



REPORT OF INDEPENDENT AUDITORS AND
COMBINED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

**THE SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION
AND SAN DIEGO SYMPHONY FOUNDATION**

June 30, 2021 and 2020

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Report of Independent Auditors

To the Boards of Directors
The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation

Report on the Financial Statements

We have audited the accompanying combined financial statements of The San Diego Symphony Orchestra Association and San Diego Symphony Foundation, which comprise the combined statements of financial position as of June 30, 2021 and 2020, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The San Diego Symphony Orchestra Association and San Diego Symphony Foundation as of June 30, 2021 and 2020, and their changes in net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 3, 4, 5, and 30 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Moss Adams LLP

San Diego, California
February 15, 2022

**The San Diego Symphony Orchestra Association and San Diego Symphony Foundation
Combined Statements of Financial Position as of June 30, 2021
(with Summary Information as of June 30, 2020)**

	June 30, 2021				June 30, 2020
	The San Diego Symphony Orchestra Association	San Diego Symphony Foundation	Eliminations	Combined	Combined
ASSETS					
Cash and cash equivalents	\$ 6,939,556	\$ 45,776	\$ -	\$ 6,985,332	\$ 4,695,751
Cash for construction projects	14,164,128	-	-	14,164,128	10,357,673
Accounts receivable, net	243,864	-	-	243,864	270,016
Unconditional promises to give, net	21,361,420	2,945,435	-	24,306,855	15,116,957
Prepaid season expenses and other assets	2,288,204	-	-	2,288,204	735,899
Fixed assets, net of accumulated depreciation	111,730,155	-	-	111,730,155	28,214,569
Construction in progress	10,338,400	-	-	10,338,400	51,299,880
Music library	97,301	-	-	97,301	97,301
Investments	-	1,703,312	-	1,703,312	1,161,301
Beneficial interests held at community foundations	948,085	116,324,038	-	117,272,123	95,297,726
	<u>\$ 168,111,113</u>	<u>\$ 121,018,561</u>	<u>\$ -</u>	<u>\$ 289,129,674</u>	<u>\$ 207,247,073</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable and accrued expenses	\$ 14,474,084	\$ -	\$ -	\$ 14,474,084	\$ 10,953,591
Deferred revenue	3,838,885	-	-	3,838,885	2,551,554
Construction loan	37,475,878	-	-	37,475,878	20,500,000
Note payable to donor and related party	3,700,000	-	-	3,700,000	3,900,000
PPP loans	5,211,587	-	-	5,211,587	3,211,587
Tenant improvement payable	2,500,000	-	-	2,500,000	2,500,000
Line of credit	-	-	-	-	2,000,000
Pension liability	6,901,904	-	-	6,901,904	8,716,339
	<u>74,102,338</u>	<u>-</u>	<u>-</u>	<u>74,102,338</u>	<u>54,333,071</u>
COMMITMENTS AND CONTINGENCIES (Notes 9 and 12)					
NET ASSETS					
Without donor restrictions					
Accumulated expenses in excess of revenue	(57,271,352)	-	-	(57,271,352)	(23,211,230)
Designated for fixed assets	118,019,843	-	-	118,019,843	34,504,257
	<u>60,748,491</u>	<u>-</u>	<u>-</u>	<u>60,748,491</u>	<u>11,293,027</u>
With donor restrictions					
	<u>33,260,284</u>	<u>121,018,561</u>	<u>-</u>	<u>154,278,845</u>	<u>141,620,975</u>
	<u>94,008,775</u>	<u>121,018,561</u>	<u>-</u>	<u>215,027,336</u>	<u>152,914,002</u>
	<u>\$ 168,111,113</u>	<u>\$ 121,018,561</u>	<u>\$ -</u>	<u>\$ 289,129,674</u>	<u>\$ 207,247,073</u>

See accompanying notes.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Combined Statement of Activities, with Supplemental Information

Year Ended June 30, 2021

	Year Ended June 30, 2021							
	The San Diego Symphony Orchestra Association			San Diego Symphony Foundation			Elimination	Combined
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
REVENUE FROM OPERATIONS								
Concert ticket revenues	\$ 150,767	\$ -	\$ 150,767	\$ -	\$ -	\$ -	\$ -	\$ 150,767
Contract performance revenues - Opera	206,546	-	206,546	-	-	-	-	206,546
Venue rental income	1,860	-	1,860	-	-	-	-	1,860
Contract performance revenues	-	-	-	-	-	-	-	-
Concession, gift shop, and other revenues	6,477	-	6,477	-	-	-	-	6,477
Total revenue from operations	365,650	-	365,650	-	-	-	-	365,650
EXPENSES FROM OPERATIONS								
Concerts and orchestra personnel	9,262,228	-	9,262,228	-	-	-	-	9,262,228
General and administrative	2,795,440	-	2,795,440	-	-	-	-	2,795,440
Promotion and box office	1,279,942	-	1,279,942	-	-	-	-	1,279,942
Facility	2,257,156	-	2,257,156	-	-	-	-	2,257,156
Education and outreach	211,415	-	211,415	-	-	-	-	211,415
Total expenses from operations	15,806,181	-	15,806,181	-	-	-	-	15,806,181
Excess of expenses over revenue from operations	(15,440,531)	-	(15,440,531)	-	-	-	-	(15,440,531)
SUPPORT AND OTHER REVENUE								
Contributions	6,732,389	43,386,372	50,118,761	-	-	-	-	50,118,761
Contributions to endowment	-	-	-	-	-	-	-	-
Government grants	310,509	-	310,509	-	-	-	-	310,509
Special event revenue	35,985	400,667	436,652	-	-	-	-	436,652
Special event expense	(200,627)	-	(200,627)	-	-	-	-	(200,627)
Rental income	213,683	-	213,683	-	-	-	-	213,683
Endowment distribution from SDSF	5,430,000	-	5,430,000	-	-	-	(5,430,000)	-
Endowment distribution to SDO	-	-	-	-	(5,430,000)	(5,430,000)	5,430,000	-
Interest income	9,167	-	9,167	-	-	-	-	9,167
Outreach income	-	-	-	-	-	-	-	-
Gain on sale of stock	229,721	-	229,721	-	-	-	-	229,721
Net assets released from restrictions	54,015,502	(54,015,502)	-	-	-	-	-	-
Total support and other revenue	66,776,329	(10,228,463)	56,547,866	-	(5,430,000)	(5,430,000)	-	51,117,866
Less: development expenses	2,452,266	-	2,452,266	-	-	-	-	2,452,266
Net support and other revenue	64,324,063	(10,228,463)	54,095,600	-	(5,430,000)	(5,430,000)	-	48,665,600
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	48,883,532	(10,228,463)	38,655,069	-	(5,430,000)	(5,430,000)	-	33,225,069
Depreciation expense	(1,422,411)	-	(1,422,411)	-	-	-	-	(1,422,411)
Change in value of restricted split-interest agreements	-	199,694	199,694	-	318,386	318,386	-	518,080
Other comprehensive pension gain	1,814,435	-	1,814,435	-	-	-	-	1,814,435
Gain on investment and present value, net of investment expense of \$305,000	179,909	-	179,909	-	27,798,252	27,798,252	-	27,978,161
CHANGE IN NET ASSETS	49,455,465	(10,028,769)	39,426,696	-	22,686,638	22,686,638	-	62,113,334
NET ASSETS								
Beginning of year	11,293,026	43,289,053	54,582,079	-	98,331,923	98,331,923	-	152,914,002
End of year	\$ 60,748,491	\$ 33,260,284	\$ 94,008,775	\$ -	\$ 121,018,561	\$ 121,018,561	\$ -	\$ 215,027,336

