the year for interest | \$ 750 | \$ 946 |
|--|--------|--------|

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

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

1. NATURE OF OPERATIONS

Symphony San Jose (formerly known as Symphony Silicon Valley; also "Symphony") was incorporated on July 1, 2003, as an independent California nonprofit public benefit corporation, following its first performance season under the umbrella of Ballet San Jose Silicon Valley (2002-2003). On July 30, 2021, the Symphony filed a Certificate of Amendment of Articles of Incorporation with the California Secretary of State, changing its legal name from Symphony Silicon Valley to Symphony San Jose.

The Symphony's mission is to enrich the lives of San Jose and South Bay residents through superbly performed, accessible orchestral programs that address the diversity of their interests. Initially founded to fill a specific gap in San Jose's cultural offerings and support a body of outstanding professional musicians, the Symphony now serves a spectrum of South Bay constituencies as their first-line resource for large ensemble, high quality musical performances. Whether presenting the classics or new works, pops, various national traditions, film scores or education programs, the Symphony is widely recognized as the South Bay's premier orchestra.

The Symphony's innovative operating model is based on high artistic quality and low operating overhead. Its roster of distinguished guest conductors from around the world, many of whom return repeatedly, takes the place of a resident music director. This policy allows the Symphony to attract a range of superior artists and to program to their specific strengths while remaining attuned to the profiles and preferences of its diverse listeners. Both the musicians and audiences are enthusiastic about the variety and standard of musical leadership.

Seventy-four nationally recruited professional musicians make up its permanent core orchestra, which to date has performed for well over a million listeners of all ages. Through their artistic committee, orchestra members are active partners in the Symphony's artistic choices. Their pay rate is highly competitive and, along with prominent guest artists, they are featured with the orchestra as concert soloists. The number of annual services offered the Symphony musicians is among the highest in the greater Bay Area, outside of the three San Francisco giants.

San Francisco Classical Voice praises the Symphony as "...what perhaps only the most fortunate metropolises have: an orchestra that serves its public brilliantly, by presenting it with engaging, memorable musical experiences;" while the Mercury News calls it "a surprising organization with its enterprising and even innovative programs...its unusual business model...and its overall tenacity and loyal audiences."

Seasons typically open in the early fall with the initial concerts of the Symphony's nine-month Classics series, often following free outdoor summer concerts. Classics programs mix traditional orchestral repertory embraced by dedicated classical audiences with unexpected and edgier works. Many seasons include one or more commissioned works or premieres.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

1. NATURE OF OPERATIONS (continued)

Additional major Symphony programs are directed toward other segments of the community, including students, families, young adults, and culturally specific audiences. Among these, the Symphony has a special commitment to ArtSPARK, its free and lively introduction to the orchestra and its music for thousands of Santa Clara County elementary school students. The Symphony's Films-In-Concert series continues to introduce young, diverse, exuberant audiences to an orchestra that is playing their music for them, rather prescribing the unfamiliar. Every season, a dozen or more community or visiting arts organizations request the Symphony's production assistance – access to the theater, stagehands hired on the mandatory union contracts, the orchestra shell – or collaborations with the musicians or Chorale members.

2. PROGRAM SERVICES

After a long break from live performances, the Symphony resumed the regular season in October 2021. Before the official opening of the season, the Symphony teamed up with Opera San Jose to produce free outdoor concerts on Labor Day weekend. The programs featured a full symphony orchestra, operatic soloists, and a piano soloist. About 8,000 audience welcomed live music back to our community.

The 2021-22 season opened with a program that included a world premiere by the noted Mexican composer Gabriela Ortiz. D'Colonial Californio is a concerto for flute and orchestra on the theme of El Camino Real, the link between Mexican and Colonial/American California. A newly installed iMAG system allowed audiences to view the orchestra from different angles and close-up images.

The Symphony managed to perform seven classics concerts, two film concerts, and the Carols in the California in the 2021-22 season.

The programs ranged from the traditional pieces, such as Beethoven, to works with jazz or Broadway influences. The conductors and soloists included artists from Argentina and Japan. The 2021-22 season appealed to diverse audiences.

3. FINANCIAL OPERATIONS

Subscription sales for the 2021-22 season came in 15% above goal. However, total earned revenue was 48% under budget as non-subscription sales were not as strong as anticipated. The lack of a third film concert made a big impact.

