

HILTON HEAD SYMPHONY ORCHESTRA, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hilton Head Symphony Orchestra, Inc.
Hilton Head Island, South Carolina

We have audited the financial statements of Hilton Head Symphony Orchestra, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, functional expenses and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 judgement, 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 Hilton Head Symphony Orchestra, Inc. as of June 30, 2021 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hilton Head Symphony Orchestra, Inc.'s financial statements for the year ended June 30, 2020, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Carey & Company, P.A." in a cursive script.

Carey & Company, P.A.
Hilton Head Island, SC
August 26, 2021

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 STATEMENTS OF FINANCIAL POSITION
 As of June 30, 2021 and 2020

ASSETS		Summarized Information
	2021	2020
Current Assets		
Cash and equivalents	\$ 95,599	\$ 444,317
Pledge and other receivables	29,955	20,703
Prepaid expenses	-	10,690
Total Current Assets	<u>125,554</u>	<u>475,710</u>
Property And Equipment		
Furniture, fixtures and equipment	131,855	90,867
Leasehold improvements	841,252	841,252
Accumulated depreciation	(377,814)	(249,422)
Total Property And Equipment	<u>595,293</u>	<u>682,697</u>
Other Assets		
Foundation endowment fund	263,010	211,412
Investments	512,906	279,811
Security deposits	17,790	16,504
Total Other Assets	<u>793,706</u>	<u>507,727</u>
TOTAL ASSETS	<u>\$ 1,514,553</u>	<u>\$ 1,666,134</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 67,516	\$ 14,501
Payroll taxes payable	8,583	4,171
Deferred ticket revenues	-	159,620
Deferred contribution and fundraising revenues	107,457	292,290
PPP loan	201,600	-
Line of credit	-	47,387
Total Current Liabilities	<u>385,156</u>	<u>517,969</u>
TOTAL LIABILITIES	<u>385,156</u>	<u>517,969</u>
Net Assets		
Without donor restrictions	353,481	532,746
With donor restrictions	775,916	615,419
Total Net Assets	<u>1,129,397</u>	<u>1,148,165</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,514,553</u>	<u>\$ 1,666,134</u>

See accompanying notes and independent auditor's report.

HILTON HEAD SYMPHONY ORCHESTRA, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended June 30, 2021 and 2020

	2021			Summarized Information 2020
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Admissions	\$ 242,774	\$ -	\$ 242,774	\$ 484,775
Contributions and grants	883,069	204,307	1,087,376	1,484,435
Fundraising and other support	14,477	21,254	35,731	161,634
Investment income	-	173,300	173,300	4,633
Restrictions satisfied by payments	<u>238,364</u>	<u>(238,364)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>1,378,684</u>	<u>160,497</u>	<u>1,539,181</u>	<u>2,135,477</u>
EXPENSES				
Program	990,213	-	990,213	1,541,979
Management and general	509,487	-	509,487	520,469
Marketing and development	<u>58,249</u>	<u>-</u>	<u>58,249</u>	<u>297,062</u>
Total Expenses	<u>1,557,949</u>	<u>-</u>	<u>1,557,949</u>	<u>2,359,510</u>
(DECREASE) INCREASE IN NET ASSETS	(179,265)	160,497	(18,768)	(224,033)
NET ASSETS AT BEGINNING OF YEAR	<u>532,746</u>	<u>615,419</u>	<u>1,148,165</u>	<u>1,372,198</u>
NET ASSETS AT END OF YEAR	<u>\$ 353,481</u>	<u>\$ 775,916</u>	<u>\$ 1,129,397</u>	<u>\$ 1,148,165</u>

See accompanying notes and independent auditor's report.