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation Combined Statement of Activities, with Supplemental Information Year Ended June 30, 2020

	Year Ended June 30, 2020							
	The San Diego Symphony Orchestra Association			San Diego Symphony Foundation			Elimination	Combined
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
REVENUE FROM OPERATIONS								
Concert ticket revenues	\$ 7,213,943	\$ -	\$ 7,213,943	\$ -	\$ -	\$ -	\$ -	\$ 7,213,943
Contract performance revenues - Opera	776,423	-	776,423	-	-	-	-	776,423
Venue rental income	505,665	-	505,665	-	-	-	-	505,665
Contract performance revenues	399,402	-	399,402	-	-	-	-	399,402
Concession, gift shop, and other revenues	267,241	-	267,241	-	-	-	-	267,241
Total revenue from operations	9,162,674	-	9,162,674	-	-	-	-	9,162,674
EXPENSES FROM OPERATIONS								
Concerts and orchestra personnel	16,784,451	-	16,784,451	-	-	-	-	16,784,451
General and administrative	3,167,726	-	3,167,726	-	-	-	-	3,167,726
Promotion and box office	3,638,140	-	3,638,140	-	-	-	-	3,638,140
Facility	2,866,754	-	2,866,754	-	-	-	-	2,866,754
Education and outreach	339,995	-	339,995	-	-	-	-	339,995
Total expenses from operations	26,797,066	-	26,797,066	-	-	-	-	26,797,066
Excess of expenses over revenue from operations	(17,634,392)	-	(17,634,392)	-	-	-	-	(17,634,392)
SUPPORT AND OTHER REVENUE								
Contributions	9,271,503	22,389,187	31,660,690	-	-	-	-	31,660,690
Contributions to endowment	-	-	-	-	50,370	50,370	-	50,370
Government grants	518,495	-	518,495	-	-	-	-	518,495
Special event revenue	1,278,705	5,000	1,283,705	-	-	-	-	1,283,705
Special event expense	(583,003)	-	(583,003)	-	-	-	-	(583,003)
Rental income	209,625	-	209,625	-	-	-	-	209,625
Endowment distribution from SDSF	5,386,400	-	5,386,400	-	-	-	(5,386,400)	-
Endowment distribution to SDSO	-	-	-	-	(5,386,400)	(5,386,400)	5,386,400	-
Interest income	53,155	-	53,155	-	-	-	-	53,155
Outreach income	35,510	-	35,510	-	-	-	-	35,510
Gain on sale of stock	206,420	-	206,420	-	-	-	-	206,420
Net assets released from restrictions	2,733,513	(2,733,513)	-	-	-	-	-	-
Total support and other revenue	19,110,323	19,660,674	38,770,997	-	(5,336,030)	(5,336,030)	-	33,434,967
Less: development expenses	2,891,708	-	2,891,708	-	-	-	-	2,891,708
Net support and other revenue	16,218,615	19,660,674	35,879,289	-	(5,336,030)	(5,336,030)	-	30,543,259
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(1,415,777)	19,660,674	18,244,897	-	(5,336,030)	(5,336,030)	-	12,908,867
Depreciation expense	(1,293,890)	-	(1,293,890)	-	-	-	-	(1,293,890)
Change in value of restricted split-interest agreements	-	458,795	458,795	-	334,529	334,529	-	793,324
Other comprehensive pension expenses	(2,919,460)	-	(2,919,460)	-	-	-	-	(2,919,460)
(Loss)/Gain on investment and present value, net of investment expense of \$301,000	(153,450)	-	(153,450)	-	374,173	374,173	-	220,723
CHANGE IN NET ASSETS	(5,782,577)	20,119,469	14,336,892	-	(4,627,328)	(4,627,328)	-	9,709,564
NET ASSETS								
Beginning of year	17,075,603	23,169,584	40,245,187	-	102,959,251	102,959,251	-	143,204,438
End of year	\$ 11,293,026	\$ 43,289,053	\$ 54,582,079	\$ -	\$ 98,331,923	\$ 98,331,923	\$ -	\$ 152,914,002

See accompanying notes.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Combined Statements of Cash Flows
Years Ended June 30, 2021 and 2020**

	Years Ended June 30,	
	2021	2020
OPERATING ACTIVITIES		
Change in net assets	\$ 62,113,334	\$ 9,709,564
Reconciliation to net cash from operating activities		
Depreciation	1,422,411	1,293,890
Change in discount on pledges receivable	(195,037)	(426)
Change in value of beneficial interests in charitable remainder trusts	(518,080)	(793,324)
Endowment contributions	-	(50,370)
Contributions for fixed assets with donor restrictions	(28,543,346)	(12,838,600)
Net unrealized (gains) losses on investments	(624,011)	131,937
Endowment (gain) loss, net of payout and expenses	(21,974,398)	5,026,260
Change in pension liability	(1,814,435)	2,919,460
(Increase) decrease in operating assets		
Accounts receivable	26,153	(32,621)
Unconditional promises to give	(8,476,781)	(5,151,038)
Prepaid season expenses and other assets	(1,552,305)	1,552,846
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(6,371,688)	242,201
Deferred revenue	1,287,331	(1,656,602)
Tenant improvement payable	-	2,500,000
Net cash (used in) provided by operating activities	<u>(5,220,852)</u>	<u>2,853,177</u>
INVESTING ACTIVITIES		
Investment of endowment assets	-	(50,370)
Purchase of fixed assets	(987,790)	(66,191)
Proceeds from sales of investments	82,000	80,200
Construction in progress	<u>(33,096,546)</u>	<u>(37,120,825)</u>
Net cash used in investing activities	<u>(34,002,336)</u>	<u>(37,157,186)</u>
FINANCING ACTIVITIES		
Net (repayments) borrowings on line of credit	(2,000,000)	2,000,000
Repayments on note payable to donor and related party	(200,000)	(100,000)
Borrowings on construction loan	21,000,000	20,500,000
Repayments on construction loan	(4,024,122)	-
Borrowings on PPP loans	2,000,000	3,211,587
Endowment contributions	-	50,370
Restricted contributions for fixed assets collected	<u>28,543,346</u>	<u>12,838,600</u>
Net cash provided by financing activities	<u>45,319,224</u>	<u>38,500,557</u>
INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	6,096,036	4,196,548
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Beginning of year	<u>15,053,424</u>	<u>10,856,876</u>
End of year	<u>\$ 21,149,460</u>	<u>\$ 15,053,424</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 296,086</u>	<u>\$ 83,801</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Construction in progress included in accounts payable and accrued expenses	<u>\$ 9,892,181</u>	<u>\$ 7,889,366</u>

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies

Nature of organizations – The San Diego Symphony Orchestra Association (“SDSO”), a California nonprofit public benefit corporation formed for the primary purpose of presenting musical concerts for the benefit of the San Diego community, is committed to presenting the community with symphonic music, at the highest level possible, as an accessible and inspirational art form through innovative programming and a strong commitment to arts education. Musicians serve as faculty in local universities and volunteers in public schools, give private music lessons, perform in artistic productions such as the San Diego Opera, and serve as artists in churches and community programs.

SDSO receives revenue from the San Diego Opera (the “Opera”) for services it provides. Revenue from the Opera was approximately 56 percent and 9 percent of total revenue from operations on the accompanying combined statements of activities for the years ended June 30, 2021 and 2020, respectively. (The Opera revenue was lower at \$207,000 in 2021 compared to \$776,000 in 2020. The percentage share of revenue increased in 2021 due to the loss of most earned revenue that year.)

The productions and programs of SDSO are funded through a variety of public contributions and governmental grants.

