

SAVANNAH MUSIC FESTIVAL, INC.
AUDIT OF FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

SAVANNAH MUSIC FESTIVAL, INC.
AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Savannah Music Festival, Inc.
Savannah, Georgia

We have audited the financial statements of Savannah Music Festival, Inc. (a non-profit organization) which comprise the statement of position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements and supplemental schedules.

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 auditors' 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Savannah Music Festival, Inc., as of June 30, 2020 and 2019, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information contained in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Crimes, Hardy & Company, P.C.

November 13, 2020

SAVANNAH MUSIC FESTIVAL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

| <u>Assets</u> | <u>2020</u> | <u>2019</u> |
|---|-------------------------|-------------------------|
| Current assets: | | |
| Cash | \$ 1,068,853 | \$ 58,435 |
| Receivables | | |
| Trade | 1,920 | 3,700 |
| Promises to give - due within one year (Note 2) | 105,266 | 103,803 |
| Grants | 115,000 | 101,750 |
| Prepaid expenses | 89,799 | 20,070 |
| Total current assets | <u>1,380,838</u> | <u>287,758</u> |
| Property and equipment (Note 3) | 27,388 | 33,847 |
| Investments (Note 4) | 1,138,575 | 1,063,868 |
| Other assets - Promises to give due after one year (Note 2) | <u>30,000</u> | <u>45,000</u> |
| | <u>\$ 2,576,801</u> | <u>\$ 1,430,473</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Notes payable | | |
| Bank (Note 5) | | \$ 257,000 |
| Payroll Protection Program (Note 5) | \$ 151,700 | |
| Accounts payable | | |
| Trade | 196,323 | 79,670 |
| Other | 2,724 | 4,720 |
| Accrued expenses | 84,555 | 34,863 |
| Deferred Revenue | 310,977 | |
| Total current liabilities | <u>746,279</u> | <u>376,253</u> |
| Net assets: | | |
| Without donor restrictions | 739,796 | 195,538 |
| With donor restrictions (Note 6) | <u>1,090,726</u> | <u>858,682</u> |
| Total net assets | <u>1,830,522</u> | <u>1,054,220</u> |
| Total liabilities and net assets | <u>\$ 2,576,801</u> | <u>\$ 1,430,473</u> |

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

SAVANNAH MUSIC FESTIVAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Net assets without donor restrictions: | | |
| Support and other revenue | | |
| Contributions | \$ 1,845,429 | \$ 1,641,065 |
| Grants | 150,000 | 166,500 |
| Ticket sales and handling fees | 50,914 | 1,218,845 |
| Advertising sales | 10,111 | 27,948 |
| Concessions and merchandise sales | 2,262 | 32,580 |
| Fundraising | 93,038 | 106,383 |
| Other revenues | 2,276 | 3,483 |
| Investment return | 74,008 | 85,834 |
| | <u>2,228,038</u> | <u>3,282,638</u> |
| Net assets released from restrictions (Note 7) | 168,505 | 401,201 |
| | <u>2,396,543</u> | <u>3,683,839</u> |
| Expenses | | |
| Cost of sales - Schedule 1 | 89,597 | 133,550 |
| Cost of festival events - Schedule 1 | 192,885 | 1,916,369 |
| Advertising and promotion - Schedule 1 | 208,909 | 314,105 |
| Salaries and wages | 905,334 | 862,122 |
| Payroll taxes and benefits | 155,975 | 161,893 |
| Fundraising | 94,110 | 83,657 |
| General and administrative - Schedule 2 | 205,475 | 230,174 |
| | <u>1,852,285</u> | <u>3,701,870</u> |
| Increase (decrease) in net assets without donor restrictions | <u>544,258</u> | <u>(18,031)</u> |
| Net assets with donor restrictions: | | |
| Support - contributions | 400,549 | 456,092 |
| Net assets released from restrictions by payments | <u>(168,505)</u> | <u>(401,201)</u> |
| Increase in net assets with donor restrictions | <u>232,044</u> | <u>54,891</u> |
| Increase in net assets | 776,302 | 36,860 |
| Net assets - beginning of year | <u>1,054,220</u> | <u>1,017,360</u> |
| Net assets - end of year | <u>\$ 1,830,522</u> | <u>\$ 1,054,220</u> |

