HANDEL AND HAYDN SOCIETY

Financial Statements

For the Year Ended

June 30, 2018

Tsoutsouras & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Board of Governors
Handel and Haydn Society

We have audited the accompanying financial statements of Handel and Haydn Society, which comprise the balance sheet as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

We believe that the audit evidence that 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 Handel and Haydn Society as of June 30, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the Handel and Haydn Society's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tsoutsouras & Company, P.C.

Tsoutsouras & Company, P.C.
Certified Public Accountants
Ipswich, Massachusetts

October 22, 2018

Balance Sheet
June 30, 2018
(with Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total June 30, 2018	Total June 30, 2017
Assets					
Cash and Cash Equivalents	$ 298,338	$ 542,143	$ -	$ 840,481	$ 514,862
Accounts receivable	27,166	-	-	27,166	100,344
Pledges receivable (note 3)	307,894	1,033,216	211,247	1,552,357	1,568,867
Investments, at market value (note 4)	262,275	2,210,617	8,486,961	10,959,853	10,194,428
Prepaid expenses (note 5)	208,414	-	-	208,414	269,484
Furniture and equipment, net of accumulated depreciation of $595,871 in 2018 and $538,149 in 2017	168,701	-	-	168,701	119,838
Total Assets	$ 1,272,788	$ 3,785,976	$ 8,698,208	$ 13,756,972	$ 12,767,823
Liabilities & Net Assets					
Accounts payable and accrued expenses	$ 273,312	$ -	$ -	$ 273,312	$ 183,443
Liabilities due under split interest agreements (note 8)	6,224	5,413	30,537	42,174	30,814
Deferred revenue	942,624		-	942,624	921,614
Total Liabilities	1,222,160	5,413	30,537	1,258,110	1,135,871
Net Assets:					
Operating Fund & Working Capital Reserve Fund	50,628	313,634	-	364,262	544,500
Campaign (note 6):					
Strategic Initiative Fund	-	797,483	-	797,483	565,651
Campaign Endowment Fund	-	1,234,499	5,838,311	7,072,809	6,431,903
General Endowment Fund	-	1,360,365	2,745,442	4,105,808	3,946,831
Geyer Endowment Fund	-	74,582	83,918	158,500	143,068
Total Net Assets	50,628	3,780,563	8,667,671	12,498,862	11,631,952
Total Liabilities & Net Assets	$ 1,272,788	$ 3,785,976	$ 8,698,208	$ 13,756,972	$ 12,767,823

See accompanying notes to financial statements

Statement of Activities
Year Ended June 30, 2018
(with Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Year Ended June 30, 2018	Total Year Ended June 30, 2017
Revenue					
Concerts					
Subscriptions	$ 1,069,538	$ -	$ -	$ 1,069,538	$ 830,810
Individual tickets	992,655	-	-	992,655	561,894
Performance fees	101,100	-	-	101,100	87,083
Contributions	1,840,010	924,490	83,416	2,847,916	2,636,676
Government grants	83,550	-	-	83,550	76,750
Benefits, net of expenses of $85,419 in 2018 and $89,637 in 2017	218,509	-	-	218,509	222,651
Interest and dividend income	3,337	145,716	-	149,053	138,451
Realized and unrealized investment gain(loss)	(5,681)	871,975	-	866,294	899,365
Other	145,038	-	-	145,038	133,284
Net assets released from restriction:					
Satisfaction of donor restrictions	879,222	(879,222)	-	-	-
Appropriation of Endowment Earnings	284,600	(284,600)	-	-	-
Change in split interest agreements	(51)	(56)	(1,191)	(1,298)	(1,137)
Reclassifications	-	-	-	-	-
Total revenue	5,611,827	778,303	82,225	6,472,355	5,585,827
Expenses					
Performances	3,395,320	-	-	3,395,320	2,902,107
Education program	526,534	-	-	526,534	582,666
General and administrative	1,050,676	-	-	1,050,676	870,693
Fund raising	632,915	-	-	632,915	688,011
Total expenses	5,605,445	-	-	5,605,445	5,043,477
Change in Net Assets	6,382	778,303	82,225	866,910	542,350
Net Assets (Liabilities), beginning of year	44,246	3,002,260	8,585,446	11,631,952	11,089,602
Net Assets (Liabilities), end of year	$ 50,628	$ 3,780,563	$ 8,667,671	$ 12,498,862	$ 11,631,952