San Diego Symphony Foundation (“SDSF”), a California nonprofit public benefit corporation, holds and seeks endowment funds to support the various programs of SDSO.

Method of accounting – The combined financial statements have been prepared utilizing the accrual basis of accounting and include the accounts of SDSO and SDSF, two separate legal entities with separate Boards of Directors.

SDSO receives benefits in the form of distributions from SDSF but does not exercise control over SDSF. The financial statements of SDSO and SDSF are combined pursuant to generally accepted accounting principles in the United States of America. All material inter-organization transactions have been eliminated in the accompanying combined financial statements.

Income tax status – SDSO and SDSF are both exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SDSO and SDSF follow the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, related to accounting for uncertain tax positions. SDSO and SDSF have no unrecognized tax benefits or liabilities as of June 30, 2021 and 2020.

Financial statement presentation – SDSO and SDSF follow ASC 958, *Not-for-Profit Entities — Presentation of Financial Statements*, for presentation of their combined financial statements, which requires that net assets be classified as with or without donor restrictions based upon the following criteria:

- Net assets without donor restrictions represent expendable funds available for operations that are not otherwise limited by donor restrictions.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

- Net assets with donor restrictions consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before SDSO and SDSF may spend the funds, and accumulated endowment earnings available for appropriation under SDSO and SDSF's spending policy.

Certain net assets with donor restrictions are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for generating investment income to fund current operations.

Revenue recognition:

Concert and contract performance revenues – Concert revenue from ticket sales is recorded at the stated price per ticket and is recognized at the time of the related performance when SDSO has met its performance obligation. Sales from tickets purchased in advance are recorded as deferred revenue on the statements of financial position until the revenue is recognized at the time of the related performance. Contract performance revenues are recognized at the time the performance occurs when SDSO has met its performance obligation.

Venue rental income – Revenue from the use of SDSO's concert hall and The Rady Shell at Jacobs Park venue is recognized at the time the event occurs.

Concession, gift shop, and other revenue – Revenue from concessions, gift shops, and other revenue is recorded when SDSO has met its performance obligation which is at the time goods are sold or services are provided.

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either with or without donor restrictions depending on the nature of the restrictions. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

Contributions restricted by the donor for acquiring or constructing fixed assets are reported as net assets with donor restrictions. When the fixed asset is placed in service, SDSO reclassifies the net assets with donor restrictions to net assets without donor restrictions.

Donated services – Donated services are received from a variety of unpaid volunteers assisting in the operations of SDSO. No amounts have been recognized in the accompanying combined statements of activities because the criteria for recognition of such volunteer efforts under ASC 958-605, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Government grants – Government grants are recognized as support when conditions have been met, which is generally when expenditures are incurred, in compliance with the terms and conditions of the grants.

Special events revenue – Revenue from special events is recognized at the time the event occurs, which is when SDSO has met its performance obligation.

Rental income – Rental income is recognized as earned under the terms of rental agreements. In October 1985, SDSO entered into a “Construction, Operating, and Easement Agreement” with Charlton-Raynd (now Symphony Tower Office). Under the terms of the agreement, Symphony Tower Office’s management was granted an easement to construct an office complex over SDSO’s land and existing structure. In exchange for the rights, SDSO receives monthly rental income for space leased in the office complex tower, subject to annual cost of living increases. Income under this agreement was approximately \$214,000 and \$210,000 for the years ended June 30, 2021 and 2020, respectively, and is included in rental income in the accompanying combined statements of activities.

Cash and cash equivalents – Cash and cash equivalents consist of cash, money-market funds, and other highly liquid investments with maturities of three months or less from the date of purchase. The construction loan (See Note 13) includes a requirement to establish and maintain a separate, segregated, interest-bearing account to be used exclusively for the receipt of advances transferred to the borrower by the lender. In addition, per the loan agreement, these amounts can only be used for The Rady Shell at Jacobs Park project costs. This cash balance is included as a separate line on the combining statements of financial position.

Investments – SDSF holds investments in publicly-traded mutual funds, which are recorded at fair value based on quoted prices in active markets, as described in Note 4.

Beneficial interests in assets held at community foundations (SDSO) – Beneficial interests in assets held at community foundations are recorded at fair value. The fair value of these interests held at The San Diego Foundation (“TSDF”) and Jewish Community Foundation (“JCF”), for which quoted market prices are not available, is based on values provided by TSDF and JCF. The community foundations determine the fair values based on the unit values of SDSO’s interest in the pools in which they have invested. The unit value is based on the fair value of the underlying assets in the pools.

Beneficial interests in assets held at community foundations (SDSF) – Beneficial interests in assets held at community foundations are recorded at fair value. The fair value of these interests held at TSDF, JCF, and Rancho Santa Fe Foundation (“RSF”), for which quoted market prices are not available, is based on values provided by TSDF, JCF, and RSF. The community foundations determine the fair values based on the unit values of SDSF’s interest in the pools in which they have invested. The unit value is based on the fair value of the underlying assets in the pools. The majority of the endowment assets are held in these accounts.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Receivables:

Accounts receivable – Accounts receivable consist primarily of amounts due for services provided through the fiscal year end. Collateral is not obtained.

Unconditional promises to give – Unconditional promises to give consist of pledges receivable and beneficial interests in charitable remainder trusts expected to be collected in future years.

The fair value of pledges receivable is determined using a discounted cash flow model. The discounts are computed using risk-free rates applicable in the year in which those promises are received. For the years ended June 30, 2021 and 2020, the discount rate used for pledges receivable is approximately 0.88 percent and 0.58 percent, respectively. Amortization of the discount is included in contributions.

SDSO is the beneficiary of several charitable remainder trusts. The charitable remainder trusts generally provide for the payment of distributions to designated beneficiaries over the term of the charitable remainder trusts (usually the designated beneficiary's lifetime). At the end of a charitable remainder trust's term, all or a portion of the remaining assets are to be distributed to SDSO. Assets held in the charitable remainder trusts are managed by donor-designated trustees and are not accessible to SDSO until the end of the charitable remainder trusts' term.

The fair value of the beneficial interests in charitable remainder trusts is calculated annually based on a discounted cash flow model using the fair value of the assets in the trust as provided by the trustees, applicable mortality tables for the donors, and discount rates at June 30, 2021 and 2020.

Asset	Fair Value as of June 30, 2021	Valuation Technique	Unobservable Input	Range
Beneficial interest in charitable remainder trusts	\$ 5,632,683	Discounted cash flow	Discount rate Mortality tables	0.67%–2.00% 4–20 years
Asset	Fair Value as of June 30, 2020	Valuation Technique	Unobservable Input	Range
Beneficial interest in charitable remainder trusts	\$ 5,090,576	Discounted cash flow	Discount rate Mortality tables	0.58%–2.33% 5–21 years

Beneficial interests in the charitable remainder trusts are included in unconditional promises to give and in net assets with donor restrictions in the accompanying combined statements of financial position.

Allowance for uncollectible receivables – SDSO and SDSF evaluate the need for an allowance for estimated uncollectible accounts receivable and for uncollectible unconditional promises to give. The allowance for estimated uncollectible receivables is based on past experience and on an analysis of current receivable balances. Receivables deemed uncollectible are recorded against the allowance in the year deemed uncollectible. There was no allowance for accounts receivable or for unconditional promises to give at June 30, 2021 or June 30, 2020.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Prepaid season expenses – Prepaid season expenses include costs incurred as of June 30 for performances scheduled in the subsequent fiscal year. Expenses are recognized as the performances occur.

Fixed assets – Fixed assets are recorded at cost or, if donated, at estimated fair value at date of gift. All additions with a cost of \$1,000 or more are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years, with the exception of land and historical treasures which are not depreciated.