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

SAVANNAH MUSIC FESTIVAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

| | | Supporting Services | | | |
|--|---------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| | Program Services | Management and General | Fund Raising | Total Supporting Services | Total All Expenses |
| Salaries and wages | \$ 295,229 | \$ 541,571 | \$ 68,534 | \$ 610,105 | \$ 905,334 |
| Payroll taxes and employee benefits | <u>50,863</u> | <u>93,304</u> | <u>11,808</u> | <u>105,112</u> | <u>155,975</u> |
| Total payroll and related | 346,092 | 634,875 | 80,342 | 715,217 | 1,061,309 |
| Cost of sales | 89,597 | | | | 89,597 |
| Cost of festival events | 192,885 | | | | 192,885 |
| Advertising and promotion | 208,909 | | | | 208,909 |
| Fundraising | | | 94,110 | 94,110 | 94,110 |
| General and administrative | <u>205,475</u> | <u> </u> | <u> </u> | <u> </u> | <u>205,475</u> |
| Total expenses | <u>\$ 1,042,958</u> | <u>\$ 634,875</u> | <u>\$ 174,452</u> | <u>\$ 809,327</u> | <u>\$ 1,852,285</u> |

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

SAVANNAH MUSIC FESTIVAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

| | | Supporting Services | | | |
|--|---------------------|---------------------------|-------------------|---------------------------------|-----------------------|
| | Program Services | Management and General | Fund Raising | Total Supporting Services | Total All Expenses |
| Salaries and wages | \$ 485,342 | \$ 244,393 | \$ 132,387 | \$ 376,780 | \$ 862,122 |
| Payroll taxes and employee benefits | <u>91,140</u> | <u>45,893</u> | <u>24,860</u> | <u>70,753</u> | <u>161,893</u> |
| Total payroll and related | 576,482 | 290,286 | 157,247 | 447,533 | 1,024,015 |
| Cost of sales | 133,551 | | | | 133,551 |
| Cost of festival events | 1,916,369 | | | | 1,916,369 |
| Advertising and promotion | 314,104 | | | | 314,104 |
| Fundraising | | | 83,657 | 83,657 | 83,657 |
| General and administrative | <u>230,174</u> | <u></u> | <u></u> | <u></u> | <u>230,174</u> |
| Total expenses | <u>\$ 3,170,680</u> | <u>\$ 290,286</u> | <u>\$ 240,904</u> | <u>\$ 531,190</u> | <u>\$ 3,701,870</u> |

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

SAVANNAH MUSIC FESTIVAL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 776,302 | \$ 36,860 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 12,066 | 15,097 |
| Realized and unrealized gain on investments | (62,835) | (72,919) |
| (Increase) decrease in: | | |
| Accounts receivable - trade | 1,780 | 18,974 |
| Promises to give | 13,537 | (53,261) |
| Grants receivable | (13,250) | (250) |
| Prepaid expenses | (69,729) | 1,798 |
| Increase (decrease) in: | | |
| Accounts payable - trade | 116,653 | 36,059 |
| Accounts payable - other | (1,996) | 245 |
| Accrued expenses | 49,692 | (145,288) |
| Deferred revenue | 310,977 | |
| Net cash provided by (used for) operating activities | <u>1,133,197</u> | <u>(162,685)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (84,679) | |
| Proceeds from sale of investments | 72,807 | 26,031 |
| Purchases of property and equipment | (5,607) | (9,136) |
| Net cash provided by (used for) investing activities | <u>(17,479)</u> | <u>16,895</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable - bank | | 307,000 |
| Proceeds from Payroll Protection Program loan | 151,700 | |
| Repayment of notes payable - bank | (257,000) | (250,000) |
| Net cash provided by (used for) financing activities | <u>(105,300)</u> | <u>57,000</u> |
| Increase (decrease) in cash | 1,010,418 | (88,790) |
| Cash balance - beginning of year | <u>58,435</u> | <u>147,225</u> |
| Cash balance - end of year | <u>\$ 1,068,853</u> | <u>\$ 58,435</u> |

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

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Nature of operations

Savannah Music Festival, Inc. (the Festival) brings together world-renowned performers to perform music from various genres such as classical, blues, jazz, and others. The Festival also sponsors family concerts, youth concerts and concert talks. The Festival's primary revenue sources come from sales of tickets, advertising, corporate sponsorships, and contributions.