See accompanying notes to financial statements

Statement of Functional Expenses
Year Ended June 30, 2018
(with Summarized Financial Information for the Year Ended June 30, 2017)

	Program Services		Total	Support Services		Total	Total
	Performances	Education Program	Program Services	General and Administrative	Fund Raising	Year Ended June 30, 2018	Year Ended June 30, 2017
Salaries	$ 398,073	$ 158,348	$ 556,421	$ 405,219	$ 393,908	$ 1,355,548	$ 1,380,688
Payroll taxes and employee benefits	64,198	24,121	88,319	53,482	59,467	201,268	185,046
	462,271	182,469	644,740	458,701	453,375	1,556,816	1,565,734
Conductor Fees	220,343	71,185	291,528	-	-	291,528	291,598
Guest artist fees	203,638	93,380	297,018	-	-	297,018	230,050
Chorus fees	275,945	73,002	348,947	-	-	348,947	270,119
Orchestra fees and expenses	715,008	18,627	733,635	-	-	733,635	639,605
Advertising and printing	387,062	5,500	392,562	836	33,264	426,662	386,284
Box office expense	10,901	-	10,901	-	-	10,901	8,585
Calling campaigns	78,105	-	78,105	-	(3,053)	75,052	77,835
Depreciation	-	-	-	57,722	-	57,722	46,436
Dues and publications	3,258	201	3,459	11,171	2,856	17,486	16,415
Electronic Media	28,651	-	28,651	-	-	28,651	91,532
Fundraising	-	-	-	-	55,951	55,951	81,701
Insurance	18,491	-	18,491	3,049	-	21,540	18,469
Interest Expense	-	-	-	2,923	-	2,923	67
Miscellaneous	78,659	29,895	108,554	50,377	38,985	197,916	157,813
Performance hall, instrument, and music rental	325,324	35,560	360,884	-	-	360,884	277,566
Office rental, software license and training	-	-	-	266,174	-	266,174	235,865
Postage and supplies	64,060	1,100	65,160	12,772	12,688	90,620	61,277
Press and publicity	59,339	12,601	71,939	-	-	71,939	88,250
Professional services	127,683	-	127,683	154,576	24,399	306,658	207,011
Subscriber Benefits	875	-	875	-	-	875	26,550
Touring and Technical Production	322,469	522	322,991	-	-	322,991	217,544
Telephone and utilities	1,795	-	1,795	22,336	-	24,131	10,917
Travel and delivery	11,443	2,493	13,936	10,039	14,450	38,425	36,254
Total year ended June 30, 2018	$ 3,395,320	$ 526,534	$3,921,854	$ 1,050,676	$ 632,915	$ 5,605,445	
Total year ended June 30, 2017	$ 2,902,107	$ 582,666	$3,484,773	$ 870,693	$ 688,011		$ 5,043,477

See accompanying notes to financial statements

Statement of Cash Flows
Year Ended June 30, 2018
(with Summarized Financial Information for the Year Ended June 30, 2017)
Increase (Decrease) in Cash

	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Year Ended June 30, 2018	Total Year Ended June 30, 2017
Operating Activities					
Change in net assets	$ 6,382	$ 778,303	$ 82,225	$ 866,910	$ 542,350
Adjustments to reconcile change in net assets to net cash flow from operating activities:					
Restricted contributions received in cash	-	-	(83,416)	(83,416)	(279,070)
Depreciation	57,722	-	-	57,722	46,436
Realized and Unrealized (gain) loss on sale of investments	5,681	(871,975)	-	(866,294)	(899,365)
Receipt of Donated Securities	-	-	-	-	(114,028)
Changes in assets and liabilities:					
Accounts and pledges receivable	(58,085)	50,117	97,656	89,688	651,999
Prepaid expenses	61,070	-	-	61,070	31,525
Accounts payable and accrued expenses	89,869	-	-	89,869	78,531
Split Interest Agreements	6,224	5,413	(277)	11,360	139
Deferred revenue	21,010	-	-	21,010	201,825
Net cash flow provided (used) by operating activities	189,873	(38,142)	96,188	247,919	260,342
Investing activities					
Purchases of furniture and equipment	$ (106,585)	-	-	(106,585)	(43,030)
Purchases of investments and certificates of deposit	(191,715)	(1,290,340)	(179,604)	(1,661,659)	(1,938,389)
Sales of investments and certificates of deposit		1,762,528	-	1,762,528	1,130,728
Net cash flow provided (used) by investment activities	(298,300)	472,188	(179,604)	(5,716)	(850,691)
Financing activities					
Restricted contributions	-	-	83,416	83,416	393,098
Net cash flow provided (used) by financing activities	-	-	83,416	83,416	393,098
Net increase (decrease) in cash during the year	(108,427)	434,046	-	325,619	(197,251)
Cash, beginning of year	406,765	108,097	-	514,862	712,113
Cash, end of year	$ 298,338	$ 542,143	$ -	$ 840,481	$ 514,862

