



BE PRESENT

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
with
REPORT OF INDEPENDENT AUDITORS**

THE UNIVERSITY MUSICAL SOCIETY

June 30, 2020 and 2019

	Page(s)
Financial Statements:	
Report of Independent Auditors.....	1-2
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6-19



Report of Independent Auditors

To the Board of Directors of the University Musical Society

We have audited the accompanying financial statements of the University Musical Society (the 'Society'), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 our 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, we consider internal control relevant to the Society'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 Society'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 the University Musical Society as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
December 18, 2020

THE UNIVERSITY MUSICAL SOCIETY

Statement of Financial Position

	June 30,	
	2020	2019
Assets		
Cash equivalents on deposit with the University	\$ 1,660,057	\$ 963,630
Accounts receivable, net	6,989	163,664
Grants and pledges receivable, net	513,693	235,476
Prepaid expenses and other assets	282,145	350,709
Investments on deposit with the University	25,828,434	27,683,959
Capital assets, net	70,070	58,175
Total Assets	28,361,388	\$ 29,455,613
Liabilities and Net Assets		
Accrued compensation	\$ 282,806	\$ 244,758
Accounts payable and other liabilities	18,903	105,857
Deferred revenue	929,268	1,854,048
Total Liabilities	1,230,977	2,204,663
Net Assets:		
Without donor restrictions	7,741,125	7,889,229
With donor restrictions	19,389,286	19,361,721
Total Net Assets	27,130,411	27,250,950
Total Liabilities and Net Assets	\$ 28,361,388	\$ 29,455,613

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

THE UNIVERSITY MUSICAL SOCIETY

Statement of Activities

	Year Ended June 30,	
	2020	2019
Changes in Net Assets Without Donor Restrictions		
Operating Revenues, Gains and Other Support:		
Ticket sales	\$ 2,449,250	\$ 2,848,772
Gifts and grants	4,804,791	4,424,812
Net investment income	1,083,035	1,040,284
Events	2,000	85,680
Other	478,896	558,825
Net assets released from restrictions	100,085	630,215
Total Operating Revenues, Gains and Other Support	<u>8,918,057</u>	<u>9,588,588</u>
Operating Expenses:		
Concerts and other programs	5,608,019	6,350,803
Administrative	1,677,273	1,784,454
Development	1,262,940	1,469,245
Chorus	76,843	53,036
Total Operating Expenses	<u>8,625,075</u>	<u>9,657,538</u>
Increase (Decrease) in Net Assets Without Donor Restrictions from Operations	<u>292,982</u>	<u>(68,950)</u>
Other Changes in Net Assets Without Donor Restrictions		
Gifts and grants	3,527	
Unrealized (loss) gain on investments on deposit with the University	(444,613)	153,588
Total Other Changes, Net	<u>(441,086)</u>	<u>153,588</u>
(Decrease) Increase in Net Assets Without Donor Restrictions	<u>(148,104)</u>	<u>84,638</u>
Changes in Net Assets With Donor Restrictions		
Gifts and grants	1,103,345	523,583
Net investment income	50,240	43,214
Net unrealized (loss) gain on investments on deposit with the University	(1,025,935)	331,350
Net assets released from restrictions	(100,085)	(630,215)
Increase in Net Assets With Donor Restrictions	<u>27,565</u>	<u>267,932</u>
(Decrease) Increase in Net Assets	<u>(120,539)</u>	<u>352,570</u>
Net Assets, Beginning of Year	<u>27,250,950</u>	<u>26,898,380</u>
Net Assets, End of Year	<u>\$ 27,130,411</u>	<u>\$ 27,250,950</u>

