MICHIGAN PHILHARMONIC

AUDITED FINANCIAL STATEMENTS

Year ended June 30, 2020

MICHIGAN PHILHARMONIC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Michigan Philharmonic

We have audited the accompanying financial statements of Michigan Philharmonic (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Philharmonic as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
May 25, 2021

MICHIGAN PHILHARMONIC
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS		
CURRENT ASSETS		
Cash	$	40,463
Accounts receivable, net		200
Prepaid expenses		753
Total current assets	$	41,416
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$	3,117
Payroll taxes and other accrued expenses		1,048
Deferred revenue		21,100
Line of credit		10,000
Long-term debt, current portion		1,875
Total current liabilities		37,140
NET ASSETS		
Without donor restrictions		(10,724)
With donor restrictions		15,000
Total net assets		4,276
Total liabilities and net assets	$	41,416

MICHIGAN PHILHARMONIC
STATEMENT OF ACTIVITIES
Year ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Admissions	$ 66,255	$ -	$ 66,255
Annual giving	117,622	15,000	132,622
Contract service	52,400	-	52,400
Fundraising	26,406	-	26,406
Grants	35,245	-	35,245
Program advertising	19,815	-	19,815
Education and tuition for kids	25,316	-	25,316
In kind contributions	3,354	-	3,354
Other income	1,398	-	1,398
Total revenues and other support	347,811	15,000	362,811
Net assets released from restrictions	15,000	(15,000)	-
	362,811	-	362,811
FUNCTIONAL EXPENSES			
Orchestral performances	246,979	-	246,979
Educational programs	1,850	-	1,850
Fundraising	5,673	-	5,673
Management and general	126,972	-	126,972
Total functional expenses	381,474	-	381,474
CHANGE IN NET ASSETS	(18,663)	-	(18,663)
NET ASSETS - Beginning of year	7,939	15,000	22,939
NET ASSETS - End of year	$ (10,724)	$ 15,000	$ 4,276

MICHIGAN PHILHARMONIC
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2020

	Orchestral Performances	Educational Programs	Fundraising	Management and General	Total
Administrative and executive	$ -	$ -	$ -	$ 51,022	$ 51,022
Advertising	-	-	-	3,858	3,858
Bookkeeping	-	-	-	18,000	18,000
Conductor	57,825	-	-	-	57,825
Contracted services	45,161	-	-	-	45,161
Credit card fees	-	-	-	4,257	4,257
Dues and memberships	-	-	-	1,227	1,227
Equipment rent	387	-	-	-	387
Insurance	-	-	-	5,866	5,866
Interest	-	-	-	884	884
License and fees	1,204	-	-	1,382	2,586
Miscellaneous	-	-	-	299	299
Music	3,882	-	-	-	3,882
Occupancy	11,844	-	-	19,924	31,768
Orchestra	81,321	1,850	-	-	83,171
Payroll taxes	-	-	-	3,213	3,213
Property taxes	-	-	-	128	128
Pension benefits	5,424	-	-	-	5,424
Performing artists	2,200	-	-	-	2,200
Postage	-	-	-	1,459	1,459
Printing	15,435	-	64	3,140	18,639
Production services	2,475	-	-	-	2,475
Professional fees	-	-	-	5,795	5,795
Raffle	-	-	4,109	-	4,109
Supplies	2,021	-	1,500	1,555	5,076
Telephone	-	-	-	1,926	1,926
Travel	-	-	-	3,037	3,037
Youth orchestra	17,800	-	-	-	17,800
Total expenses	$ 246,979	$ 1,850	$ 5,673	$ 126,972	$ 381,474

MICHIGAN PHILHARMONIC
STATEMENT OF CASH FLOWS
Year ended June 30,2020

OPERATING ACTIVITIES	
Change in net assets	$ (18,663)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Forgiveness of Paycheck Protection Loan	(6,100)
Changes in assets and liabilities:	
Accounts receivable	18,509
Prepaid expenses	15,003
Accounts payable	(11,542)
Accrued expenses and payroll taxes	(1,031)
Deferred revenue	5,960
Net cash provided by operating activities	2,136
INVESTING ACTIVITIES	
Proceeds from the sale of investments	27,873
Net cash provided by investing activities	27,873
FINANCING ACTIVITIES	
Payments on notes payable	(2,138)
Proceeds from Paycheck Protection Loan	6,100
Net cash used in financing activities	3,962
NET CHANGE IN CASH	33,971
CASH, beginning of year	6,492
CASH, end of year	$ 40,463