Total contributed revenue was 65% or approximately \$1,000,000 above budget. Included in contribution revenue was a \$572,666 bequest from a long-time patron. Contributions from the government was 58% above budget. That includes a Shuttered Venue Operators Grant ("SVOG") of approximately \$817,000 from the Small Business Administration.

With these resources, Symphony San Jose closed 2021-22 with an operating surplus, ample available cash, no outstanding draw on its line of credit and its investment reserve intact.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

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, the Symphony reports its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - assets over which the Board of Directors has discretionary control in carrying out the operations of the Symphony. Under this category, the Symphony maintains an operating fund plus any net assets designated by the Board for specific purposes. The Symphony has elected to report as an increase in net assets without donor restrictions any restricted support received in the current period for which the restrictions have been met in the current period.
- *Net assets with donor restrictions* - assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period, as well as assets held in perpetuity. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

Adoption of accounting standards update

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The Symphony adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

Reclassifications

Certain reclassifications have been made to prior year balances to conform with current year presentation.

These reclassifications had no impact on total assets, total liabilities, total net assets or change in net assets in the previously reported financial statements for the year ended June 30, 2021.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation 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 at the date of the financial statements and the reported amounts of support, revenue, and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude amounts restricted and/or designated for long-term purposes. The Symphony maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Symphony has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts receivable

The Symphony considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Contributions receivable

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received. All unconditional promises to give are receivable in less than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Symphony considers all grants and contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Board designated net assets

Board designated net assets include net assets that are not subject to donor-imposed restrictions that have been designated by the Board for a specific purpose. These funds may be disbursed at the discretion of the Board. All board designated net assets at June 30, 2022 and 2021 were designated to the Symphony's endowment.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which are 5 to 15 years for all assets recorded as of June 30, 2022. The only assets depreciated over a period of other than 5 years are a nine-foot Steinway grand piano purchased during the year ended June 30, 2009 for concert use and a seven-foot Steinway B grand piano donated during the year ended June 30, 2013, which are depreciated over 15 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Symphony. Unobservable inputs reflect the Symphony's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Symphony's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Accrued vacation

Vacation pay is accrued for full-time employees at the rate of 6.66 hours per month or as negotiated. The maximum vacation time that can be accrued and carried over to the next year is 80 to 160 hours, dependent on length of service. Accrued vacation represents vacation earned, but not taken as of June 30, 2022 and 2021, and is included in "accrued liabilities" in the statements of financial position. The accrued vacation balance as of June 30, 2022 and 2021 was \$36,710 and \$27,765, respectively.

Revenue recognition

The Symphony follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),
- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Symphony satisfies a performance obligation.

The Symphony recognizes support and revenue on the accrual basis of accounting. Program fees are recognized as revenue in the period in which the service is provided. Pre-sold ticket revenue for any event that has not yet occurred is shown as deferred until the event takes place.

Total deferred revenue at June 30, 2022 consists of revenue from:

1) Pre-sold subscription tickets for the scheduled 2022-23 Classics series (\$287,038); 2) gift certificates purchased for a value applicable to a future ticket purchase (\$13,642). Some purchasers were willing to donate the value of the canceled concerts to the Symphony. The Symphony recognized \$10,042 from the deferred revenue as donated ticket contributions.

Total deferred revenue at June 30, 2021 consists of revenue from:

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

1) Pre-sold subscription tickets for the scheduled 2021-22 Classics series (\$255,902); 2) pre-sold single tickets for a film with orchestra originally scheduled for 2020-21 but postponed by COVID-19 (\$85,869); 3) pre-sold single tickets for other performances (\$286); 4) gift certificates purchased for a value applicable to a future ticket purchase (\$4,931); 5) vouchers issued on request for the value of tickets held for performances cancelled by COVID-19 (\$6,671); 6) Ongoing refunds will be charged against the balance of deferred ticket revenue (\$10,351 on June 30, 2021) remaining from 2019-20's and 2020-21's COVID-19-related cancellations. Some purchasers were willing to donate the value of the canceled concerts to the Symphony. The Symphony recognized \$116,273 from the deferred revenue as donated ticket contributions.

Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in net assets without donor restrictions if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in net assets with donor restrictions. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification from net assets with donor restrictions to net assets without donor restrictions.

Contributions in-kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Symphony would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Marketing/advertising

Marketing/advertising costs are charged to operations when incurred. Marketing/advertising expenses for the years ended June 30, 2022 and 2021 were \$161,486 and \$35,516, respectively.