Note 1 - Summary of Significant Accounting Policies

The significant accounting policies followed by the Festival and the methods of applying these policies which materially affect the determination of financial position, changes in financial position, changes in net assets and results of operations are summarized as follows.

Financial Statement Presentation

The financial statements of the Festival are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The Festival classifies its net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Festival and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of contributions from the Festival's supporters and related expenses associated with the core activities of the Festival: program services, administrative and fundraising. In addition to these transactions, changes in this category of net assets include returns on investment from endowment funds and certain types of philanthropic support. Such philanthropic support includes gifts without restrictions, including those designated by the Board to function as endowment and restricted gifts whose donor-imposed restrictions were met during the fiscal year.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Festival or the passage of time. Items that affect this net asset category are gifts and contributions from donors designated for education, specific performances, endowment and returns on endowment funds. Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions.

Also, included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Festival, including gifts wherein donors stipulate that the corpus of the gift be held in perpetuity (gifts for the endowment) and that only the income be made available for program services. Endowment held in perpetuity had balances of \$571,710 and \$571,010 at June 30, 2020 and 2019, respectively.

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of checking accounts and investments with original maturities of three months or less.

Trade accounts receivables

The Festival carries trade accounts receivable at cost. Most receivables are related to ticket sales handled through the Savannah College of Art and Design and to certain fundraising events. Any risk associated with these transactions is deemed insignificant by management. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to current operations and a credit to accounts receivable. Historically, accounts receivable write-offs have been insignificant.

Revenue recognition

The Festival has adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as amended as management believes the standard improves the usefulness and understandability of the Festival's financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the festival recognizes revenue, and therefore no changes to the previously audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Unconditional promises to give are recognized as receivables and revenues in the period in which the Festival is notified by the donor of his or her commitment to make a contribution. Conditional promises to give are recognized when the conditions on which the contribution depends are substantially met. The Festival did not have any conditional promises to give at year end.

Revenues from grants are recognized by the festival upon notification of the award unless they are on a cost reimbursement basis, in which case the revenue is recognized as allowable costs are incurred.

The Festival recognizes revenue from ticket sales at the time of admission. Revenues received prior to events is recorded as deferred revenues.

Donated property and services

Donations are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Unless the donor has stipulated a time period for which donated assets must be maintained, the Festival reports the expiration of donor restrictions when the donated assets are placed into service; at that time, the assets are transferred from net assets with donor restrictions to net assets without donor restrictions. No amounts have been reflected in the accompanying Statement of Activities for donated services because the criteria for recognition of such volunteer effort under GAAP have not been satisfied. However, volunteers have donated significant amounts of time to the Festival.

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 - Summary of Significant Accounting Policies (continued)

Depreciation

Provisions for depreciation are made by charges to income at rates based upon the estimated useful life of the assets and are computed by the straight-line method. Estimated useful lives are five to seven years for computers, software and furniture. The Festival's policy is to capitalize all long-lived assets in excess of \$1,000.

Income taxes

The Festival is an exempt organization under Internal Revenue Code Section 501(c)(3) and is not subject to income tax. Therefore, no provision for income tax is recorded. Three years dating back to June 30, 2016, remain open to examination by taxing authorities.

Estimates

The preparation of financial statements in conformity with GAAP 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. Actual results could differ from these estimates.

Note 2 - Promises to Give

The Festival accounts for uncollectible promises to give after reasonable collection efforts have been attempted by a credit to unconditional promises to give with an offsetting charge to bad debts. The difference between this method and the allowance method required by GAAP is not material for financial reporting purposes. The Festival has historically had no bad promises-to-give and management believes all outstanding promises-to-give are collectible.