Impairment of long-lived assets – SDSO evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Music library – SDSO capitalizes all music library purchases and historical treasures (purchased or donated). Music collections are not depreciated as they are held in perpetuity to promote and preserve the musical compositions. Historical treasures are not depreciated as they have an extraordinarily long useful life.

Advertising expense – Advertising costs are expensed in the year the related productions are performed. Advertising costs relating to future performances are deferred and included in prepaid expenses in the combined statements of financial position until the production is presented. Advertising expense for the years ended June 30, 2021 and 2020, was approximately \$47,000 and \$1,262,000, respectively. Advertising is recorded as a component of promotion and box office expenses.

Functional allocation of expenses – The costs of SDSO and SDSF's activities have been presented on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the concerts and supporting services benefited.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

The information below summarizes all expenses functionally for the years ended June 30, 2021 and 2020:

	June 30, 2021					
	Program Services			Supporting Services		
	Concerts	Education and Outreach	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 6,241,076	\$ 198,537	\$ 6,439,613	\$ 3,103,689	\$ 575,778	\$ 10,119,080
Professional services	1,804,148	12,878	1,817,026	3,242,819	293,832	5,353,677
Occupancy	-	-	-	925,134	-	925,134
Depreciation and amortization	952,873	-	952,873	469,538	-	1,422,411
Interest	-	-	-	46,121	-	46,121
	<u>\$ 8,998,097</u>	<u>\$ 211,415</u>	<u>\$ 9,209,512</u>	<u>\$ 7,787,301</u>	<u>\$ 869,610</u>	<u>\$ 17,866,423</u>

	June 30, 2020					
	Program Services			Supporting Services		
	Concerts	Education and Outreach	Total Program Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 15,741,272	\$ 250,117	\$ 15,991,389	\$ 3,401,851	\$ 789,422	\$ 20,182,662
Professional services	6,147,098	90,103	6,237,201	4,972,924	733,176	11,943,301
Occupancy	-	-	-	398,470	-	398,470
Depreciation and amortization	866,777	-	866,777	427,113	-	1,293,890
Interest	-	-	-	83,801	-	83,801
	<u>\$ 22,755,147</u>	<u>\$ 340,220</u>	<u>\$ 23,095,367</u>	<u>\$ 9,284,159</u>	<u>\$ 1,522,598</u>	<u>\$ 33,902,124</u>

Use of estimates – The preparation of combined 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, disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the combined statement of financial position date but before the combined financial statements are available to be issued. SDSO and SDSF recognize in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the combined statement of financial position, including the estimates inherent in the process of preparing the combined financial statements. SDSO and SDSF's combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined statement of financial position but arose after the combined statement of financial position date and before the combined financial statements are available to be issued.

SDSO and SDSF have completed an evaluation of subsequent events through February 15, 2022, which is the date the combined financial statements were available to be issued. See subsequent events in Notes 12, 13, 16, and 17.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Recently adopted accounting pronouncements – In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. In June 2020, this standard was deferred for one year by ASU 2020-05 and will become effective for annual reporting periods beginning after December 15, 2019, for non-public entities. SDSO adopted ASU 2014-09 as of July 1, 2020. This standard does not have any impact on the financial statements of SDSF. The adoption of this standard resulted in no significant changes in the way SDSO recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

As of June 30, 2021, SDSO and SDSF adopted FASB ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. For nonpublic entities, this standard eliminated certain disclosure requirements and modified other disclosure requirements. There was minimal impact on the accompanying footnote disclosures.

Reclassifications – Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform with the presentation in the current year combined financial statements. There was no impact to total net assets.

Note 2 – Significant Transactions with Related Parties

Transactions with major donor – SDSO relies heavily on contributions from a single donor. For the years ended June 30, 2021 and 2020, one donor who is a related party (chairperson for SDSF's Board of Directors), accounted for approximately 31 percent and 34 percent of total contributions, respectively, on the accompanying combined statements of activities.

See also Note 13 for loan agreement and guarantee of line of credit by same donor.

Transactions with TSDF and JCF – SDSF invests the majority of its endowment assets along with the undistributed investment income with TSDF and JCF. The majority of these funds were contributed by the donor mentioned above. The Board of Directors of SDSF includes members affiliated with both TSDF and JCF.

Note 3 – Concentrations

Concentrations of credit risk – Financial instruments that potentially subject SDSO and SDSF to credit risk consist primarily of cash, receivables, and investments, including beneficial interests held at community foundations.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 3 – Concentrations (continued)

Cash and cash equivalents – SDSO and SDSF maintain their cash and cash equivalents in bank accounts which, at times, may exceed federally insured deposit limits. SDSO and SDSF have not experienced any losses in such accounts.

Receivables – Unconditional promises to give, including beneficial interests in charitable remainder trusts, are exposed to various credit and market risks such as interest rate risk and investment risks. Unconditional promises to give are subject to credit risk. Charitable remainder trust valuations are based on donor life expectancies and the fair value of the underlying assets in the trusts. Changes in the near-term are not expected to materially affect the amounts reported in the combined financial statements.

Investments and beneficial interests held at community foundations – Investments are held in publicly traded mutual funds and pooled investment funds, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term, and such changes could materially affect the amounts reported in the combined financial statements.

Revenue concentrations – For the year ended June 30, 2021, two donors (not including the related-party donor in Note 2) accounted for approximately 48 percent of total contributions on the accompanying combined statement of activities. As of June 30, 2021, one of these donors accounted for approximately 49 percent of total unconditional promises to give on the accompanying combined statement of financial position. As of and for the year ended June 30, 2020, there were no concentrations of revenue or unconditional promises to give.

Note 4 – Fair Value Measurements

Fair value is 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 fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used for measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 prices, 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 full term of the assets or liabilities; and

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.

SDSO and SDSF estimate the fair value of investments with investment companies for which the estimate does not have readily determinable fair value using net asset value (NAV) per share or its equivalent. Those estimated fair values may differ significantly from the value that would have been used had a readily available market value for these securities existed.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 4 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about each major class of SDSO and SDSF's financial assets measured at fair value on a recurring basis as of June 30, 2021 and 2020:

	2021			Total
	Level 1	Level 2	Level 3	
Beneficial interests in assets held at community foundations – SDSF	\$ -	\$ -	\$ 116,324,038	\$ 116,324,038
Beneficial interests in assets held at community foundations – SDSO	-	-	948,085	948,085
Mutual funds – domestic and international equity securities	1,703,312	-	-	1,703,312
Total investments	<u>\$ 1,703,312</u>	<u>\$ -</u>	<u>\$ 117,272,123</u>	<u>\$ 118,975,435</u>
Beneficial interests in charitable remainder trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,632,683</u>	<u>\$ 5,632,683</u>
	2020			Total
	Level 1	Level 2	Level 3	
Beneficial interests in assets held at community foundations – SDSF	\$ -	\$ -	\$ 94,489,677	\$ 94,489,677
Beneficial interests in assets held at community foundations – SDSO	-	-	808,049	808,049
Mutual funds – domestic and international equity securities	1,161,301	-	-	1,161,301
Total investments	<u>\$ 1,161,301</u>	<u>\$ -</u>	<u>\$ 95,297,726</u>	<u>\$ 96,459,027</u>
Beneficial interests in charitable remainder trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,090,576</u>	<u>\$ 5,090,576</u>

Beneficial interests in assets held at community foundations are held under custodial agreements with TSDF, JCF, and RSF who manage the assets, which are primarily invested in publicly traded fixed-income, equity, multi-strategy, and real estate funds. SDSF did not grant variance power to TSDF, JCF, and RSF over the investments. Distributions can be made at any time from the funds but only with written authorization from SDSF. There are no commitments to make future investments and there are no restrictions on the redemption of funds invested at TSDF, JCF, and RSF as of June 30, 2021 and 2020.