Allocation of indirect functional expenses

Indirect functional expenses are allocated to program and support services based on an analysis of personnel time spent on each function (see Note 13).

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Symphony is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Symphony qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in income taxes

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Symphony in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

The Symphony files information returns in the U.S. federal jurisdiction and state of California. The Symphony's federal returns for the tax years ended June 30, 2019 and beyond remain subject to possible examination by the Internal Revenue Service. The Symphony's California returns for the tax years ended June 30, 2018 and beyond remain subject to possible examination by the Franchise Tax Board.

Subsequent events

The Symphony has evaluated subsequent events through January 25, 2023, the date the financial statements were available to be issued (see Note 20).

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

| | 2022 | 2021 |
|--------------------------------|------------|------------|
| Furniture and equipment | \$ 427,979 | \$ 285,525 |
| Less: accumulated depreciation | (269,688) | (236,167) |
| | \$ 158,291 | \$ 49,358 |

Depreciation expense for the years ended June 30, 2022 and 2021 was \$37,419 and \$19,932, respectively.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

6. ENDOWMENT INVESTMENTS

All of the following investments are classified as Level 1 investments (see Note 4).

Endowment investments consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|---------------------|---------------------|
| Cash and money market investments | \$ 126,219 | \$ 166,784 |
| Equity investments | 1,797,081 | 1,999,133 |
| Fixed income investments | <u>936,193</u> | <u>1,096,057</u> |
| | <u>\$ 2,859,493</u> | <u>\$ 3,261,974</u> |

Investment earnings (losses) during the year consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|-------------------|
| Interest and dividends | \$ 123,296 | \$ 71,096 |
| Net realized and unrealized gains (losses) | (393,203) | 439,725 |
| Investment fees | <u>(32,574)</u> | <u>(28,389)</u> |
| | <u>\$ (302,481)</u> | <u>\$ 482,432</u> |

7. LINE OF CREDIT

During the year ended June 30, 2012, the Symphony established a revolving line of credit with First Republic Bank to meet its short-term borrowing needs. The rate of interest on outstanding funds is equal to the U.S. "prime rate" per annum rounded upward to the nearest 1/8th of one percentage point (0.125%). The line of credit is secured by the endowment investment account (see Note 6). The donor of the \$1 million endowment contribution has approved the use of the endowment contribution as collateral for the line of credit (see Note 10).

In December 2020, the Symphony extended the maturity date of the line to January 1, 2022. The maximum principal balance available is \$600,000. During the term of this line of credit, the Symphony is to maintain the endowment investment account equal to two times the commitment amount (\$1,200,000), verified quarterly and measured as of the last day of the Symphony's quarter-end.

There was no balance outstanding on the line of credit as of June 30, 2022 and 2021. Total interest expense related to line of credit for the years ended June 30, 2022 and 2021 was \$750 and \$946, respectively.

Annually the Symphony extends the maturity date of the line of credit to January 1 of the subsequent year. The Symphony is in the process of applying for its annual renewal as of the date of the independent auditor's report.

Symphony San Jose
Notes to Financial Statements
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8. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into Law in the United States of America. The Paycheck Protection Program ("PPP") was established under the CARES Act and was administered by the U.S. Small Business Administration. On April 25, 2020, the Symphony received loan proceeds totaling \$521,000 from a promissory note with a financial institution under the PPP. The loan was a two-year loan with a maturity date of April 25, 2022. The loan bore an annual interest rate of 1%. Payments of principal and interest were deferred for the first ten months of the loan.

Under the terms of the CARES Act, PPP loan recipients could apply for and be granted forgiveness for all or a portion of the loan proceeds for payroll, benefits, rent, utilities, covered operations expenditures, covered property damage, covered supplier costs, covered worker protection expenditures and the maintenance of workforce and compensation levels within certain limitations. As of June 30, 2020, the Symphony recorded loan proceeds of \$521,000 as a government grant in the statements of activities as it believed it had incurred qualifying expenditures that meet the forgiveness criteria and as such had substantially met the conditions of the contribution.

On March 3, 2021, the Symphony received a Second Draw PPP ("Second PPP") loan in the amount of \$361,300. The Symphony accounted for the entirety of the Second PPP as a government grant in the statements of activities as it believes it has incurred qualifying expenditures that meet the forgiveness criteria and as such have substantially met the conditions of the contribution.

The Symphony received the forgiveness notice during the year ended June 30, 2022 for the First Draw PPP. The Symphony applied for forgiveness of the Second Draw PPP and received the forgiveness notice on September 8, 2022 (see Note 20).