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended June 30, 2021 and 2020

	2021			Total	Summarized Information 2020
	Program Services	Management and General	Marketing and Development		
Salaries and wages	\$ 325,937	\$ 274,889	\$ 6,250	\$ 607,076	\$ 859,317
Payroll taxes and related benefits	75,728	24,232	551	100,511	158,241
Total payroll and benefits	401,665	299,121	6,801	707,587	1,017,558
Facilities cost	139,182	91,914	-	231,096	257,009
Contract services	249,912	9,279	3,150	262,341	230,156
Marketing and advertising	-	-	35,646	35,646	177,331
Performance production costs	85,214	-	-	85,214	203,235
Travel and lodging	16,214	-	-	16,214	172,119
Prizes, judges and awards	300	-	-	300	45,066
Fundraising	-	-	10,239	10,239	43,488
Office	7,312	31,404	2,413	41,129	48,889
Bank fees	-	11,528	-	11,528	5,545
Depreciation	89,874	38,518	-	128,392	125,158
Other	540	27,723	-	28,263	33,956
Total expenses	\$ 990,213	\$ 509,487	\$ 58,249	\$ 1,557,949	\$ 2,359,510

See accompanying notes and independent auditor's report.

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 STATEMENTS OF CASH FLOWS
 Years Ended June 30, 2021 and 2020

	2021	Summarized Information 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (18,768)	\$ (224,033)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Unrealized gain on investments	(176,706)	(6,125)
Noncash contribution of property and equipment	(33,500)	(22,000)
Depreciation expense	128,392	125,158
Decrease (increase) in assets		
Pledge and other receivables	(9,252)	1,981
Prepaid expenses and security deposits	9,404	50,250
(Decrease) increase in liabilities:		
Accounts payable	53,015	(11,964)
Payroll taxes payable	4,412	(9,394)
Deferred revenues	(344,453)	(22,421)
Net Cash Used By Operating Activities	(387,456)	(118,548)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,488)	(16,599)
Net change in investments	(117,664)	126,000
Cash released from foundation endowment fund	9,677	9,826
Net Cash (Used) Provided By Investing Activities	(115,475)	119,227
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayment) proceeds from line of credit	(47,387)	47,387
Proceeds from Payroll Protection Program loan	201,600	-
Net Cash Provided By Financing Activities	154,213	47,387
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(348,718)	48,066
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	444,317	396,251
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 95,599	\$ 444,317
SUPPLEMENTAL DISCLOSURES - cash payments for:		
Interest	\$ 771	\$ 5,416
Income taxes	\$ -	\$ -

See accompanying notes and independent auditor's report.

HILTON HEAD SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Hilton Head Symphony Orchestra, Inc. (the "Orchestra") is located on Hilton Head Island, South Carolina and is a nonprofit organization dedicated to presenting annual seasons of symphonic subscription concerts, as well as special concerts and educational and community engagement programs.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The accompanying financial statements of the Orchestra have been prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly the Orchestra reports information regarding its financial position and activities according to the following net asset classifications:

Net Assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Orchestra's management and the board of directors.

Net Assets with donor restrictions - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Orchestra or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenue Recognition

Contributions received are recorded as increases in net assets without or with donor restrictions depending on the existence and/or nature of the donor restrictions. Donor restricted contributions reported as increases in net assets with donor restrictions represent contributions for specific activities (youth and outreach programs, piano competition program, etc) and are released as support during either the current year or subsequent years depending on the nature of the restrictions. Revenue from grants are considered to be conditional contributions and are recognized and used within the same reporting period; therefore, these amounts are reported as without donor restriction.

Revenue from ticket sales and donations related to concert seasons are recognized as revenue in the applicable concert season, which is held from October to May. Accordingly deferred revenue represents ticket sales and donations received in advance of the applicable concert season. For the years ended June 30, 2021 and 2020, ticket sales of \$159,620 and \$197,814 from previous fiscal year deferred revenue were recognized, respectively.

Contributed Services

The Orchestra receives a substantial amount of services donated by its members in carrying out the Orchestra's mission. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include money market accounts and highly liquid debt instruments with an original maturity of three months or less.

Investments

Investments in marketable securities and debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of changes in net assets.

Fair Value Measurement

Fair value as defined under generally accepted accounting principles is an exit price, representing 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. Generally accepted accounting principles require a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Those tiers include:

Level 1 - Observable inputs such as quoted prices in active markets.

Level 2 - Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 - Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Promises to Give

The Orchestra conducts an annual giving campaign during which it solicits pledges from local businesses which are featured in the annual program. These pledges do not meet the criteria for income recognition under generally accepted accounting principles, and are not reflected in the statement of activities until they are collected.