Investment return is included in the combined statements of activities as endowment distribution from SDSF and endowment distribution to SDSO. The change in value for the beneficial interests in the charitable remainder trusts is included in contributions and change in value of restricted split-interest agreements lines in the combined statements of activities.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation**
Notes to Combined Financial Statements

Note 5 – Instrument Loans

At times, loans are made available to musicians wishing to upgrade their instruments. Loans are collateralized by the instruments, with interest rates ranging from 0 to 4 percent, and are generally to be repaid over 1 to 30 years. Amounts are included in accounts receivable in the combined statements of financial position.

Note 6 – Unconditional Promises to Give

Unconditional promises to give are due as follows as of June 30, 2021 and 2020:

	2021	2020
Less than one year	\$ 7,022,307	\$ 5,452,947
Two to five years	11,845,390	4,985,667
More than five years	6,961,367	5,780,595
	25,829,064	16,219,209
Less: discount to net present value	(1,522,209)	(1,102,252)
	<u>\$ 24,306,855</u>	<u>\$ 15,116,957</u>

Note 7 – Fixed Assets and Construction in Progress

Fixed assets and construction in progress are comprised of the following as of June 30, 2021 and 2020:

	2021	2020
Land	\$ 2,370,000	\$ 2,370,000
Building and improvements	112,752,779	32,839,486
Furniture and equipment	3,655,838	885,160
Computers and software	3,070,987	816,963
Historical treasures, including musical instruments	7,205,947	7,205,947
	129,055,551	44,117,556
Less: accumulated depreciation	(17,325,396)	(15,902,987)
	<u>\$ 111,730,155</u>	<u>\$ 28,214,569</u>
Construction in progress	<u>\$ 10,338,400</u>	<u>\$ 51,299,880</u>

Musical instruments are insured for \$7,200,000 and their value is determined by independent appraisal.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 7 – Fixed Assets and Construction in Progress (continued)

In September 2019, SDSO commenced construction of a permanent outdoor venue at the Embarcadero Marina Park South. The facility was built on land that is leased from the Port of San Diego (See Note 12). In the last quarter of fiscal year 2021, SDSO commissioned the new facility which was named The Rady Shell at Jacobs Park. In preparation for the grand opening weekend in August 2021, SDSO held rehearsals, private concerts and donor events to test the new venue. Occupancy permits were issued and effective June 30, 2021, and therefore SDSO placed the facility into service as of June 30, 2021. The total cost incurred through June 30, 2021, for The Rady Shell at Jacobs Park was approximately \$84,757,000. Depreciation expenses for the new facility will start in July 2021.

The balance of approximately \$10,338,000 for construction in progress is related to mechanical, electrical, and plumbing improvements underway at the Copley Symphony Hall at Jacobs Music Center, SDSO's indoor concert facility.

Note 8 – Deferred Revenue

Deferred revenue relates to the following as of June 30, 2021 and 2020:

	2021	2020
Relating to future performances	\$ 3,838,885	\$ 2,551,554
Relating to special events and sponsorships	-	-
	\$ 3,838,885	\$ 2,551,554

With the cancellation of portions of the 2020 and 2021 seasons, SDSO has contacted patrons that purchased tickets for concerts that were cancelled. The patrons have the option to defer their subscription to the next season, contribute the funds to SDSO, or request a refund. Included in the balance at June 30, 2021, is approximately \$1,136,000 in ticket purchases where patrons have not responded to requests or opted to keep funds on account and therefore, amounts could be refunded in the future. Cash to cover potential refunds was held in an account at June 30, 2021, to cover any necessary adjustments in the following year.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation**
Notes to Combined Financial Statements

Note 9 – Employee Benefit Plans

Defined benefit plan – SDSO has a defined benefit plan that covers its musicians (the “Plan”). The Plan is noncontributory and benefits are based on employees’ years of service. The Plan’s funded status for the years ended June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Obligations and funded status		
Change in projected benefit obligations		
Benefit obligations at beginning of year	\$ 18,507,839	\$ 15,878,328
Service cost	253,920	193,913
Interest cost	450,358	544,149
Actuarial (gain) loss	(298,022)	2,553,904
Benefits disbursed	<u>(701,152)</u>	<u>(662,455)</u>
Benefit obligations at end of year	<u>18,212,943</u>	<u>18,507,839</u>
Change in Plan assets		
Fair value of Plan assets at the beginning of year	9,791,500	10,081,449
Actual gain (loss) on Plan assets	1,604,894	(267,078)
Employer contributions	615,797	639,584
Benefits disbursed from Plan assets (including expense charges)	<u>(701,152)</u>	<u>(662,455)</u>
Fair value of Plan assets at end of year	<u>11,311,039</u>	<u>9,791,500</u>
Funded status	<u>\$ (6,901,904)</u>	<u>\$ (8,716,339)</u>

Contributions to the Plan by SDSO for the year ending June 30, 2022, are estimated to approximate the contributions made by SDSO for the year ended June 30, 2021.

Amounts recognized in the combined statements of financial position as of June 30, 2021 and 2020, consist of:

	<u>2021</u>	<u>2020</u>
Pension liability	<u>\$ (6,901,904)</u>	<u>\$ (8,716,339)</u>
Amounts included in net assets without donor restrictions related to pension adjustments	<u>\$ (7,738,523)</u>	<u>\$ (10,102,188)</u>

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 9 – Employee Benefit Plans (continued)

The target asset allocations of the Plan at June 30, 2021 and 2020, by asset category are as follows:

	2021	2020
Equity securities	36%	34%
Debt securities	47%	39%
Other	17%	27%

The fair value of the Plan's assets at June 30, 2021 and 2020, by asset class based on the fair value hierarchy as described in Note 4 is as follows:

	2021				Total
	Level 1	Level 2	Level 3	NAV	
Mutual funds					
Debt – bonds	\$ 4,419,863	\$ -	\$ -	\$ -	\$ 4,419,863
Private debt	-	-	-	680,672	680,672
Equities					
U.S. large cap	1,673,365	-	-	-	1,673,365
International developed markets	964,288	-	-	-	964,288
International emerging markets	722,669	-	-	-	722,669
U.S. small/mid cap	543,569	-	-	-	543,569
Reinsurance	-	-	-	831,395	831,395
Money market	82,162	-	-	-	82,162
Real estate	-	-	-	534,279	534,279
Multi strategy	-	-	858,777	-	858,777
Total	\$ 8,405,916	\$ -	\$ 858,777	\$ 2,046,346	\$ 11,311,039
	2020				
	Level 1	Level 2	Level 3	NAV	Total
Mutual funds					
Debt – bonds	\$ 2,974,297	\$ -	\$ -	\$ -	\$ 2,974,297
Private debt	-	-	-	710,803	710,803
Equities					
U.S. large cap	1,339,371	-	-	-	1,339,371
International developed markets	976,567	-	-	-	976,567
International emerging markets	641,327	-	-	-	641,327
U.S. small/mid cap	355,388	-	-	-	355,388
Reinsurance	-	-	-	878,693	878,693
Money market	62,156	-	-	-	62,156
Real estate	-	-	-	806,758	806,758
Multi strategy	-	-	1,046,140	-	1,046,140
Total	\$ 6,349,106	\$ -	\$ 1,046,140	\$ 2,396,254	\$ 9,791,500

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation**
Notes to Combined Financial Statements

Note 9 – Employee Benefit Plans (continued)

Net periodic pension cost as determined by ASC 715, *Compensation – Retirement Benefits Defined Benefit Plans – Pension*, included the following components for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 253,920	\$ 193,913
Interest cost	450,358	544,149
Actuarial gain	(597,273)	(695,431)
Amortization of loss	<u>1,058,022</u>	<u>747,535</u>
Net periodic pension expense	<u>\$ 1,165,027</u>	<u>\$ 790,166</u>

The amount of net actuarial loss included in net assets (without donor restrictions) at June 30, 2021, that is expected to be recognized in net periodic pension (income) loss during the year ending June 30, 2022, is \$810,000.