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

| | 2022 | 2021 |
|---|--------------|--------------|
| Perpetual endowment | \$ 2,041,116 | \$ 2,041,116 |
| Unappropriated earnings (accumulated losses) on perpetual endowment | (79,168) | 231,577 |
| Donor restricted net assets for free public performance | 18,000 | 20,000 |
| | \$ 1,979,948 | \$ 2,292,693 |

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

9. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

| | 2022 | 2021 |
|---|------------|-----------|
| Appropriated earnings on perpetual endowment | \$ 100,000 | \$ 97,000 |
| Donor restricted net assets for free public performance | 12,000 | - |
| | \$ 112,000 | \$ 97,000 |

10. ENDOWMENT

Support for the Symphony comes in many forms, from volunteers' gifts of time to listeners' contributions toward the cost of a concert season.

In June 2005, the Symphony received an extraordinary gift made specifically with the future in mind: a \$1 million contribution to establish a permanent endowment fund. The purpose of the endowment gift is to provide unrestricted operating support to the Symphony on an annual basis. The donor has directed that every year a sum of not less than 5% of the value be drawn from the fund and incorporated in the operating fund of the Symphony. In accordance with the specific terms of the gift, the endowment principal is permanently restricted except as noted above or as follows: "If in the future the Symphony faces a life-threatening financial crisis and the endowment principal is deemed the only way to avoid sending the Symphony into bankruptcy/insolvency, then principal may be invaded to avoid that outcome on the following terms: the need to invade the principal needs to be defended with a Board developed plan to correct the financial path of the Symphony and that plan along with the specifics of how much of the endowment can be utilized for that purpose must be approved by 100% of both the sitting Board and the outside investment committee members. It should be the objective of the Board to return the "invaded funds" when the crisis has passed." In addition, the donor has approved the use of the endowment contribution as collateral for the Symphony's line of credit (see Note 7).

The same donor continued to make endowment gifts during his lifetime netting to a total of \$1,084,700 (total endowment contributions of \$1,334,700 less a release from restriction of \$250,000 in response to the stock market downturn loss during the year ended June 30, 2009). It is the policy of the Symphony to treat all of these funds in the same manner as those stipulated in his original commitment letter and subsequent written instruction regarding using it for loan collateral.

The purpose of the endowment is to create an institution that will serve the Silicon Valley for generations to come by providing secure unrestricted operating support to the Symphony on an annual basis. Except as stated above, income from the fund may be reinvested or utilized for current expenses, as determined by the Symphony's Endowment Committee; but the permanently restricted principal remains intact, conservatively invested for a balance between growth and security.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

10. ENDOWMENT (continued)

The Symphony needs the liquidity to be able to draw approximately 5% of the principal annually to supplement the operating budget. The goal of the spending policy is to apply a disciplined and reasoned approach to moving money from the endowment fund to its beneficiary on a predictable, consistent basis. There are two components of the spending policy. By donor directive, 5% of the sum of \$1,084,700 and its accumulated appreciation will be distributed to the operating account of the Symphony based on December 31st balances each year. The balance of the fund shall use a spending policy based on the payout rate multiplied by the average market value of the Fund over the previous 12 quarters. A 2%-7% range will be in place to allow for Board discretion during particularly volatile periods. Notwithstanding these spending parameters, the original corpus shall not be invaded except as provided within the specific donor terms for the \$1 million gift as described above. Any changes to the endowment's spending policy shall be recommended by the Investment Committee and/or Investment Advisors, with the ultimate approval by the Board of Directors.

The Symphony has also established a partnership with experienced planned giving professionals to assist donors who want to include the Symphony's endowment in their financial and estate plans. With the establishment of an endowment and the resources in place to augment it, the Symphony has taken a giant step toward becoming a secure, long-term resource for the community.

The Symphony's endowment consists of several individual funds established for a variety of purposes. Its endowment includes donor restricted and board designated endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Symphony's Board of Directors has interpreted the California version of 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 Symphony classifies as "net assets with donor restrictions - perpetual endowment" (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The portion of the donor restricted endowment fund that is not classified as "net assets with donor restrictions - perpetual endowment" is classified as "net assets with donor restrictions - unappropriated earnings on perpetual endowment" until is appropriated for expenditure by the Symphony in a manner consistent with the standard of prudence prescribed by UPMIFA.