Contributions that are restricted by the donor are classified as increases to net assets with restrictions. When the restrictions expire, restricted net assets are reclassified to net assets without restrictions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives. Contributed property, plant and equipment are recorded at their fair value on the date of the gift as unrestricted support.

Use of Estimates

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

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Orchestra is a not-for-profit corporation that is generally exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expense

The cost of providing the various programs and other activities have been summarized on a functional basis in the statements of functional activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited using reasonable ratios determined by management.

NOTE B - FOUNDATION ENDOWMENT FUND

The Community Foundation of the Lowcountry, Inc. (the "Community Foundation") acts in an agency capacity for the Orchestra in order to provide permanent stewardship, management and oversight of certain Orchestra investments. The fund is invested by the Community Foundation in a pool of marketable securities and reported at fair value, which is the closing price reported on the active market on which the individual securities are traded. Fair value of the fund is determined based upon the Orchestra's allocated share of the Community Foundations' investment pool. Fair value for the fund is categorized as Level 1 under the fair value measurement hierarchy and was \$263,010 and \$211,412 at June 30, 2021 and 2020, respectively. The annual withdrawal amount is limited to 4.5% of the average fair market value of the account and totaled \$9,678 and \$9,826 for the years ended June 30, 2021 and 2020, respectively. Net investment income was \$61,276 and \$1,658 for the years ended June 30, 2021 and 2020, respectively.

In addition, the Community Foundation maintains a fund established by a donor which is designated for the benefit of the Orchestra as long as the Orchestra, or its purpose, continues to serve the public interest. Under generally accepted accounting principles the Orchestra can not recognize these funds as contributions until the right to receive is unconditional or the amounts are received. At June 30, 2021 and 2020, the fair market value of this fund was \$221,268 and \$177,857, and respectively. The annual withdrawal amount from this fund is limited to 4.5% of the average fair market value of the account and totaled \$8,140 and \$8,266 for the years ended June 30, 2021 and 2020, respectively.

NOTE C - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets as of June 30 are as follows:

	2021	2020
Cash and equivalents	\$ 95,599	\$ 444,317
Foundation endowment fund	263,010	211,412
Investments	512,906	279,811
Total Financial Assets	\$ 871,515	\$ 935,540

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE C - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS - CONTINUED

At June 30, 2021 and 2020, financial assets of approximately \$620,000 and \$734,000, respectively, were available to meet general expenditures over the next twelve months. Amounts not available for general expenditure over the next twelve months include an amount in the Community Foundations endowment fund which is not available for distribution.

The Orchestra maintains funds in banks to maximize liquidity, minimize risk and aligned to meet short term requirements.

NOTE D - INVESTMENTS

Cost and market values as of June 30 are summarized as follows:

	2021	
	Cost	Fair Value
<u>Investments:</u>		
Marketable securities	\$ 305,512	\$ 511,165
Cash	1,741	1,741
Margin loan	-	-
Total Other Investments	<u>\$ 307,253</u>	<u>\$ 512,906</u>
	2020	
	Cost	Fair Value
<u>Investments:</u>		
Marketable securities	\$ 327,798	\$ 402,444
Cash	1,565	1,565
Margin loan	(124,198)	(124,198)
Total Other Investments	<u>\$ 205,165</u>	<u>\$ 279,811</u>

Investments in marketable securities are reported at fair market value based upon quoted prices in active markets and are categorized as Level 1 under the fair value measurement hierarchy. Investment return for the years ended June 30, 2021 and 2020, including the Foundation Endowment Fund disclosed in Note B, are summarized as follows:

	2021	2020
Investment earnings	\$ 7,343	\$ 15,945
Investment expenses	(5,055)	(9,162)
Unrealized investment gain (loss)	109,736	(2,316)
Foundation Endowment Fund	61,276	1,658
Total investment return	<u>\$ 173,300</u>	<u>\$ 6,125</u>

HILTON HEAD SYMPHONY ORCHESTRA, INC.
 NOTES TO FINANCIAL STATEMENTS
 Years Ended June 30, 2021 and 2020

NOTE E - CONCENTRATION OF CREDIT RISK

The Orchestra maintains its cash balances at several financial institutions. The FDIC covers \$250,000 for substantially all depository accounts. At June 30, 2021 and 2020, the Orchestra has uninsured balances of \$0 and \$178,521, respectively.