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

THE UNIVERSITY MUSICAL SOCIETY

Statement of Cash Flows

	Year Ended June 30,	
	2020	2019
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (120,539)	\$ 352,570
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	26,793	31,609
Unrealized (gain) loss on investments on deposit with the University	1,470,548	(484,938)
Gifts and grants restricted for long-term purposes	(1,103,345)	(543,584)
Changes in operating assets and liabilities:		
Accounts receivable, net	156,675	(135,165)
Grants and pledges receivable, net	(278,217)	(91,220)
Prepaid expenses and other assets	68,564	51,034
Accrued compensation	38,048	6,396
Accounts payable and other liabilities	(86,954)	77,795
Deferred revenue	(924,780)	751,861
Net Cash (Used in) Provided by Operating Activities	(753,207)	16,358
Cash Flows from Investing Activities		
Proceeds from sales of investments	1,101,993	
Purchases of investments	(714,068)	(517,304)
Purchases of capital assets	(38,688)	(21,492)
Net Cash Provided by (Used in) Investing Activities	349,237	(538,796)
Cash Flows from Financing Activities		
Gifts and grants restricted for long-term purposes	1,100,397	549,388
Net Cash Provided by Financing Activities	1,100,397	549,388
Net Increase in Cash Equivalents on Deposit with the University	696,427	26,950
Cash Equivalents on Deposit with the University, Beginning of Year	963,630	936,680
Cash Equivalents on Deposit with the University, End of Year	\$ 1,660,057	\$ 963,630

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

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements

June 30, 2020 and 2019

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The University Musical Society (the “Society”) presents professional concerts and performances by musical artists and organizations. The Society also manages the University Choral Union for musical education and public performance. The Society is a separate nonprofit organization affiliated with the University of Michigan (the “University”) and is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Although the Society is affiliated with the University and located on the Ann Arbor campus, the Society primarily supports itself from ticket sales, gifts, grants, investment and other income.

Net assets are categorized as:

- **Without donor restrictions** – Net assets that are not subject to externally imposed stipulations. This net asset category principally consists of fees for service and related expenses associated with the core activities of the Society. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors (the “Board”).
- **With donor restrictions** – Net assets subject to externally imposed stipulations that will be met either by actions of the Society or the passage of time. Included in this category are net assets to be maintained permanently by the Society, in which the donor has stipulated the corpus of the gift to be held in perpetuity and that only the income be made available for program operations.

Accounting Standards Issued But Not Yet Adopted: During 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard requires entities to measure and recognize the consideration received in exchange for goods and services by allocating the transaction price to identified performance obligations. Consideration is then recognized into revenue as these performance obligations are satisfied. The standard is effective for fiscal years beginning after December 15, 2019, and the Society is currently evaluating the impact to its financial statements and related disclosures.

Adoption of New Accounting Standards: In June 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions. This ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. ASU No. 2018-08 also provides a framework to determine whether a contribution is conditional or unconditional, which may impact the timing of revenue recognition.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Under the new guidance, if a transaction is considered an exchange transaction, it is accounted for under the applicable revenue recognition standards. The Society adopted this standard retrospectively during 2020, but it did not have an impact on the Society's financial statements.

Summary of Significant Accounting Policies: The Society adheres to accounting principles generally accepted in the United States of America in reporting expenses by their functional classification and the accompanying financial statements have been prepared on the accrual basis.

For purposes of the statement of cash flows, the Society considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash equivalents on deposit with the University represent deposits in the University Investment Pool ("UIP"), a short-term commingled pool managed by the University that can be readily liquidated to pay contractual liabilities. Investments on deposit with the University represent investments in the University Endowment Fund ("UEF"), a commingled pool which is invested entirely in the Long Term Portfolio, a diversified, equity-oriented investment pool managed by the University. The University establishes the fair market value of the UIP at \$1.00 per share and any participant in the pool may purchase or redeem shares at that price. The University determines the fair market value of UEF shares at the end of each calendar quarter based on the fair market value of the pool. Participants may purchase or redeem UEF shares at fair market value at each valuation date, subject to minimum holding and notice requirements.