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	$ 884

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. These policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization and Nature of Activities

The mission of the Michigan Philharmonic (the "Organization") is to enrich Plymouth/Canton and the surrounding communities with high quality music appealing to a broad-based audience through diverse programming and creative marketing. The Michigan Philharmonic provides a community orchestra to serve as a performance outlet for talented musicians from Southeastern Michigan and actively supports quality music opportunities, experiences and education to students in area schools. The Organization's support comes primarily from contributions by individual donors and corporations as well as private and public grants.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Organization follows to ensure they consistently report their financial condition, results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification* (ASC).

Financial statement presentation follows the recommendations of the ASC topic *Presentation of Financial Statements for Not-for-Profit Entities*. The Organization is required to report information regarding its financial position and activities according to the following net assets 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 Organization'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 Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

NOTE 1 – SUMMARY OF 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In particular, the COVID-19 pandemic and the resulting adverse impact to global economic conditions, as well as the Organization's operations, may affect future estimate including, but not limited to, the allowance for doubtful accounts.

Accounts

Accounts receivable are stated net of an allowance for doubtful accounts. Management believes all receivables are collectible. There was no allowance for doubtful accounts at June 30, 2020.

Concentrations

In the year ended June 30, 2020, the Organization received about 30% of its contribution revenue from one donor.

Revenue Recognition

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as contributions with donor restrictions and increase the net assets with donor restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as unrestricted support and increase net assets without donor restrictions.

Contracts, Grant Funds, Grant Receivable

Funds received from reimbursable contracts and grants are recorded as revenue when the organization incurs the eligible costs allowed under the contract or grant. A receivable is recognized for any eligible costs that have been incurred.

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Deferred Revenue

Deferred revenue consists primarily of advance payments received on performances conducted according to the contract. In accordance with Topic 606, advance payments received on performance are not recognized until the performance is conducted, at which time the revenue is recognized in the Statement of Activities.

Revenue recognition for contracts with customers

The Organization's revenue streams under contracts with customers is comprised of contract services, admissions, program advertising, tuition and raffle sales revenue received in conjunction with events and fundraising from various businesses and foundations in Michigan. The Organization performs an analysis to determine the performance obligations associated with the exchange transactions, and revenue recognized when the given performance obligation is satisfied. The revenue is recognized at a given point in time when the control of the goods or service is transferred to the customer and when the customer can direct its use and obtain substantial benefit from the goods. The transaction price is calculated as the amount of consideration to which the Organization expects to be entitled (such as the price of admission and price of raffle tickets for events). The following explains the performance obligations related to each revenue stream and how they are recognized.

Contract Services - The Organization recognizes contract service income when the performance is conducted according to the contract.

Admissions - The Organization recognizes admission income when it satisfied its performance obligation by transferring control or service to its patrons. Admissions performance revenues are recognized at a point in time when a performance is conducted.

Program advertising – The Organization recognizes program advertising income when advertising is posted in its annual brochure.

Tuition – The Organization recognizes tuition income when the lesson takes place.

Special events – The Organization recognizes special event revenue at the time that the event occurs.

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

Government Grants and Assistance

Effective July 1, 2019, the Organization adopted ASC 958-605, Not for Profit Entities – Revenue Recognition, to account for proceeds received from government assistance programs as permitted by US GAAP when there is a lack of authoritative guidance under US GAAP. The adoption of this standard did not have any impact on the prior year as the Organization did not receive any government assistance prior to the fiscal year of 2020. Proceeds from government grants and assistance are recognized in income when there is reasonable assurance that the Company has substantially met all grant conditions.