The promises to give to be received after June 30, 2020, have not been discounted. This departure from GAAP is not considered material. The promises to give are summarized as follows.

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Promises to give due within one year | \$ 105,266 | \$ 103,803 |
| Promises to give due after one year (within five years) | 30,000 | 45,000 |
| | <u>\$ 135,266</u> | <u>\$ 148,803</u> |

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SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 3 - Property and Equipment

Property and equipment is as follows.

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|------------------|------------------|
| Computers and software | \$ 57,980 | \$ 54,373 |
| Furniture and fixtures | <u>71,407</u> | <u>69,407</u> |
| | 129,387 | 123,780 |
| Less accumulated depreciation | <u>102,000</u> | <u>89,933</u> |
| | <u>\$ 27,387</u> | <u>\$ 33,847</u> |

Depreciation expense for the years ended June 30, 2020 and 2019, amounted to \$12,065 and \$15,097, respectively.

Note 4 - Investments

The Festival reports investments in marketable securities at fair value. GAAP defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. All the Festival investments are Level 1 inputs. The cost of marketable securities represents amounts paid for purchased securities. Investment income is recognized over the period the securities are held. Realized gains and losses on sales of investments are determined on the basis of specific identification of the cost of the security held. Unrealized changes in market value are recognized as gains or losses in the accompanying statement of activities. Investments in marketable securities include money market funds and mutual funds and are carried at fair value in the accompanying statements of financial position. The fair value of a financial instrument is the amount 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. The fair value of money market funds and mutual funds are based on quoted market prices in active markets (Level 1). Investments in marketable securities are exposed to various risks, such as interest rate, market, and credit risks. Due to these risks and the level of uncertainty related to changes in the value of marketable securities, it is possible that changes in these risk factors in the near-term could have an impact on the Festival's financial position.

Investments are summarized as follows:

| | <u>2020</u> | |
|---------------------|-------------------|---------------------|
| Cost | Fair Value | Carrying Value |
| Equity mutual funds | \$ 533,378 | \$ 776,750 |
| Fixed income funds | <u>336,036</u> | <u>361,825</u> |
| | <u>\$ 869,414</u> | <u>\$ 1,138,575</u> |

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 4 - Investments (continued)

| | | 2019 | |
|---------------------|-------------------|---------------------|---------------------|
| | Cost | Fair Value | Carrying Value |
| Equity mutual funds | \$ 582,063 | \$ 803,903 | \$ 803,903 |
| Fixed income funds | 252,056 | 259,965 | 259,965 |
| | <u>\$ 834,119</u> | <u>\$ 1,063,868</u> | <u>\$ 1,063,868</u> |

The following schedule summarizes the investment return and its classification in the statement of activities.

| | Without Donor Restrictions | |
|---|----------------------------|------------------|
| | 2020 | 2019 |
| Dividend and interest income | \$ 24,936 | \$ 24,540 |
| Realized and unrealized gain on investments | 62,835 | 72,919 |
| Less investment expenses | (13,763) | (11,625) |
| | <u>\$ 74,008</u> | <u>\$ 85,834</u> |

Note 5 - Notes Payable

The Festival maintains an unsecured line of credit at a bank in the amount of \$400,000. Interest is payable at the banks' prime rate. At June 30, 2020 and 2019, the Festival had indebtedness to Branch Banking & Trust for \$0 and \$257,000, respectively. The prime rate at June 30, 2020, was 3.25%.

The Festival received a Payroll Protection Program loan in the amount of \$151,700. The Festival has met all the criteria for the loan to be forgiven. No interest is accrued on this loan as the forgiveness is anticipated to occur before any interest payment is required.

Note 6 - Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes.

| | 2020 | 2019 |
|--|---------------------|-------------------|
| Education | \$ 519,016 | \$ 287,672 |
| Endowment, in perpetuity, the income from which is expendable for Festival operations | <u>571,710</u> | <u>571,010</u> |
| | <u>\$ 1,090,726</u> | <u>\$ 858,682</u> |

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 7 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose.

| Purpose restrictions accomplished: | 2020 | 2019 |
|--|-------------------|-------------------|
| Services performed related to education programs | \$ 168,505 | \$ 382,451 |
| Special performances | 18,750 | 18,750 |
| | <u>\$ 168,505</u> | <u>\$ 401,201</u> |

Note 8 - Liquidity and Availability of Financial Assets

The Festival has \$1,291,039 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash of \$1,068,853 and receivables of \$222,186. In the event of unanticipated liquidity need, the Festival also could draw upon \$400,000 of an available line of credit (as further discussed in Note 5).