See accompanying notes to financial statements

Note 1. Organization:

Handel and Haydn Society (the Society) is a performing arts organization which presents performances of baroque and classical music with a period-instrument orchestra and chorus. The majority of the concerts take place in Symphony Hall in Boston which is rented under an annual contract for this purpose.

Note 2. Summary of Significant Accounting Policies:

A. Basis of Presentation:

The financial statements of the Society have been prepared on the accrual basis in accordance with generally accepted accounting principles of the United States of America.

B. Summarized Comparative Information for June 30, 2017:

The financial statements include certain prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles of the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

C. Fair Value Measurements:

The Society uses fair value measurements in the financial statements as follows:

- Recurring measurement of investments (Note 4)
- Non-recurring initial measurement of non-cash gifts and pledges receivable

ASC 820-10, Fair Value Measurements and Disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market based measurement that should utilize market data or assumptions that market participants would use in pricing assets or liabilities including assumptions about risks. The ASC requires the Society to classify its fair value measurements into a three tier level hierarchy, based on the priority of inputs to the valuation technique or as either Level 2 or Level 3 for those valued using the net asset value practical expedient method, depending in the lock-up and notice periods associated with redemption of the underlying fund.

The ASC three tier hierarchy prioritizes assumptions input in the measurement in three levels, level 1 being the highest and level 3 being the lowest as follows:

- Level 1 – Quoted prices which are available in active markets for identical assets or liabilities;
- Level 2 – Inputs other than level 1, quoted prices for similar assets or liabilities in markets that are not active or model derived valuations whose inputs are observable either directly or indirectly through market corroboration. Included are investments reported at net asset value per share with lock-up periods of 90 days or less;

Note 2. **Summary of Significant Accounting Policies -continued:**

- Level 3 – Inputs that are generally unobservable for which market data is not available and developed using best information available about assumptions that the market would use to price the assets or liabilities. Included are investments reported at net asset value per share with lock-up periods in excess of 90 days.

D. **Revenue Recognition:**

The Society recognizes revenue in accordance with Accounting Standards Codification (ASC) 958-605-25 'Not For Profit Entities Revenue Recognition.' Under ASC 958-605-25, unconditional contributions are recognized as revenues when received or pledged in the appropriate net asset category depending upon the nature of any donor restrictions. When donor restrictions expire, temporarily restricted assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction. If donor restrictions expire in the year of receipt, the contribution is reported as unrestricted net assets.

Contributions of assets other than cash are reported at fair value on the date the property is pledged or donated. The initial fair value measurement is generally considered a Level 1 measurement. Pledges that are expected to be collected in less than one year are reported at net realizable value. Pledges that are expected to be collected in more than one year from the financial statement date are recorded at fair value at the date of promise. Fair value is computed using a present value technique, anticipated cash flows and a risk adjusted discount rate. The Society is using a discount rate of 5%. This is considered a Level 2 fair value measurement. Amortization of the discount is recorded as additional contribution revenue. Conditional gifts and grants are recognized as revenue when the conditions on which they depend are met.

Revenue from ticket sales and performances is recognized when the related performance occurs.
Accordingly, revenue collected in advance of a performance is recorded as deferred revenue until the performance occurs.

E. **Net Asset Categories:**

Unrestricted Net Assets:

This category includes resources which contain no external restrictions and resources for which restrictions have lapsed in the current fiscal year.

Temporarily Restricted Net Assets:

This category includes gifts for which donors imposed temporary restrictions that have not been met at fiscal year end. To ensure observance of restrictions on resources within the framework of ASC 958-205 Not For Profit Entities – Presentation of Financial Statements, the Society accounts for restricted resources in fund groups. The following funds are included in temporarily restricted net assets:

Operating Fund:

The temporarily restricted net asset category includes the portion of the Operating Fund representing donor restricted gifts restricted for expenditure in future fiscal years or for future projects.