The Society receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts and includes such factors as prior collection history, type of gift and nature of fundraising. The fair value of pledges receivable approximates their financial statement carrying amount.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation is provided on a straight-line method over the estimated useful lives of the respective assets, which range from three to fifteen years.

Revenues are reported as increases in net assets without donor restrictions unless use of the resources are limited by externally imposed stipulations. Contributions and investment income with externally imposed stipulations that are met in the same year as received or earned are reported as revenues without donor restrictions. Contributions and investment income with externally imposed stipulations that are not met in the same year as received or earned are reported as donor restricted revenues and are reclassified to net assets without donor restrictions when an expense is incurred that satisfies the externally imposed stipulations.

On April 6, 2020, the Society received loan proceeds in the amount of \$458,432 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. Prior to June 30, 2020, the Society used the proceeds for eligible purposes as specified by the terms of the PPP. Accordingly, the Society believes the conditions for forgiveness of the full loan amount have been met and has recognized \$458,432 as gifts and grants revenues within the changes in net assets without donor restrictions section of the Statement of Activities for the year ended June 30, 2020.

Ticket sales are recognized as revenue in the year when the related concerts are presented. Ticket sale proceeds received and related expenditures paid in advance of the year of presentation are treated as deferred revenue and prepaid expenses, respectively

Net investment income represents distributions from pooled investments. Unrealized investment gains and losses are reported separately as nonoperating activity.

Expenses are reported as decreases in net assets without donor restrictions. Expirations of externally imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as net assets released from restrictions between the applicable classes of net assets.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The COVID-19 pandemic and related actions taken by federal and state governments in response may materially impact the Society's financial position and its results of operations, including those related to live performances. While the Society continues to develop and execute plans to mitigate these risks, the extent of the impact to the Society will depend on future developments beyond its control, including the overall duration and spread of the outbreak, and cannot be fully determined at this time.

During 2020, management determined that it had inappropriately recorded \$258,985 of contributions that contained time restrictions as Deferred revenue on the June 30, 2019 Statement of Financial Position, whereas these should have been recorded as donor restricted Gifts and grants in the accompanying 2019 Statement of Activities. These errors had no effect on the previously reported Net Cash Provided by Operating Activities in the 2019 Statement of Cash Flows. The Society has corrected this error as an out-of-period adjustment in the 2020 financial statements. The effect of this out-of-period item overstates Gifts and grants revenue without donor restrictions by \$258,985 and understates Net assets released from restrictions in the Total operating revenues, gains and other support section of the 2020 Statement of Activities by \$258,985. Similarly, Net assets released from restrictions in the Changes in Net Assets With Donor Restrictions section of the 2020 Statement of Activities is also understated by \$258,985. The net effect of these errors understates the 2020 Decrease in Net Assets by \$258,985. The Society evaluated the materiality of these adjustments to the prior period financial statements and the current period and concluded that the adjustments were immaterial to both the current and prior period financial statements.

The Society has performed an evaluation of subsequent events through December 18, 2020, the date the financial statements were issued.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 2—Cash and Investments

The Society's cash equivalents and investments are maintained in the University's centralized investment pools. Cash reserves and relatively short duration assets are invested in the UIP, while longer term assets held in the UEF are invested in the University's Long Term Portfolio. The UIP is principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. The longer investment horizon of the University's Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets.

The Society either invests or finances its working capital requirements with the University based on the timing of the Society's cash flows. The Society earns interest on its deposits and is charged interest on advances made. The interest rate applied to both deposits and advances is adjusted quarterly based on the U.S. Treasury Bill rate. Cash equivalents on deposit with the University totaled \$1,660,057 and \$963,630 at June 30, 2020 and 2019, respectively.

The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio, in which the UEF invests, sets general targets for both equities and fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories. At June 30, 2020 and 2019, the Long Term Portfolio consisted of cash equivalents (2 percent and 1 percent), fixed income securities (8 percent and 4 percent), U.S. and non-U.S. equities (4 percent and 9 percent), commingled funds (19 percent and 25 percent) and nonmarketable alternative investments (67 percent and 61 percent).