Note 9 - Advertising Expense

Total advertising expense for the years ended June 30, 2020 and 2019, amounted to \$52,700 and \$59,807, respectively, all of which was charged to current operations.

Note 10 - Interest Incurred

Total interest incurred amounted to \$5,461 and \$7,401 for the years ended June 30, 2020 and 2019, all of which was charged to current operations. This also represented cash paid for interest.

Note 11 - Endowment

The Festival operates its endowment in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which concerns charities and the standards established for how they manage and spend endowments. This affects all organizations with endowments, and accomplishes three main objectives: (1) sets standards for investment of assets for boards of directors, (2) allows flexibility for spending of endowment funds, and (3) establishes a mechanism by which a fund can be released by the charity from donor restrictions.

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SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 11 - Endowment (continued)

The Festival has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Festival classifies as net assets with donor imposed restrictions: (1) the original value of the gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in perpetual endowment is classified as net assets without donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Festival considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration or preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible impact of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Festival, and (7) the Festival's investment policies.

The Festival has adopted investment and spending policies, approved by the Board of Directors, for certain liquid assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long term. Accordingly, the investment process seeks to achieve an after-cost real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution, if any, with acceptable levels of risk. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Festival has adopted an investment policy, approved by the Board of Directors, for endowment assets. The basic philosophy governing the investment of the Festival's portfolio is the long-term preservation of principal. In establishing this policy, the Festival considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Festival's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

The Festival's target asset portfolio included equities (52 to 70%), fixed income investments (28 to 33%), and hard assets (0%). The Foundation understands that fluctuating rates of return are characteristic of the securities markets, and the Festival's objective is the long-term appreciation of the assets and consistency of total portfolio returns.

Endowments are an established fund of cash, securities, or other assets (such as contributions receivable) to provide income for the maintenance of a nonprofit organization. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Festival's endowment spending policy is discretionary and there are currently no required mandatory payments toward operations.

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 11 - Endowment (continued)

Endowment net asset composition by type of fund as of June 30, 2020 and 2019 is as follows.

| | 2020 | | |
|-----------------------------------|----------------------------------|----------------------------|---------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor restricted endowment funds: | | | |
| Investments | \$ 566,865 | \$ 571,710 | \$ 1,138,575 |
| | <u>\$ 566,865</u> | <u>\$ 571,710</u> | <u>\$ 1,138,575</u> |
| | 2019 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor restricted endowment funds: | | | |
| Investments | \$ 492,858 | \$ 571,010 | \$ 1,063,868 |
| | <u>\$ 492,858</u> | <u>\$ 571,010</u> | <u>\$ 1,063,868</u> |

Changes in investment net assets as of June 30, 2020 and 2019 are as follows.

| | Without Donor Restrictions | With Donor Restrictions | Total Endowment Assets |
|----------------------------------|----------------------------------|----------------------------|------------------------------|
| Balance - June 30, 2018 | \$ 446,670 | \$ 570,310 | \$ 1,016,980 |
| Dividends and interest | 24,540 | | 24,540 |
| Net realized and unrealized gain | 72,920 | | 72,920 |
| Endowment expenses | (11,625) | | (11,625) |
| Donor contributions | | 700 | 700 |
| Distributions | (39,647) | | (39,647) |
| Balance - June 30, 2019 | <u>492,858</u> | <u>571,010</u> | <u>1,063,868</u> |
| Dividends and interest | 24,936 | | 24,936 |
| Net realized and unrealized gain | 62,835 | | 62,835 |
| Endowment expenses | (13,764) | | (13,764) |
| Donor contributions | | 700 | 700 |
| Balance June 30, 2020 | <u>\$ 566,865</u> | <u>\$ 571,710</u> | <u>\$ 1,138,575</u> |

Note 12 - Cost Allocation

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits, which are allocated on the basis of estimates of time and effort and other expenses, which are allocated based on usage studies.