E. Net Asset Categories -continued:

Restricted Working Capital Reserve Fund:

The temporarily restricted net asset category includes the portion of contributions and grants restricted by donors as a cash reserve. Income earned on these funds is unrestricted and is reported in the unrestricted fund. The principal of the fund may be borrowed; however, each borrowing must be repaid within two years. There are no borrowings at June 30, 2018.

The Restricted Working Capital Reserve Fund included $150,000 awarded from a 1994 NEA challenge grant, $100,000 awarded under a 1988 NEA challenge grant and $78,992 of matching funds. Under the terms of the grants and according to a letter from the NEA dated November 20, 2007, the $250,000 became unrestricted in fiscal year 2008, leaving $78,992 as temporarily restricted.

The Society has complied with all significant grant requirements.

Strategic Initiative Fund:

The temporarily restricted net asset category includes the portion of contributions received as part of the capital campaign launched in October, 2012 to support strategic initiatives, bicentennial programs, the endowment and related campaign administration.

General, Campaign and Geyer Endowment Funds:

The Society has several endowment funds which receive non-expendable contributions and grants (donor restricted). The purpose of the funds is to maintain the financial health of the organization and to support its mission. The temporarily restricted net asset category includes accumulated income of the endowment funds. The Society manages the capital using a total return spending policy in accordance with the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). Under UPMIFA, the Society may appropriate for expenditure so much of the endowment fund as is prudent taking into consideration: the duration and preservation of the endowment fund, the purposes of the Society and the endowment fund, the possible effect of inflation or deflation, the expected total return from income and the appreciation of investments, other resources of the Society, and the investment policy. Under the Society's policy, no more than 4% of the average value of the endowment will be appropriated for expenditure for a fiscal year. The Society classifies the original gifts as permanently restricted.

Permanently Restricted Net Assets:

This category includes gifts to the General, Campaign and Geyer endowment funds which by donor restriction must be invested in perpetuity. The Society reflects the original contributions specified by donors as "endowment" in this category.

F. Functional Allocation of Expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Note 2. **Summary of Significant Accounting Policies -continued:**

G. **Investments:**

Investments are carried at fair value.

H. **Accounts and Pledges Receivable:**

It is the Society's policy to provide an allowance for uncollectible pledges and receivables based upon management's evaluation of the collectability of individual pledges and receivables. At June 30, 2018, the allowance was $38,726.

I. **Furniture and equipment:**

Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed over estimated useful lives of between three to seven years on a straight-line basis.

Significant additions and improvements are capitalized. Maintenance and repairs which do not extend the useful lives of assets are expensed as incurred.

J. **Cash:**

For purposes of the statement of cash flows, cash includes cash in bank accounts, money market accounts and certificates of deposit with original maturities under ninety days.

K. **Advertising Costs:**

The Society expenses the production costs of advertising as incurred, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct response advertising consists primarily of production and mailing costs of subscription and individual mailings which include order forms for performances. The capitalized costs include those related to the next subscription season. These capitalized costs are expensed when the season begins. At June 30, 2018, $106,954 of advertising was reported as an asset. Advertising expense was $426,662.

L. **Tax Status:**

The Society is exempt from income tax pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC) and is a publicly supported organization as defined in IRC Section 509(a)(2). The Society may, however, incur a tax liability on certain ancillary activities. There was no such liability for 2018.

In accordance with ASC 740-Income Taxes, the Society recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

In addition, interest and penalties are accrued on any unrecognized tax benefit from uncertain tax positions.

Tax years ended June 30, 2015, 2016, 2017 and 2018 are within the statute of limitations and open for examination by Federal and State jurisdictions.

M. Accounting Standard Updates (ASU):

In February 2016, the FASB issued ASU 2016-02, "*Leases.*" The ASU requires that lessees recognize on the balance sheet for the rights and obligations created by leases with terms of more than twelve months, regardless of their classification as either operating or capital leases. For non-profit organizations, this ASU takes effect for fiscal years beginning after December 15, 2019. The Society has not determined the effect of this update on its financial statement.

In August 2016, the FASB issued ASU 2016-14, "*Presentation of Financial Statements for Not-for-Profit Entities.*" The ASU makes the following changes to the financial statements: The temporarily restricted and permanently restricted net asset classes will be combined into a single net asset class called "net assets with donor restrictions," the unrestricted net asset class will be renamed "net assets without donor restrictions," disclosures will be enhanced to include liquidity and information on availability of resources and other information. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Society has not fully evaluated the effect of this update on its financial statements, but it is not expected to have a material impact.