Commingled (pooled) funds held in the Long Term Portfolio include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Commingled funds are primarily invested in non-U.S./global equities and absolute return strategies, but also include exposure to domestic fixed income and equity securities. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy; however, these investments are structured to limit the University's risk exposure to the amount of invested capital.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 2—Cash and Investments—Continued

Nonmarketable alternative investments held in the Long Term Portfolio consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. These limited partnerships include venture capital, private equity, real estate, natural resources and absolute return strategies. There is not an active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner.

The Long Term Portfolio holds investments denominated in foreign currencies and forward foreign exchange contracts used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies. Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The Long Term Portfolio's non-U.S. dollar exposure amounted to 11 percent of the portfolio at both June 30, 2020 and 2019.

The University's investment strategy incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net position and is not represented by the contract or notional amounts of the instruments.

The Society receives quarterly distributions from the UEF based on the University's endowment spending rule. The annual distribution rate is 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Monthly distributions are also made from the UIP to the Society based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the UEF and UIP are funded by investment returns.

Withdrawals may be made quarterly from the UEF, with notice given to the University one month prior to the end of the preceding quarter, based upon University policy, generally after a five-year investment period. Withdrawals may be made from the UIP on a daily basis.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 2—Cash and Investments—Continued

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (“ASC 820”), establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs, which should be maximized under ASC 820, reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity’s own assumptions about how market participants would value an asset or liability based on the best information available. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A significant portion of the underlying investments of the University’s commingled pools include nonmarketable alternative investments and certain commingled funds described earlier in this note that are priced by managers using Level 3 inputs or net asset value, due to the lack of observable market data. The proprietary valuation techniques and unobservable pricing assumptions used by these managers to estimate fair value may have a significant impact on the resulting fair value determination of these investments. However, the Society uses Level 2 inputs to measure the fair value of its investments in the University’s commingled pools described in Note 1 and within this note, since shares may be purchased or sold subject to holding and notice requirements at the fair market value determined by the University.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 3—Endowment Funds

The Society invests its endowment funds, including both donor-restricted funds and those designated by the Board to function as endowments in the UEF. In general, the purpose of Board-designated endowments is to be used in the instance of adverse financial circumstances and the release of such funds is to be approved by the Board. In order to retain the endowment funds, the Board has designated a portion of the endowment to be used during adverse financial circumstances as the operating reserve, which represents 4.5 months of the current year Board approved budgeted expenditures. The Board operating reserve totaled \$3,356,459 and \$3,440,705 at June 30, 2020 and 2019, respectively. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Society is currently following the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) enacted by the State of Michigan in 2009. The Society has interpreted the 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. The Society relies on donor intent as well the University’s policies governing the UEF, including those related to spending rate distributions as well as withdrawals, in determining amounts appropriated from its endowment funds for expenditure each period.

The composition of endowment net assets by type of fund at June 30, 2020 and 2019 is as follows:

	2020	2019
Board-designated funds		
Funds functioning as endowment	\$ 7,415,512	\$ 8,764,264
Total board-designated funds	7,415,512	8,764,264
Donor-restricted funds		
Permanent endowment corpus	11,998,026	11,403,714
Net appreciation of permanent endowments	3,291,678	4,140,885
Funds functioning as endowment	3,113,118	3,365,164
Total donor-restricted funds	18,402,822	18,909,763
Total endowment net assets	<u>\$ 25,818,334</u>	<u>\$ 27,674,027</u>

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 3—Endowment Funds--Continued