Symphony San Jose
Notes to Financial Statements
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10. ENDOWMENT (continued)

Interpretation of relevant law (continued)

In accordance with UPMIFA, the Symphony 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 Symphony 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 Symphony
- (7) The investment policies of the Symphony

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the balance of net assets held in perpetuity. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are required to be reported in net assets with donor restrictions. There were \$79,168 and \$0 deficiencies as of June 30, 2022 and 2021, respectively.

Return objectives and risk parameters

The investment portfolio held for the Symphony endowment will be managed using a "balanced" objective to provide stability, income and growth exclusively for the Symphony endowment. All assets acquired by the portfolio will be managed in accordance with "Prudent Investor" standards by incorporating the Modern Portfolio Theory, which focuses on the overall asset allocation and quality of the portfolio rather than just the individual securities. Diversification across various asset classes should help reduce the volatility of the total portfolio.

The appropriate allocation of capital among asset classes will have the greatest influence on the success of the portfolio. Therefore, the fiduciary manager shall be responsible for the ongoing portfolio management within the agreed upon risk parameters and allocation ranges.

- *Diversification/preservation of capital*

The portfolio should be managed in a prudent manner, with care, skill, and diligence. The composition of investment securities shall be suitably diversified and structured in a manner to avoid undue risk to capital. A low to moderate fluctuation in principal value is desired.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

10. ENDOWMENT (continued)

Return objectives and risk parameters (continued)

- *Income/liquidity*

The income derived from securities will provide support and stability to the portfolio. Therefore, an equally important component of the portfolio shall be the payment of interest or dividends. The fiduciary manager shall maintain sufficient liquidity to provide adequate and timely working funds.

- *Growth*

The long-term horizon of the portfolio necessitates the use of equity securities in order to provide the opportunity for positive real rates of return and growth of capital over time.

Strategies employed for achieving objectives

Strategic ranges are established to define the long-term asset allocation parameters for the portfolio. Enterprise Trust & Investment Company, serving in a fiduciary capacity as investment manager, will tactically manage the portfolio within the established ranges as current economic conditions and market opportunities warrant.

The long-term strategic asset allocation ranges for the investment portfolio are as follows:

- *Cash equivalents and short-term investments*

The portfolio may invest cash equivalent investments within a range of zero to ten percent (0-10%) of the portfolio's aggregate market value.

- *Fixed income investments*

The portfolio may be invested in such securities with a range of thirty to sixty percent (30-60%) of the portfolio's aggregate market value.

a. *Diversification:* With the exception of U.S. Treasury securities and U.S. Government Agency Obligations all other debt securities shall be limited to an amount per issuer not to exceed ten percent (10%) of the aggregate market value of the portfolio.

b. *Credit Quality:* Upon initial purchase, the security must be of investment grade as rated by Moody's and/or Standard and Poor's rating services. Should any bond rating subsequently be reduced below investment grade the Adviser shall review to determine if investment considerations warrant it being discharged. High yield fixed income securities are permitted if held in fund format.

c. *Maturity Structure:* In order to control interest rate risk, the maximum maturity of an individual bond shall not exceed ten years and the average maturity shall not exceed seven years.

- *Equity investments*

The portfolio may be invested in individual equity securities or mutual funds with a range of forty to seventy percent (40-70%) of the portfolio's aggregate market value.

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Notes to Financial Statements
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10. ENDOWMENT (continued)

Strategies employed for achieving objectives (continued)

- a. Security Diversification: Individual equity purchases shall not exceed five percent (5%) of the portfolio's aggregate market value.
- b. Sector Diversification: The maximum allowed overweight of any economic sector classification shall be limited to 2 times the weighting within the Standard and Poor's 500 Index.
- c. Overall Portfolio Quality: The overall equity portfolio shall maintain an average equivalent securities rating of B or better as rated by Moody's and/or Standard and Poor's rating services.

Spending policy and how the investment objectives relate to spending policy

The Symphony needs the liquidity to be able to draw not less than 5% of the principal annually to supplement the operating budget.

The goal of the spending policy is to apply a disciplined and reasoned approach to moving money from the endowment fund to its beneficiary in a predictable, consistent basis. There are two components of the spending policy. By donor directive, 5% of the sum of \$1,084,700 and its accumulated appreciation will be distributed to the Operating Account of the Symphony based on December 31st balances each year. The balance of the fund shall use a spending policy based on the payout rate multiplied by the average market value of the Fund over the previous 12 quarters. A 2%-7% range will be in place to allow for Board discretion during particularly volatile periods. Notwithstanding these spending parameters, the original corpus shall not be invaded except as provided within the specific donor terms for the \$1 million gift as described above.