The actuarial assumptions used for determining benefit obligations and pension expenses for the years ended June 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Discount rate – net periodic pension cost	2.5%	3.5%
Discount rate – benefit obligation	2.6%	2.5%
Expected long-term rate of return on assets	5.5%	6.2%
Rate of compensation increase	n/a	n/a

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the Plan, historical Plan return data, Plan expenses, and the potential to outperform market index returns. The rate of compensation increase is not relevant to the calculations because benefits paid upon retirement are based upon years of service multiplied by a flat rate per month which, once earned, are not subject to annual increases.

Investment policy and plan assets – The investment objective for the assets of the Plan portfolio is to generate a total rate of return, including income and capital appreciation, sufficient to enhance the ability of the Plan to meet its obligations to Plan participants and their beneficiaries when due, without taking unnecessary risk of long-term capital decline.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 9 – Employee Benefit Plans (continued)

Investment policies and strategies governing the assets of the Plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of an external investment manager and the maintenance of a portfolio diversified by asset class, investment approach, and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

Cash flows – The following payments from the Plan are expected to be made for benefits as follows:

Years Ending June 30,	
2022	\$ 1,006,000
2023	1,025,000
2024	1,030,000
2025	1,036,000
2026	1,021,000
Thereafter	<u>4,861,000</u>
Total	<u>\$ 9,979,000</u>

Defined contribution plans – SDSO contributes to a health and welfare fund and a pension fund for its stagehands at the rate of 14 percent of eligible compensation for each fund. Total contributions for the years ended June 30, 2021 and 2020, were approximately \$77,000 and \$136,000, respectively.

Union employees are covered by industry pension plans under which SDSO contributes monthly to the unions based on payroll for each eligible employee. All of SDSO’s musicians are members of a union with a contract that expires on June 30, 2022. All of SDSO’s stagehands are members of a union with a contract that expires on June 30, 2022.

SDSO has a 457(b) deferred compensation plan (“457(b) Plan”) for qualified employees. Eligible employees can elect to defer up to 100 percent of their compensation in accordance with Internal Revenue Service deferral limits. During both the years ended June 30, 2021 and 2020, \$20,000 was accrued. The 457(b) Plan was not funded during the years ended June 30, 2021 and 2020. The 457(b) Plan had assets of \$292,000 and \$206,000 as of June 30, 2021 and 2020, respectively.

SDSO has a 401(k) plan for employees not covered by a collective bargaining agreement (the “401(k) Plan”). Employees become eligible in January or July following one year of employment. The 401(k) Plan provides for employer contributions of 5 percent of eligible compensation. All contributions are 100 percent vested at the time of enrollment. For the years ended June 30, 2021 and 2020, SDSO’s contribution to the 401(k) Plan was approximately \$125,000 and \$123,000, respectively.

In July 2019, SDSO established a 457(f) deferred compensation retirement plan. Eligible employees accrue annual benefits as determined by their employment compensation agreement. During each of the years ended June 30, 2021 and 2020, \$50,000 was accrued. Starting July 1, 2022, all benefits awarded (either before or after July 1, 2022) become fully vested. Accrued benefits are not funded currently and would be subject to the claims of creditors of SDSO. Benefits are payable upon retirement in annual installments.

**The San Diego Symphony Orchestra Association and
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Notes to Combined Financial Statements

Note 10 – Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Time restrictions		
Event in future fiscal year	\$ 3,616,574	\$ 2,860,089
Charitable remainder trusts	357,224	333,197
Restricted purpose or program		
Comprehensive campaign	25,924,087	36,746,385
Capital campaign	-	186,676
	<u>29,897,885</u>	<u>40,126,347</u>
Subject to spending policy and appropriation (includes unappropriated endowment earnings)		
Investment in perpetuity		
Purposes established by donors	110,066,044	109,547,964
Amounts above (below) original corpus (Note 14)	<u>14,314,916</u>	<u>(8,053,336)</u>
	<u>124,380,960</u>	<u>101,494,628</u>
Total endowment net assets	<u>124,380,960</u>	<u>101,494,628</u>
Total net assets with donor restrictions	<u><u>\$ 154,278,845</u></u>	<u><u>\$ 141,620,975</u></u>

Note 11 – Net Assets Released from Donor Restrictions

Net assets released from donor restrictions were as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Time restrictions		
Event in future fiscal year	\$ 1,776,000	\$ 1,086,795
Restricted purpose or program		
Comprehensive campaign	<u>52,239,502</u>	<u>1,646,718</u>
	<u><u>\$ 54,015,502</u></u>	<u><u>\$ 2,733,513</u></u>

During the year ended June 30, 2021, approximately \$47.3 million of releases related to the comprehensive campaign were due to The Rady Shell at Jacobs Park being placed into service. There were no releases related to The Rady Shell at Jacobs Park during the year ended June 30, 2020.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 12 – Commitments and Contingencies

Grants and contracts – SDSO has grants and contracts with various organizations and government agencies that are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits is not material. Some of these grants and contracts may be terminated or reduced with written notice to SDSO.

Contracts with guest artists – SDSO has non-cancelable agreements with various guest artists for performances scheduled or to be rescheduled during the 2021/2022 fiscal year. At June 30, 2021, total future commitments under non-cancelable agreements approximate \$609,000.

Legal matters – At times, SDSO and SDSF are parties to certain claims and legal actions arising in the normal course of business. At June 30, 2021, management believes that all known claims or legal actions will not have a significant impact on the combined financial statements.

Port of San Diego Lease – In July 2019, the Port of San Diego's Board of Port Commissioners announced its approval of SDSO's lease at Embarcadero Marina Park South. In September 2019, SDSO began construction of a permanent outdoor concert venue on the leased property now known as The Rady Shell at Jacobs Park.

The lease term is 50 years, with an initial term of 15 years followed by 4 options held by SDSO for an additional 35 years. SDSO must spend a minimum of \$45 million for design, permitting, and construction costs. No rent will accrue during the construction period of up to two years.

Monthly rent is based on a percentage of gross revenue. For the initial years of the lease, a rent credit of \$2,900,000 will be applied toward the percent rent due. During that time there is a minimum rent due of \$100,000 per year. Once the rent credit period has ended, the rent will be based on gross revenue without further credit. Rent will be 5 percent of food, beverage, and merchandise sales and a variable percentage of ticket revenue, ranging from 1 percent to 8 percent based on ticket revenue the previous year, with the commission increasing as total sales increase.

SDSO will be responsible for security, maintenance and repair, landscaping, and trash removal of its leasehold area. SDSO must carry specified levels of insurance for the venue. The public will have a right to use the leasehold area as a public park (excluding the stage complex and the food pavilions) whenever there is no event. SDSO will issue special event permits for groups to use its leasehold area.

Construction contracts – In September 2019, SDSO engaged Rudolph & Sletten, Inc. as the general contractor for The Rady Shell at Jacobs Park. As of June 30, 2021, the total contracted amount is approximately \$64,300,000 and the total contracted amount remaining is approximately \$5,600,000.