Change in endowment net assets for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Without donor restrictions		
Contributions	\$ 3,527	\$ 3,448
Investment returns, net	(352,279)	244,161
Amounts appropriated for expenditure	(1,000,000)	
Total change in endowment net assets without donor Restrictions	(1,348,752)	247,609
With donor restrictions		
Permanent endowments		
Contributions	572,397	377,495
Investment returns, net	(827,292)	286,831
Amounts appropriated for expenditure		(61,403)
Total change in permanent endowments	(254,895)	602,923
Funds functioning as endowment		
Contributions	10,550	75,547
Investment returns, net	(160,603)	75,958
Amounts appropriated for expenditure	(101,993)	
Total change in funds functioning as endowment	(252,046)	151,505
Total change in endowment net assets with donor Restrictions	(506,941)	754,428
Total change in endowment net assets	<u>\$ (1,855,693)</u>	<u>\$ 1,002,037</u>

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 4—Financial Assets and Liquidity

The following reflects the Society’s financial assets at the balance sheet date, reduced by amounts not available for general expenditures due to donor-imposed restrictions and Board designations. Operating reserves as designated by the Board enable the organization to sustain its operations despite unexpected adverse economic conditions and changes which could affect the organization’s financial position.

Financial assets available to meet cash needs for general expenditures within one year at June 30, 2020 and 2019 are as follows:

	2020	2019
Total assets	\$ 28,361,388	\$ 29,455,613
Less non-financial assets:		
Prepaid expenses and other assets	282,145	350,709
Capital assets, net	70,070	58,175
Total financial assets	28,009,173	29,046,729
Less assets unavailable for general expenditures within one year, due to donor-imposed restrictions and Board designations:		
Pledges receivable in excess of one year	76,798	73,500
Donor restricted - time or purpose	3,123,217	3,375,096
Donor restricted - permanent	15,289,704	15,544,598
Board designated funds for operating reserves	3,356,459	3,440,705
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,162,995</u>	<u>\$ 6,612,830</u>

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 5—Transactions with the University of Michigan

The Society receives support from the University and occupies rent-free administrative space in the University's Burton Memorial Tower and Liberty Centre. The estimated fair value of this space amounted to \$143,000 and \$142,000, respectively for the years ended June 30, 2020 and 2019. This is recorded as gifts and grants revenue and administrative expense in the accompanying financial statements.

Staff members of the Society are treated as employees of the University. The Society reimburses the University for payroll, benefits, payroll taxes and payroll processing costs which totaled \$3,750,868 and \$3,527,295 for the years ended June 30, 2020 and 2019, respectively.

Other services such as facility rentals, leased vehicles and utilities are purchased from the University at standard rates and amounted to \$215,020 and \$355,902 for the years ended June 30, 2020 and 2019, respectively.

The University provided support of \$1,070,000 and \$1,165,000 for the years ended June 30, 2020 and 2019, respectively, which is included in gifts and grants revenue on the statement of activities. In both 2020 and 2019, the University contributed \$1,000,000 for the University of Michigan/University Musical Society Partnership Program, which provides support to designated Society education, creation and presentation programs of special value to the University. In 2020 and 2019, the Society received additional University support of \$70,000 and \$165,000 for sponsorship of certain musical, theatrical, and community outreach performances, which included \$100,000 received from the University's health system in 2019.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 6—Grants and Pledges Receivable

The composition of grants and pledges receivable at June 30, 2020 and 2019 is summarized as follows:

	2020	2019
Grants and pledges:		
Operating	\$ 410,225	\$ 101,000
Future year programming	60,000	96,547
Endowments	51,000	48,000
	<u>521,225</u>	<u>245,547</u>
Less:		
Allowance for uncollectible pledges	5,640	7,408
Unamortized discount to present value	1,892	2,663
Total grants and pledges receivable, net	<u>\$ 513,693</u>	<u>\$ 235,476</u>

Payments on grants and pledges receivable at June 30, 2020 are expected to be received in the following years ended June 30:

2021	\$ 481,225
2022	40,000
	<u>\$ 521,225</u>

Note 7—Capital Assets

Capital assets at June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Furniture and fixtures	\$ 88,822	\$ 88,822
Equipment	203,503	182,867
Leasehold improvements	43,117	43,117
	<u>335,442</u>	<u>314,806</u>
Less accumulated depreciation	265,372	256,631
	<u>\$ 70,070</u>	<u>\$ 58,175</u>

The Society is obligated under various operating agreements for rental of production related equipment and auditorium space. Rental expenses totaled \$426,008 and \$354,586 for the years ended June 30, 2020 and 2019, respectively.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 8—Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Programming	\$ 18,678,501	\$ 18,636,543
Jazznet	579,832	579,832
Other	130,953	145,346
	<u>\$ 19,389,286</u>	<u>\$ 19,361,721</u>

Donor restricted net assets released from restrictions during the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Programming	\$ 73,493	\$ 619,000
Other	26,592	11,215
	<u>\$100,085</u>	<u>\$ 630,215</u>

Note 9—Retirement Plan

The Society participates in the University’s retirement plan, a defined contribution retirement plan through TIAA and Fidelity Management Trust Company (“FMTC”) mutual funds. All staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and the Society generally contributes an amount equal to 10 percent of employees’ pay to the plan after one year of employment with the University. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by the Society’s contributions. Contributions made to the plan by the Society amounted to \$213,324 and \$220,312 for the years ended June 30, 2020 and 2019, respectively.

THE UNIVERSITY MUSICAL SOCIETY

Notes to Financial Statements—Continued

Note 10—Functional Classification of Expenses

The financial statements report certain categories of expenses that are attributable to one or more of the Society’s defined operating functions; concerts and other programs, administrative, development and chorus. Those expenses attributable to more than one function include compensation, office rental space, depreciation, and IT service and equipment (noncapital). Compensation is allocated based on effort while office rental space is allocated based on both direct costs for storage space as well as headcount. Depreciation is allocated based on direct assignment and use of equipment and IT service and equipment (noncapital) is allocated based on headcount. All other costs are allocated on a direct basis.

Functional expenses, organized by their respective natural classification, for the years ended June 30, 2020 and 2019 are as follows:

	2020				
	Concerts and Other Programs	Administrative	Development	Chorus	Total
Concert: artist fees, programming and production	\$ 2,328,410			\$ 9,401	\$ 2,337,811
Compensation	2,098,360	\$ 905,869	\$ 1,093,060	51,873	4,149,162
Office rental space	15,840	162,733	47,464		226,037
Depreciation	3,225	20,941	2,303	324	26,793
IT service and equipment (noncapital)	21,177	107,507	31,356	8,959	168,999
Staff development		29,277	1,220		30,497
Travel and hosting	294,937	92,937	60,672	6,286	454,832
Office supplies and other	846,070	358,009	26,865		1,230,944
	<u>\$ 5,608,019</u>	<u>\$ 1,677,273</u>	<u>\$ 1,262,940</u>	<u>\$ 76,843</u>	<u>\$ 8,625,075</u>
	2019				
	Concerts and Other Programs	Administrative	Development	Chorus	Total
Concert: artist fees, programming and production	\$ 3,263,937			\$ 2,143	\$ 3,266,080
Compensation	2,028,869	\$ 789,889	\$ 1,112,232	36,487	3,967,477
Office rental space	15,840	180,292	31,436		227,568
Depreciation	4,104	26,133	1,048	324	31,609
IT service and equipment (noncapital)	12,414	100,533	32,314	7,181	152,442
Staff development		23,024	760		23,784
Travel and hosting	370,431	46,370	138,592	6,244	561,637
Office supplies and other	655,208	618,213	152,863	657	1,426,941
	<u>\$ 6,350,803</u>	<u>\$ 1,784,454</u>	<u>\$ 1,469,245</u>	<u>\$ 53,036</u>	<u>\$ 9,657,538</u>