Any changes to the endowment's spending policy shall be recommended by the Investment Committee and/or Investment Advisors, with ultimate approval by the Board of Directors.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------------|
| Board designated endowment | \$ 897,545 | \$ - | \$ 897,545 |
| Accumulated losses on perpetual endowment | - | (79,168) | (79,168) |
| Perpetual endowment | <u>-</u> | <u>2,041,116</u> | <u>2,041,116</u> |
| | <u>\$ 897,545</u> | <u>\$ 1,961,948</u> | <u>\$ 2,859,493</u> |

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

10. ENDOWMENT (continued)

Endowment composition (continued)

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------------|
| Board designated endowment | \$ 989,281 | \$ - | \$ 989,281 |
| Unappropriated earnings on perpetual endowment | - | 231,577 | 231,577 |
| Perpetual endowment | <u>-</u> | <u>2,041,116</u> | <u>2,041,116</u> |
| | <u>\$ 989,281</u> | <u>\$ 2,272,693</u> | <u>\$ 3,261,974</u> |

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

| | <u>Board Designated Endowment</u> | <u>Unappropriated Earnings (Accumulated Losses) on Perpetual Endowment</u> | <u>Perpetual Endowment</u> | <u>Total</u> |
|--------------------------------------|---|--|--------------------------------|---------------------|
| Balance at June 30, 2021 | \$ 989,281 | \$ 231,577 | \$ 2,041,116 | \$ 3,261,974 |
| Net investment loss | (91,736) | (210,745) | - | (302,481) |
| Amounts appropriated for expenditure | <u>-</u> | <u>(100,000)</u> | <u>-</u> | <u>(100,000)</u> |
| Balance at June 30, 2022 | <u>\$ 897,545</u> | <u>\$ (79,168)</u> | <u>\$ 2,041,116</u> | <u>\$ 2,859,493</u> |

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

10. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2021 is as follows:

| | Unappropriated Earnings (Loss) on Perpetual Endowment | Unappropriated Earnings (Accumulated Losses) on Perpetual Endowment | Perpetual Endowment | Total |
|---|--|--|------------------------|---------------------|
| Balance at June 30, 2020 | \$ 860,377 | \$ (1,951) | \$ 1,591,116 | \$ 2,449,542 |
| Net investment income | 151,904 | 330,528 | - | 482,432 |
| Contributions | - | - | 450,000 | 450,000 |
| Amounts appropriated for expenditure | <u>(23,000)</u> | <u>(97,000)</u> | <u>-</u> | <u>(120,000)</u> |
| Balance at June 30, 2021 | <u>\$ 989,281</u> | <u>\$ 231,577</u> | <u>\$ 2,041,116</u> | <u>\$ 3,261,974</u> |

11. RELATED PARTY TRANSACTIONS

Members of the Symphony San Jose Board gave \$50,570 in personal donations to the Symphony during the year ended June 30, 2022.

Members of the Symphony San Jose Board gave \$225,404 in personal donations to the Symphony during the year ended June 30, 2021. \$200,000 of that amount was a bequest from the estate of a long-time director who was an active Board member until his death in May 2020. In addition, two law firms employing Board members gave a total of \$7,500 to the Symphony in support of their memberships, which were recorded as corporate donations.

12. CONCENTRATION OF LABOR

The Symphony's musicians, ushers, and stagehands, are members of the following labor unions respectively: American Federation of Musicians (AFM) Local 6, International Alliance of Theatrical Stage Employees (IATSE) Local B-32, and IATSE Local 134 Stagehands. The Symphony's contract with AFM Local 6 expires on August 31, 2023. The Symphony's contract with IATSE Local B-32 expired on August 31, 2021 and was renewed to cover September 1, 2021 through August 31, 2024; its contract with IATSE Local 134 Stagehands expired on June 30, 2022 and was renewed with a duration through June 30, 2023 (see Note 20).