In September 2020, SDSO entered into an agreement with Rudolph & Sletten, Inc. as the general contractor for a project at the Copley Symphony Hall at Jacobs Music Center. The project included upgrades to mechanical, electrical, and plumbing systems. New HVAC systems were installed to improve fresh air exchange and airflow filtering throughout the facility. The approximate value of the full project upon completion in January 2022, will be \$18,000,000. The total contracted amount remaining as of June 30, 2021, is approximately \$7,700,000.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 12 – Commitments and Contingencies (continued)

In January 2022, a second phase of improvements to the Copley Symphony Hall at Jacobs Music Center commenced. A contract for \$70,653,000 with Rudolph & Sletten was signed in January 2022. The project includes substantial remodeling of the concert hall including improved acoustics. SDSO has begun the quiet phase of a campaign to raise funds for the project and during the period of construction SDSO will conduct concerts in other venues around the greater San Diego region in an effort to enhance its connection with its current and potential future audiences.

Tenant improvement payable – In connection with the food and beverage service contract for The Rady Shell at Jacobs Park, in December 2019 SDSO received a cash allowance of \$2,500,000. The allowance is for the sole purpose of purchasing food service-related equipment for the new facility. If any capital improvement funds remain post-construction, the remaining funds may be reserved for food service-related expenditures in future years. All of the capital improvements will become the property of SDSO upon purchase or installation. The contractor will amortize the allowance on a straight-line basis over the term of the contract, which terminates May 31, 2032. In the event the contract is terminated for any reason whatsoever prior to the contractor's complete amortization of the capital improvements paid for under this allowance, an amount equal to the unamortized value shall be paid by SDSO, without offset, to the contractor. The unamortized value is included in tenant improvement payable in the statements of financial position.

Note 13 – Debt

Construction loan – In December 2019, a loan agreement was signed between SDSO and an anonymous lender. The loan is intended to serve as bridge financing to cover construction costs for The Rady Shell at Jacobs Park (the "Project") until other funding is received from fundraising. The loan is structured as a line of credit with a maximum funding amount of \$45,000,000. The loan is unsecured. As of June 30, 2021, \$41,500,000 had been advanced on the loan. Loan funds may only be used for hard and soft construction costs for the Project. The interest rate is the federal mid-term rate, compounded annually, plus .5 percent (2.19 percent at June 30, 2021). The interest rate adjusts on January 1 of each year under the same formula, but can never go lower than 2.19 percent. Accrued interest must be paid annually on the last business day of the calendar year. The loan must be repaid by March 5, 2029. Pre-payment is permitted with no penalty. The loan had an outstanding balance of \$37,475,878 and \$20,500,000 as of June 30, 2021 and 2020, respectively.

Note payable to donor and related party – In August 2017, SDSO entered into a formal loan agreement with a donor under which SDSO was advanced \$4,000,000. The payment plan was amended in February 2019, and is payable in equal quarterly installments of \$50,000 starting in March 2020 through June 2021. The quarterly installments increase to \$100,000 in September 2021 through June 2023, the quarterly installments increase to \$150,000 in September 2023 through June 2024, quarterly installments increase to \$200,000 in September 2024 through June 2025, and quarterly installments increase to \$375,000 in September 2025 through the end of the loan in June 2026. Interest of 1.95 percent per annum is payable quarterly, and on June 1, 2020, the interest decreased to 1.69 percent per annum, and interest is payable quarterly until the termination of the loan. The outstanding balance of the loan was \$3,700,000 and \$3,900,000 as of June 30, 2021 and 2020, respectively. Per the agreement, the loan proceeds were used to pay in full the line of credit balance during fiscal year 2017/2018 with remaining funds to be used for operational needs.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 13 – Debt (continued)

Future minimum principal payments on the construction loan and note payable to donor and related party are as follows:

Years Ending June 30,	
2022	\$ 400,000
2023	400,000
2024	600,000
2025	800,000
2026	1,500,000
Thereafter	<u>37,475,878</u>
	<u>\$ 41,175,878</u>

Paycheck Protection Program loans – On May 6, 2020, SDSO obtained a \$3,211,587 Paycheck Protection Program (PPP) loan, through the United States Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The loan was forgivable to the extent it was used for certain allowable costs during the 24 weeks after funding. Allowable costs include payroll-related costs, interest on covered debt, and payments for covered utilities. The loan was forgiven in full by the SBA in January 2022.

On February 8, 2021, SDSO obtained a second PPP loan for \$2,000,000 through the SBA under the CARES Act. The loan is forgivable to the extent it is used for certain allowable costs during the 24 weeks after funding. Allowable costs include payroll-related costs, interest on covered debt, payments for covered utilities, and other operating expenses. To the extent it is not forgiven, the loan bears interest at 1 percent and has a maturity date of February 1, 2023. No payments are due on the loan for 10 months after the end of the borrower’s loan forgiveness covered period; however, interest accrues during the deferment period. Payments of principal and interest are due monthly thereafter.

Line of credit – SDSO has a \$2,000,000 bank line of credit with a maturity date of August 9, 2022. The interest rate on the line of credit is the LIBOR Daily Floating Rate plus .75 percent. The line of credit is secured by securities and other investment property owned by a major donor and related party (see Note 2). As of June 30, 2021 and 2020, \$0 and \$2,000,000 was outstanding on this line of credit.

Note 14 – Endowments

The Board of Directors of SDSF has interpreted the California Prudent Management of Institutional Funds Act (CPMIFA) 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, SDSF classifies as net assets with donor restrictions: (a) the original value of gifts donated to the endowment; (b) the original value of subsequent gifts to the endowment; and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 14 – Endowments (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as with donor restrictions until those amounts are appropriated for in accordance with CPMIFA. The organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a) The duration and preservation of the fund
- b) The purposes of SDSF and the donor-restricted endowment fund
- c) General economic conditions
- d) The possible effect of inflation and deflation
- e) The expected total return from income and the appreciation of investments
- f) Other resources of SDSF
- g) The investment policies of SDSF

SDSF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by SDSF's Board of Directors, the endowment assets are invested in a manner that is intended to obtain a maximum investment return commensurate with reasonable risk. SDSF expects its endowment funds, over time, to provide an average rate of return that exceeds inflation by 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, SDSF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). SDSF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve their long-term return objectives within prudent risk constraints.

SDSF has a policy of appropriating for distribution each year 3 to 6 percent (as approved by the Board of Directors of SDSF) of the endowment fund's average fair value of the investments for a rolling 12-quarter period. In establishing this policy, SDSF considered the long-term expected return on their endowments. This is consistent with SDSF's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Under the current spending policy, approximately 5.5 percent of the average fair value of the investments for a rolling 12-quarter period has been appropriated to support current operations in 2021 and 2020.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires SDSF to retain as a fund of perpetual duration. Total deficiencies in endowment funds as of June 30, 2020, are reflected in the tables below as accumulated losses. As of June 30, 2020, deficiencies of this nature existed in 3 donor-restricted endowment funds, which together have an original gift value of \$109,547,964, a current fair value of \$101,494,628, and a deficiency of \$8,053,336. As of June 30, 2021, there are no funds with deficiencies. SDSF has interpreted CPMIFA to permit spending from endowment funds with deficits of this nature in accordance with prudent measures required by law.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 14 – Endowments (continued)

Changes in endowment net assets for the years ended June 30, 2021 and 2020, were as follows:

	2021		
	Accumulated Losses	Original Gift	Total - Fair Value
Endowment net assets, July 1, 2020	\$ (8,053,336)	\$ 109,547,964	\$ 101,494,628
Contributions	-	-	-
Investment return			
Investment income	28,103,689	-	28,103,689
Investment expenses	(305,437)	-	(305,437)
Endowment distribution	(5,430,000)	-	(5,430,000)
Change in value of split interest agreements	-	518,080	518,080
Endowment net assets, June 30, 2021	<u>\$ 14,314,916</u>	<u>\$ 110,066,044</u>	<u>\$ 124,380,960</u>
	2020		
	Accumulated Losses	Original Gift	Total - Fair Value
Endowment net assets, July 1, 2019	\$ (3,041,109)	\$ 108,704,270	\$ 105,663,161
Contributions	-	50,370	50,370
Investment return			
Investment income	675,012	-	675,012
Investment expenses	(300,839)	-	(300,839)
Endowment distribution	(5,386,400)	-	(5,386,400)
Change in value of split interest agreements	-	793,324	793,324
Endowment net assets, June 30, 2020	<u>\$ (8,053,336)</u>	<u>\$ 109,547,964</u>	<u>\$ 101,494,628</u>

The San Diego Symphony Orchestra Association and San Diego Symphony Foundation

Notes to Combined Financial Statements

Note 15 – Liquidity and Availability

The following reflects SDSO and SDSF's financial assets as of June 30, 2021 and 2020. It is reduced by the amounts not available for use in operations due to donor-imposed restrictions within one year of that date and amounts not available include funds in a segregated account that are restricted for use in The Rady Shell at Jacobs Park capital project.

	<u>2021</u>	<u>2020</u>
Financial assets, at year end June 30	\$ 164,675,614	\$ 126,899,424
Less those unavailable for general expenditures within one year, due to		
Contractual or donor-imposed restrictions		
Restricted by donor for capital project	(14,052,658)	(12,389,161)
Restricted by donor with other time or purpose restrictions	(50,000)	(55,882)
Other designations		
Restricted for passage of time	(17,284,548)	(9,615,701)
Restricted endowment cash operating account	(45,776)	(53,896)
Restricted endowment assets	<u>(118,975,435)</u>	<u>(96,459,026)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,267,197</u>	<u>\$ 8,325,758</u>

In the event of an unanticipated liquidity need, SDSO could draw upon \$2,000,000 of available bank line of credit (Note 13).

Note 16 – Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. In response to the COVID-19 pandemic and government mandated cancelation of public events in March 2020, SDSO was required to cancel all concerts and other events. The cancelation of events continued through the year ended June 30, 2021. The planned opening of a new outdoor concert venue, The Rady Shell at Jacobs Park, in the summer of 2020 was delayed, and opened in August 2021. The result was a loss of almost all concert event earned revenue for the year ended June 30, 2021.

In response to the pandemic, SDSO has implemented plans to reduce expenses and increase contributed revenue to offset as much as possible the loss of earned revenue. In April 2020, a 50 percent reduction in administrative and event staff was enacted. In July 2020, a modification of the collective bargaining agreement with the musicians was approved which reduced pay by 35 percent. The modifications included a reduction of the number of work weeks, lower minimum base compensation, and reductions to other compensation. The modifications were effective July 1, 2020 through June 15, 2021. Overall expenses for the year ended June 30, 2021, were decreased by approximately \$11 million, or 38 percent, compared to the prior year.

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Notes to Combined Financial Statements**

Note 16 – Risks and Uncertainties (continued)

In May 2020 and February 2021, SDSO received loans of \$3.2 million and \$2 million, respectively, through the SBA Paycheck Protection Program (Note 13). The loan proceeds were utilized primarily for personnel expenses per program guidelines. See also Note 17 regarding additional funding received.

In May 2020, SDSO created a campaign to raise funds for stabilization. As a result of that fundraising effort, more than \$4 million in funds have been collected through January 2022, which are incremental to regular Annual Fund donations.

The duration and severity of the outbreak and the resulting disruption to SDSO's operations is uncertain; accordingly, the changes in net assets and liquidity could be adversely affected.

Note 17 – Subsequent Events

SDSO received two Shuttered Venue Operator Grants funding from the SBA. The first grant of \$2,723,000 was received in July 2021. The supplemental grant of \$2,362,000 was received in November 2021.

In August 2021, SDSO purchased a warehouse that will serve the storage needs of SDSO, including storing equipment for The Rady Shell at Jacobs Park, which is located nearby. The purchase price was \$3,200,000. The purchase was financed with a loan of \$2,400,000 in addition to a cash down payment of \$800,000. The loan accrues interest at a rate of 3.9 percent and is payable in monthly payments of principal and interest. The loan is due in full by August 2031.

See also Notes 12, 13, and 16.

Supplementary Information

**The San Diego Symphony Orchestra Association and
San Diego Symphony Foundation
Combining Statement of Activities
Year Ended June 30, 2021**

	San Diego Symphony Orchestra Association	San Diego Symphony Foundation	Eliminations	Combined
REVENUE FROM OPERATIONS				
Concert ticket revenues	\$ 150,767	\$ -	\$ -	\$ 150,767
Contract performance revenues – Opera	206,546	-	-	206,546
Venue rental income	1,860	-	-	1,860
Contract performance revenues	-	-	-	-
Concession, gift shop, and other revenues	6,477	-	-	6,477
	<u>365,650</u>	<u>-</u>	<u>-</u>	<u>365,650</u>
EXPENSES FROM OPERATIONS				
Concerts and orchestra personnel	9,262,228	-	-	9,262,228
General and administrative	2,795,440	-	-	2,795,440
Promotion and box office	1,279,942	-	-	1,279,942
Facility	2,257,156	-	-	2,257,156
Education and outreach	211,415	-	-	211,415
	<u>15,806,181</u>	<u>-</u>	<u>-</u>	<u>15,806,181</u>
Excess of expenses over revenue from operations	<u>(15,440,531)</u>	<u>-</u>	<u>-</u>	<u>(15,440,531)</u>
SUPPORT AND OTHER REVENUE				
Contributions	50,118,761	-	-	50,118,761
Contributions to endowment	-	-	-	-
Government grants	310,509	-	-	310,509
Special event revenue	436,652	-	-	436,652
Special event expense	(200,627)	-	-	(200,627)
Rental income	213,683	-	-	213,683
Endowment distribution from SDSF	5,430,000	-	(5,430,000)	-
Endowment distribution to SDSO	-	(5,430,000)	5,430,000	-
Interest income	9,167	-	-	9,167
Outreach income	-	-	-	-
Gain on sale of stock	229,721	-	-	229,721
Net assets released from restrictions	-	-	-	-
	<u>56,547,866</u>	<u>(5,430,000)</u>	<u>-</u>	<u>51,117,866</u>
Less: development expenses	<u>2,452,266</u>	<u>-</u>	<u>-</u>	<u>2,452,266</u>
Net support and other revenue	<u>54,095,600</u>	<u>(5,430,000)</u>	<u>-</u>	<u>48,665,600</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES				
	38,655,069	(5,430,000)	-	33,225,069
Depreciation expense	(1,422,411)	-	-	(1,422,411)
Change in value of restricted split-interest agreements	199,694	318,386	-	518,080
Other comprehensive pension expenses	1,814,435	-	-	1,814,435
Endowment gain, net of investment expenses	179,909	27,798,252	-	27,978,161
CHANGE IN NET ASSETS	<u>39,426,696</u>	<u>22,686,638</u>	<u>-</u>	<u>62,113,334</u>
NET ASSETS				
Beginning of year	<u>54,582,079</u>	<u>98,331,923</u>	<u>-</u>	<u>152,914,002</u>
End of year	<u>\$ 94,008,775</u>	<u>\$ 121,018,561</u>	<u>\$ -</u>	<u>\$ 215,027,336</u>