Donated Goods and Services

A substantial number of volunteers have donated significant amounts of their time in the Organization's program services and its fundraising campaigns. Donated services were not recognized in the financial statements since they did not meet the criteria for recognition under ASC topic *Contributions*. The Organization receive in-kind contributions valued at $3,354 during the fiscal year of 2020 as the landlord waived two months of rent because of the COVID -19 shutdown.

New Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

In May 2017, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The organization adopted the ASU effective July 1, 2019. Management performed an assessment of the organization's revenue streams and determined that the adoption of the standard has no impact on the revenue recognition for the year ended June 30, 2020.

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2018, the FASB issued ASU No. 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The ASU provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. Management performed an assessment of the organizations 's contributions and determined the adoption of the standard has no impact on the recognition of contributions for the year ended June 30, 2020.

Income Taxes

The Organization operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At June 30, 2020 there were no uncertain tax positions that required accrual.

Functional Expenses

The costs of providing program and support services have been reported on a functional basis in the statements of activities. Indirect costs have been allocated between the various programs and support services based on estimates determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Advertising Expense

The Organization uses advertising to promote its concerts and programs. The production costs of advertising are expensed as incurred. Advertising expense amounted $3,858 for the year ended June 30, 2020.

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES (Continued)

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease ("COVID-19") a pandemic. The extent of COVID-19's effect on the Organizations' operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult considering the rapidly evolving landscape.

Due to the COVID-19 pandemic, the Organization adhered to the state's orders and canceled or postponed the live concerts in the fiscal year ended June 30, 2020. This resulted in significant decrease in income and the related expenses. The Organization expected to commence live concerts in 2021 summer and back to the normal schedule in Season 2021-2022.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash	$ 40,463
Accounts receivable, net	200
Total financial assets	40,663
Amount not available for general use:	
Donor restricted funds	15,000
Financial assets available to meet general expenditures within one year	$ 25,663

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 3 –LINE OF CREDIT

The Organization has a revolving note agreement with a financial institution with a limit of $10,000 at a variable interest rate. At June 30, 2020, the balance on the line of credit was $10,000 with an interest rate of 4.75%. The agreement was renewed in May 2020 and April 2021, the balance owed is due on demand. The line of credit is personally guaranteed by a member of the board.

NOTE 4 – LONG-TERM DEBT

Long-term debt consists of the following:

Note payable to a bank, unsecured, bearing interest at 6%, due in monthly installments of $193.74 including interest through April 1, 2021. The note is personally guaranteed by a member of the board.	$	1,875
Less current portion		1,875
Long-term portion	$	-

NOTE 5 – BOARD-DESIGNATED ENDOWMENTS

The Organization's endowments include funds designated by the board of directors to function as endowments. As required by generally accepted accounting principles, 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.

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

Board-designated endowment net assets, beginning of year	$	27,873
Net investment return gain		1,398
Distributions		(29,271)
Board-designated endowment net assets, end of year	$	-

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets of the Organization consist of contributions that are restricted as to use or time as specified by the donor. The restrictions expire when the purpose of the restriction has been accomplished.

Net assets with donor restrictions were comprised of the following:

2020 - 2021 Season	$	15,000

NOTE 7 – CANTON COMMUNITY FOUNDATION ENDOWMENT

The Organization was established with the Plymouth Symphony Orchestra Agency Youth Music Initiatives Fund (the "Fund") with the Canton Community Foundation (the "Foundation"). The Fund is a component fund and an asset of the Foundation. Approximately 5% of the Fund is to be distributed annually calculated on a rolling average in accordance with the Foundation's spending policy. The distribution is be used for the general purposes of the Michigan Philharmonic or Youth Music Initiatives.

Under Accounting Standards Codifications topic, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others,* the Organization has granted variance power to the governing board of the Foundation; therefore, these assets are not recorded as assets of the Organization. The fair market value of the funds at June 30, 2020 was $21,711.

NOTE 8 – RETIREMENT PLAN

The Organization participates in multi-employer defined benefit pension plans administered by the union that covers substantially all union musicians used by the Organization. The Organization's responsibility to fund the pension obligation is limited to its contribution. Any excess contribution is the responsibility of the union. Total pension expense was $5,424. The Organization did not contribute more than 5% of total contributions to the Plan.