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Notes to Financial Statements
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13. PERCENTAGE SALARY ALLOCATION

For the year ended June 30, 2022, the salaries for the Symphony's office personnel are allocated based on these percentage categories between program services, management and general, and fundraising:

- President: 68% program services, 23% management and general, 9% fundraising
- General Manager: 20% program services, 40% management and general, 40% fundraising
- Operations: 100% program services, 0% management and general, 0% fundraising
- Finance Manager/Payroll: 30% program services, 70% management and general, 0% fundraising
- Box Office: 80% program services, 10% management and general, 10% fundraising
- Chorale Admin: 100% program services, 0% management and general, 0% fundraising
- Marketing: 100% program services, 0% management and general, 0% fundraising
- Education/Public Relations: 100% program services, 0% management and general, 0% fundraising

For the year ended June 30, 2021, the salaries for the Symphony's office personnel are allocated based on these percentage categories between program services, management and general, and fundraising:

- President: 45% program services, 20% management and general, 35% fundraising
- General Manager: 15% program services, 60% management and general, 25% fundraising
- Operations: 100% program services, 0% management and general, 0% fundraising
- Box Office/Payroll: 15% program services, 85% management and general, 0% fundraising
- Box Office: 90% program services, 5% management and general, 5% fundraising
- Chorale Admin: 100% program services, 0% management and general, 0% fundraising
- Marketing: 100% program services, 0% management and general, 0% fundraising
- Education/Public Relations: 100% program services, 0% management and general, 0% fundraising

Symphony San Jose
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14. OPERATING LEASE COMMITMENTS

The Symphony rents 2,148 square feet of office space under a lease agreement. The lease expired on June 30, 2020. The lease was extended on July 1, 2020 through June 30, 2025. The monthly rent payment was \$4,260 and \$4,019 for the years ended June 30, 2022 and 2021, respectively. On July 1, 2021, the Symphony leased another location with a rent payment ranging from \$1,500 to \$3,000 through April 30, 2023. The monthly rent payment at the second premise ranged from \$1,500 to \$2,000 for the year ended June 30, 2022.

Rental expense for the years ended June 30, 2022 and 2021 was \$83,428 and \$51,102 respectively.

The scheduled minimum lease payments under the lease terms are as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|-------------------|
| 2023 | \$ 81,182 |
| 2024 | 57,433 |
| 2025 | <u>60,879</u> |
| | <u>\$ 199,494</u> |

The Symphony rents the California Theatre from Team San Jose for its performance space.

15. CONFLICT OF INTEREST POLICY

Included among the Symphony's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Symphony in the development of policies and programs and in the evaluation of business transactions. The Symphony has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

16. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Symphony's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Accounts and contributions receivable consist of amounts expected to be received within one year from June 30, 2022.

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16. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Endowment investments consist of donor restricted endowment funds and a board designated endowment fund. As described in Note 10, by donor directive, 5% of the sum of \$1,084,700 and its accumulated appreciation will be distributed to the Operating Account of the Symphony based on December 31st balances each year. The balance of the donor restricted endowment fund uses a spending policy based on a payout rate multiplied by the average market value of the Fund over the previous 12 quarters. A 2%-7% range is in place to allow for Board discretion during particularly volatile periods. Accordingly, \$160,000 of appropriations from the endowment investments will be available within the next 12 months.

The following is a quantitative disclosure which describes assets that are available or expected to be available within one year of June 30, 2022 to fund general expenditures and other obligations as they become due.

| | |
|---|---------------------|
| Financial assets | |
| Cash and cash equivalents | \$ 544,234 |
| Accounts receivable | 13,462 |
| Contributions receivable | 523,666 |
| Board designated endowment investments | 897,545 |
| Accumulated losses on perpetual endowment investments | (79,168) |
| Donor restricted perpetual endowment investments | <u>2,041,116</u> |
| | <u>3,940,855</u> |
| Less: amounts unavailable for general expenditure within one year | |
| Board designated endowment investments | (897,545) |
| Accumulated losses on perpetual endowment investments | 79,168 |
| Donor restricted perpetual endowment investments | (2,041,116) |
| Add: Expected endowment appropriation for the year ending June 30, 2023 | <u>160,000</u> |
| | <u>(2,699,493)</u> |
| | <u>\$ 1,241,362</u> |

The board designated endowment investments totaling \$897,545 as of June 30, 2022 could be made available in their entirety if needed. Also, \$1,084,700 of the donor restricted perpetual endowment investments could be made available in the event of "a life-threatening financial crisis" (see Note 10).

In addition, the Symphony has a line of credit with a balance available amount of \$600,000 as of June 30, 2022 (see Note 7).