Note 3. Pledges Receivable:

Pledges receivable are comprised as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
In One Year or Less	$ 307,894	$ 611,079	$ 53,637	$ 972,610
Between One and Five Years	-	484,226	52,418	536,644
More than Five Years	-	-	225,000	225,000
Less: Unamortized discount	-	(33,294)	(109,877)	(143,171)
Less: Reserve	-	(28,795)	(9,931)	(38,726)
Total	$ 307,894	$ 1,033,216	$ 211,247	$ 1,552,357

Not included in the pledges above is a $900,000 Campaign Endowment Fund gift that may be rescinded by the donors at their discretion. In accordance with ASC 958-605-25, this contingent pledge will not be recognized as revenue until the donation is received.

The Society is a beneficiary of certain estate gifts which have not been recognized in the financial statements. The Society will recognize them when its irrevocable right has been established, such as when a probate court declares a will valid.

Note 4. **Investments:**

At June 30, 2018, investments consist of the following mutual fund investments:

	Cost	Carrying Value (Level 1 Fair Value)	Unrealized Gain (Loss)
Fidelity Total Market Index Stock Fund...........	$ 2,468,325	$ 3,241,405	$ 773,080
Fidelity Low Priced Stock Fund..........................	726,720	835,728	109,008
Fidelity Stock Contrafund..............................	993,089	1,353,250	360,161
Fidelity Small Cap Growth Fund....................	541,827	687,084	145,257
Fidelity Int'l Discovery Stock Fund....................	490,934	562,853	71,919
Oakmark International Fund..........................	769,323	736,678	(32,645)
Fidelity Limited Term Bond Fund......................	3,041,749	3,000,822	(40,927)
Fidelity Money Market................................	472,042	472,089	47
Annuity Contract..	69,944	69,944	-
	$ 9,573,953	$ 10,959,853	$ 1,385,900

Realized and unrealized gains and losses are reported in the statement of activities. The following table sets forth the change in unrealized gain (loss) and realized gain (loss) on investments for 2018:

	Total
Unrealized Gain (Loss) -Beginning of Year	$ 941,231
Unrealized Gain (Loss) -End of Year..	1,385,900
Change in Unrealized Gain (Loss)...	444,669
Realized Gain (Loss)	421,625
Total Realized and Unrealized Investment Gain (Loss)	$ 866,294

Note 5. **Prepaid Expenses:**

At June 30, 2018, prepaid expenses consist of the following:

Deferred Marketing Expenses...	$ 106,954
Performance Expenses	34,776
Other Prepaid Expenses...	66,684
	$ 208,414

Note 6. Changes in Endowment Net Assets:

The following schedule summarizes the change in endowment net assets for the year ended June 30, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets Beginning of Year	$ 1,936,355	$ 8,585,446	$10,521,801
Investment Return:			
Investment Income	145,715	-	145,715
Net Appreciation (realized and unrealized)	871,975	-	871,975
Total Investment Return	1,017,690		1,017,690
Contributions	-	83,416	83,416
Appropriated for expenditure	(284,600)	-	(284,600)
Change in split interest agreements	-	(1,191)	(1,191)
Endowment Net Assets End of Year	$ 2,669,445	$ 8,667,671	$11,337,116

The primary objective of the Society's investment policy is to preserve the purchasing value of the endowment measured in terms of the national consumer price index with a moderate level of risk. To achieve this objective, the Society targets a balanced portfolio with equities ranging between 40 - 75%, fixed income ranging between 20 - 60% and cash equivalents of up to 20%.

$284,600 of the total return on the Endowment was appropriated for expenditure for fiscal year ended June 30, 2018.

Note 7. Line of Credit:

The Society has a $250,000 line of credit with a bank, bearing interest at 4.25% and maturing on November 30, 2018. As of June 30, 2018, the Society has no borrowings on this line of credit. All of the Society's assets have been pledged as collateral for this loan.

Note 8. Split Interest Agreements:

Under Split interest agreements, donors enter into planned giving arrangements using charitable gift annuities, in which the Society receives benefits that are shared with beneficiaries. Assets received under split interest agreements are initially recognized at fair value (see note 2). These assets are subsequently invested with other investments of the Society and are then recorded at fair value (a level 1 method, see note 2). Associated liabilities are recorded at the present value of estimated future payments due to beneficiaries. These liabilities are calculated using each gift's IRS discount rate as specified in IRC Section 7520 (a), ranging from 2.0% to 2.2%.