SAVANNAH MUSIC FESTIVAL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 13 - Related Party Transactions

The Festival paid for legal services from a related party amounting to \$18,712 in 2020 and \$10,691 in 2019. The Festival also paid for venue rental from a related party amounting to \$0 in 2020 and \$2,410 in 2019.

Note 14 - Leases

The Festival leases its office facilities on a month-to-month basis.

Note 15 - Economic Impact of COVID-19 Virus

The COVID-19 pandemic led to the cancellation of 2020 Savannah Music Festival. The Festival has contacted those patrons who held tickets for events that were cancelled as to whether they wished a refund of the purchase price or chose to treat the amount paid for tickets as a donation to the Festival. The amounts that were treated as a donation were reclassified from ticket sale revenue to contributions. Expenses incurred for events that were postponed are included in prepaid expenses.

Note 16 - Subsequent Events

Management has evaluated subsequent events through November 13, 2020, the date the financial statements were available to be issued. Management was not aware of any subsequent events through this date that would have a material effect on these financial statements. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings. The related financial impact and duration cannot be reasonably estimated at this time.

SAVANNAH MUSIC FESTIVAL, INC.
SCHEDULE 1
SCHEDULE OF COST OF SALES, COST OF FESTIVAL EVENTS AND
ADVERTISING AND PROMOTION EXPENSES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---------------------------------|-------------------|---------------------|
| Cost of sales: | | |
| Tickets | \$ 87,854 | \$ 112,732 |
| Concessions and merchandise | 1,743 | 20,819 |
| Total cost of sales | <u>\$ 89,597</u> | <u>\$ 133,551</u> |
| Cost of festival events: | | |
| Artist and judge fees | \$ 49,455 | \$ 1,080,269 |
| Prizes and scholarships | | 14,644 |
| Technical fees and equipment | 15,418 | 167,252 |
| Equipment and venue rental | 22,553 | 181,684 |
| Music and royalties | 2,210 | 9,511 |
| Catering and food | 2,456 | 34,703 |
| Travel and lodging | 44,414 | 267,797 |
| Other | 56,379 | 160,509 |
| Total cost of festival events | <u>\$ 192,885</u> | <u>\$ 1,916,369</u> |
| Advertising and promotion: | | |
| Advertising | \$ 52,700 | \$ 59,807 |
| Contracted design | 9,816 | 14,159 |
| Marketing | 2,241 | 27,592 |
| Other | 7,069 | 7,723 |
| Photography | 4,767 | 21,395 |
| Printing and supplies | 32,760 | 71,537 |
| Postage and delivery | 6,514 | 6,300 |
| Press conference | 18,686 | 10,168 |
| Promotional items | 9,728 | 65,394 |
| Signage | 21,038 | 29,545 |
| Website development | 313 | 484 |
| Education | 43,277 | |
| Total advertising and promotion | <u>\$ 208,909</u> | <u>\$ 314,104</u> |

SAVANNAH MUSIC FESTIVAL, INC.
SCHEDULE 2
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| General and administrative: | | |
| Accounting | \$ 2,416 | \$ 4,141 |
| Bank charges | 2,269 | 2,113 |
| Credit card fees | 8,802 | 9,622 |
| Depreciation | 12,065 | 15,097 |
| Dues and publications | 5,945 | 6,320 |
| Finance charges | 2,644 | 5,045 |
| Insurance | 19,867 | 26,453 |
| Interest | 5,461 | 7,401 |
| Office and general | 8,050 | 12,260 |
| Office rent | 53,874 | 53,874 |
| Other | 60,744 | 60,806 |
| Professional fees | 9,450 | 9,000 |
| Repairs and maintenance | 437 | 397 |
| Telephone | 5,792 | 5,621 |
| Travel | 7,659 | 12,024 |
| Total general and administrative expense | <u>\$ 205,475</u> | <u>\$ 230,174</u> |