The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects: A) assets contributed to the multiemployer plan by one employer may be used to provide benefits to the employees of other participating employers; B) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

The Organization's participation in these plans is outlined in the table below. The plan status is based on information that the Organization received from the plan and is certified by the plan's actuary. Under federal pension law, a plan generally is in "endangered" status if it is funded percentage is less than 80 percent. A plan is in "critical" status if the funded percentage is less than 65 percent (other factors may also apply). A plan is in "critical and declining" status if it is in critical status and is projected to become insolvent (run out money to pay benefits) within 15 years (or within 20 years if a special rule applies). If a pension plan enters endangered status, the trustees of the plan are required to adopt a funding improvement plan. Similarly, if a pension plan enters critical status, the trustees of the plan are required to adopt a rehabilitation plan. Rehabilitation and funding improvement plans establish steps and benchmarks for pension plans to improve their funding status over a specified period of time.

NOTE 8 – RETIREMENT PLAN (Continued)

The "FIP/RP" indicates the plan for which a funding improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

Pension Fund	EIN/ Pension Number	Plan Year End	Funding Status	FIP/RP	Surcharge Imposed	Expiration Date of Collective - Bargaining Agreement
American Federation of Musicians and Employer's Pension Plan	51-6120204 / #001	3/31/2020	Critical and Declining	RP	Yes	August 31, 2021

The collective-bargaining agreement related to the American Federation of Musicians and Employer's Pension Plan (Plan 001) (the "Plan"). The Plan requires contributions the Organization makes in the amount of 10% of the musician's wages including all overtimes and premiums. Effective September 1, 2020, it was changed to 11%.

The Plan is in "critical and declining" status as defined by the Pension Protection Act of 2006, and is currently projected to run out of money in the Plan year ended March 31, 2035. The Plan has reached this state due to a combination of daunting challenges, in particular, the Plan's investment losses during the 2008-2009 financial crisis and rising benefit payments that increasingly exceed annual contributions. On April 15, 2020, the rehabilitation plan was adopted by the Board of Trustees of the American Federation of Musicians and Employer's Pension Fund (the "Fund").

In order to avoid insolvency, the Trustees of the Fund applied to suspend benefits pursuant to the Multiemployer Pension Reform Act of 2014 (MPRA) on December 30, 2019. That application was denied on August 12, 2020. The Trustees filed another application on December 30, 2020, which is currently pending. Further, if the Plan becomes insolvent, there is heightened risk of liability to employer, including the potential of mass withdrawal liability.

NOTE 9 – OPERATING LEASES

The Organization entered into a one-year lease contract with an unrelated entity for office space beginning in July 2018. The contract has been extended each year with the current extension ending July 31, 2021. Monthly rent payments were $1,531 for July 2019 and $1,677 for the months of August 2019 through June 2020. Total rent expense for the year ended June 30, 2020 was $19,924.

The Organization was granted a two-month rent waiver during the year ended June 30, 2020. This waiver was recorded as in-kind contributions and rent expense.

The Organization has a 63-month lease contract for office equipment. The lease expires on June 30, 2023. Rent expense for office equipment for the year ended June 30, 2020 was $2,302.

NOTE 9 – OPERATING LEASES (Continued)

Future minimum lease payments consist of the following:

Year ending June 30,	Amount
2021	$ 22,426
2022	3,979
2023	2,302
	$ 28,707

NOTE 10 – PAYCHECK PROTETION PROGRAM

The Organization was granted a $6,100 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal Government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization has recognized $6,100 as grant revenue for the year ended June 30, 2020.

Subsequent to June 30, 2020, the Organization applied for and was granted forgiveness for the entire amount of the loan principal of $6,100 plus related interest of $46.

NOTE 11 – SUBSEQUENT EVENTS

The Organization has evaluated events through May 25, 2021, which is the date the financial statements were available to be issued.

In March 2021, the Organization received a Small Business Administration Paycheck Protection Program loan in the amount of $40,700. The Organization intends to use such loan proceeds in the manner that will maximize loan forgiveness.