17. RISKS AND UNCERTAINTIES

The annual inflation rate for the United States is 8.5% for the 12 months ended July 2022 after rising 9.1% previously — the most since November 1981, according to U.S. Labor Department data published on August 10, 2022.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

17. RISKS AND UNCERTAINTIES (continued)

Meanwhile, the median total U.S. salary increase has been about 3% for the past 10 years and it is expected to stay the same in 2022. The combination of high inflation and stagnant salary is likely to result in cautious discretionary spending.

Recession risk in the U.S. is high. Slow growth, rising interest rates, high inflation and a sundry list of other risk factors threaten to push the U.S. economy into recession in the near future. Some economists are predicting a substantial recession in 2023. During the Great Recession more than a decade ago, the Symphony had three deficit years. The next recession is likely to affect the Symphony very negatively.

18. CONTINUING OPERATIONS

The Symphony continues building upon the its past success, while adopting new initiatives that broaden and diversify product offerings, expand audiences, improve efficiencies, and maximize resources.

The Symphony will continue presenting its cornerstone Classics Series in the California Theatre and its Movies Series in the Center for the Performing Arts. This year will see the return of ArtSPARK, the Symphony's flagship music education program, as well as pilot programs that take the Symphony into San Jose neighborhoods.

The Symphony plans to bolster its fundraising program by focusing on corporate partnerships, foundation grants, and individual giving.

The 2021-22 fiscal year closed with an operating surplus, substantial operating cash and investments without donor restrictions, no vendor debt, and access to a generous line of credit if needed.

19. EMPLOYER RETENTION CREDIT

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Symphony was eligible for a refundable Employee Retention Credit ("ERC") subject to certain criteria. Two critical tests for eligibility exist - a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a "significant" decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019. The ERC is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. The ERC is equal to 70% of qualified wages paid to employees during calendar 2021 for a maximum credit of \$7,000 per employee for each calendar quarter through September 30, 2021.

During the year ended June 30, 2022, the Symphony recognized ERCs of approximately \$189,000, as a contribution from government on the accompanying statements of activities.

Symphony San Jose
Notes to Financial Statements
June 30, 2022 and 2021

20. SUBSEQUENT EVENTS

Union Contract Renewal - Subsequent to the year ended June 30, 2022, the Symphony renewed the contract with IATSE 134 Stagehand for the period from October 14, 2022 to June 30, 2023.

Government Grants - Subsequent to the year ended June 30, 2022, the Symphony received a grant from California Venues Grant Program in the amount of \$225,000.

Second Draw PPP - Subsequent to the year ended June 30, 2022, the Symphony received full forgiveness for the Second Draw PPP in the amount of \$361,300 (see Note 8).

SINGLE AUDIT REPORTS AND SCHEDULES

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Symphony San Jose
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Symphony San Jose (the "Symphony"), which comprise the statements of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 25, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Symphony's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Symphony's internal control. Accordingly, we do not express an opinion on the effectiveness of the Symphony's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Symphony's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Symphony's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Symphony's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

January 25, 2023

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

To the Board of Directors of
Symphony San Jose
San Jose, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Symphony San Jose (the "Symphony")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Symphony's major federal programs for the year ended June 30, 2022. The Symphony's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Symphony complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Symphony and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Symphony's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Symphony's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Symphony's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Symphony's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Symphony's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Symphony's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Symphony's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

January 25, 2023

Symphony San Jose
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Assistance Listing Number | Pass-Through Entity Identifying Number | Total Federal Expenditures |
|--|------------------------------|---|-------------------------------|
| <u>Expenditures of Federal Awards</u> | | | |
| Small Business Administration | | | |
| Direct awards | | | |
| Shuttered Venue Operators Grant | 59.075 | N/A | \$ <u>817,782</u> |
| Department of Health and Human Services | | | |
| Pass-through from City of San Jose | | | |
| Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution | 93.498 | N/A | <u>86,918</u> |
| Total Expenditures of Federal Awards | | | <u>\$ <u>904,700</u></u> |

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Symphony San Jose
Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Symphony San Jose (the "Symphony") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Symphony, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Symphony.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Symphony has elected to not use the 10% de minimis indirect cost rate for Federal awards. The Symphony applies indirect costs in accordance with the specific terms for its specific award agreements.

Symphony San Jose
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major programs:

| <u>Name of Federal Program or Cluster</u> | <u>Assistance Listing Number</u> |
|---|----------------------------------|
| Shuttered Venue Operators Grant | 59.075 |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as low-risk auditee? | No |

Symphony San Jose
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Symphony San Jose
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

There were no prior year findings.