During the term of these agreements, changes in the value of split interest agreements are recognized in the Statement of Activities based on amortization of the discount associated with the contribution and revaluations of future payments to beneficiaries, based on changes in life expectancy, and other actuarial assumptions.

Net assets related to split interest agreements consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 6/30/18
Split interest agreement assets				
Charitable gift annuity cash	$ 10,183	$ 9,909	$ 46,992	$ 67,084
Liabilities due under split interest agreements	(6,224)	(5,414)	(30,536)	(42,174)
Split interest agreement net assets	$ 3,959	$ 4,495	$ 16,456	$ 24,910

Note 9. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 10. Concentrations of Credit Risk:

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and cash equivalents, investment securities and accounts receivable. Cash and cash equivalents includes the following bank accounts:

Boston Private Bank	$ 838,411
Santander Bank	1,379
	$ 839,790

The FDIC provides insurance of up to $250,000 on balances in Boston Private Bank and Santander Bank.

Investments are exposed to various risks, such as interest rate, market volatility and credit risk. The Society's diversification through mutual funds mitigates some of this potential exposure (see Note 4).

Approximately 28% of pledges receivable as of June 30, 2018 are from two donors to the Capital Campaign. Donation revenue from no single donor accounts for more than 8% of total FY 2018 revenue.

The Society does not require collateral on receivables.

Note 11. Operating Lease Commitment:

The Society leases office space under a non-cancellable operating lease that expires on July 31, 2019. The Society has an option to extend the lease for an additional five years. The Society also leases office equipment and a vehicle under non-cancellable operating leases. Future minimum payments due on these leases at June 30, 2018 are:

	Office	Vehicle & Equipment	Total
Fiscal Year 2019	151,910	18,494	170,404
Fiscal Year 2020	12,691	14,621	27,312
Fiscal Year 2021	-	8,796	8,796
Fiscal Year 2022	-	8,796	8,796
Fiscal Year 2023		8,796	8,796
Fiscal Year 2024 and thereafter		2,199	2,199
	$164,601	$61,702	$226,303

Included in rent expense for fiscal year 2018 is $162,619 incurred under non-cancellable operating leases.

Note 12. Pension Plans:

The Society has a Section 403 (b) retirement plan for non-union employees. The plan permits participants to make contributions up to the maximum limits allowed by Internal Revenue Code section 403 (b). The Society matches employee contributions to this plan up to 3% of participant pay. For the year ended June 30, 2018 the Society contributed $22,775 to the plan. Amounts contributed by employees plus earnings they generate are 100% vested. Amounts contributed by the Society plus earnings they generate vest according to the following table.

Years of Service	Vesting percentage
Less than 1	0%
1	33%
2	67%
3	100%

The Society contributes to a multiemployer defined benefit plan under the terms of the collective bargaining agreement that covers its union employees. The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

1) Assets contributed to the multiemployer plan by an employer may be used to provide benefits to employees of other participating employers.

2) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3) If the Society chooses to stop participating in the plan, the Society may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal penalty.

The Society's participation in the plan for the annual plan year ended March 31, 2018 and plan information is outlined below.

Certified Zone Information: The most recent Pension Protection Act (PPA) zone status available in 2018 is for the plan's year end at March 31, 2018. The zone status is based on information that the Society received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. As in this situation, a plan's status is also affected if future contributions are projected to be less than the minimum funding requirement.

FIP/RP status: The FIP/RP indicates whether the plan has a financial improvement plan (FIP) or a rehabilitation plan (RP) either pending or implemented.

The last item shows the expiration date of the collective bargaining agreement (CBA) to which the plan is subject.

Note 12. Pension Plans -continued

The plan requires the Society to contribute a fixed contracted percentage of applicable wages for each employee covered by the CBA. The contributions made by the Society in Fiscal year ended 2018 were less than 5 percent of the total contributions to the plan.

Plan Name -	American Federation of Musicians and Employers' Pension Fund
Federal ID number	51-6120204
Plan number	001
Certified Zone Status	Red as of the March 31, 2018 plan year
Contributions by the Society	$71,336 for the fiscal year end June 30, 2018
FIP/RP status	Implemented
Surcharge paid to the plan	Yes
Expiration date of the CBA	June 30, 2021

Note 13. Subsequent Events:

The Society has evaluated subsequent events through October 22, 2018, the date the financial statements were available to be issued.