Cash balances at brokerage firms are insured by SIPC up to \$250,000 and marketable securities at up to \$500,000. Private insurance provided by the brokerage firm covered balances in excess of these limits.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2021	2020
Leasehold improvements	\$ 841,252	\$ 841,252
Computer equipment	17,800	15,848
Office furniture and equipment	36,726	32,226
Performance equipment	77,329	42,793
Total property and equipment	973,107	932,119
Accumulated depreciation	(377,814)	(249,422)
Net property and equipment	<u>\$ 595,293</u>	<u>\$ 682,697</u>

Depreciation expense for the year ended June 30, 2021 and 2020 was \$128,392 and \$125,158, respectively.

NOTE G - REAL PROPERTY LEASE AGREEMENTS

In November 2017, the Orchestra entered into a lease for offices and performance center located in Hilton Head, South Carolina. The lease has a term of seven years with an option to extend for an additional seven years. Under the lease, the Orchestra is required to make monthly payments of basic rent and an additional amount for taxes, insurance and common area maintenance. Annual office lease expense was \$208,030 and \$203,152 for the years ended June 30, 2021 and 2019, respectively.

Future minimum annual lease payments due over the term of the lease are as follows:

2022	\$ 209,061
2023	212,509
2024	216,025
2025	253,185
Total	<u>\$ 890,780</u>

HILTON HEAD SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE G - REAL PROPERTY LEASE AGREEMENTS - CONTINUED

Concert and rehearsal locations are leased on a seasonal basis primarily at First Presbyterian Church of Hilton Head, SC. Annual concert and rehearsal lease expense for all such facilities was \$6,005 and \$37,285 for the years ended June 30, 2021 and 2020, respectively.

NOTE H - FINANCING ARRANGEMENTS

The Orchestra has a \$50,000 line of credit with its bank that is renewed annually on January 1. Borrowings under the line of credit bear interest at 7.25% and are uncollateralized. At June 30, 2021 and 2020, the balance was \$0 and \$47,387, respectively.

During the year ended June 30, 2021, the Orchestra received \$201,600 in proceeds from a Payroll Protection Program loan ("PPP") from the Small Business Administration ("SBA"). According to the terms of the agreement, the loan will be forgiven if employee retention criteria are met and the funds are used for eligible expenses. As the related covered period included dates through the subsequent year, the proceeds were recorded as a loan payable at June 30, 2021. Subsequent to June 30, 2021, the Orchestra applied for loan forgiveness and expects to receive such forgiveness.

During the year ended June 30, 2020, the Orchestra received \$201,600 for a PPP from the SBA. Although a notice of forgiveness had not yet been received from the SBA at June 30, 2020, the conditions of the loan were satisfied prior to June 30, 2020, and the full amount was recognized as contribution income for the year ended June 30, 2020.

NOTE I - COMMITMENTS

The Orchestra has an independent contractor agreement in place with its Music Director effective June 2018. The agreement provides for annual increases in compensation plus additional amounts for performances if required beyond those scheduled in the agreement. The current agreement expires June 30, 2022.

The Orchestra musicians are employed pursuant to the terms and conditions of a four-year wage scale and pension plan contract, with the American Federation of Musicians local 447-704, ending June 30, 2022.

NOTE J - ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The Orchestra evaluated all tax positions that could have a significant effect on the financial statements and determined that there are no uncertain tax positions at June 30, 2021.

NOTE K - NET ASSETS

Net assets with donor restrictions were available for the following purposes as of June 30:

	2021	2020
International Piano Competition	\$ 29,721	\$ 24,583
Youth programs	483,185	379,424
Permanent endowment fund	263,010	211,412
Total net assets	<u>\$ 775,916</u>	<u>\$ 615,419</u>

HILTON HEAD SYMPHONY ORCHESTRA, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2021 and 2020

NOTE L - SUBSEQUENT EVENTS

The Orchestra has evaluated subsequent events through August 26, 2021, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued. The uncertainty of COVID-19 will continue to have a negative affect on admission and contribution revenues, the impact of which has not been fully determined or realized.