

SANTA BARBARA SYMPHONY
ORCHESTRA ASSOCIATION

COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED

JUNE 30, 2014

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Combined Statements of Financial Position	3
Combined Statement of Activities	4
Combined Statements of Cash Flows	5
Notes to the Combined Financial Statements	6 - 18
Supplemental Schedules:	
Supplemental Schedule of Financial Position by Division	20
Supplemental Schedule of Activities by Division	21
Supplemental Schedule of Functional Expenses of the Santa Barbara Symphony Orchestra Association	22

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INDEPENDENT AUDITORS' REPORT

Board of Directors Santa Barbara Symphony Orchestra Association

We have audited the accompanying combined financial statements of the Santa Barbara Symphony Orchestra Association (a California nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013, the related statement of activities for the year ended June 30, 2014, the statements of cash flows for the years ended June 30, 2014 and 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

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 (GAAP); 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 (GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Barbara Symphony Orchestra Association as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules presented on pages 20 - 22 are presented for purpose of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit to the financial statements and certain additional procedures, including comparing and reconciling such 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Santa Barbara Symphony Orchestra Association's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California
April 29, 2015

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	<u>ASSETS</u>	
	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 799,719	\$ 624,552
Accounts receivable	49,109	49,450
Pledges receivable - current portion	374,261	319,927
Prepaid expenses and other current assets	4,636	14,488
Grant receivable	-	102,000
Total Current Assets	<u>1,227,725</u>	<u>1,110,417</u>
Other Assets:		
Investments (Note 3)	5,442,013	4,766,363
Pledge receivable - non-current portion	10,000	20,000
Interest in charitable remainder trust (Note 4)	654,138	572,494
Property and equipment, net (Note 5)	<u>1,473</u>	<u>5,601</u>
Total Other Assets	<u>6,107,624</u>	<u>5,364,458</u>
Total Assets	<u>\$ 7,335,349</u>	<u>\$ 6,474,875</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 23,217	\$ 28,450
Accrued payroll and related expenses	62,836	33,273
Deferred income	<u>430,331</u>	<u>416,493</u>
Total Current Liabilities	<u>516,384</u>	<u>478,216</u>
Net Assets:		
Unrestricted	219,917	(121,569)
Temporarily restricted	598,090	519,120
Permanently restricted	<u>6,000,958</u>	<u>5,599,108</u>
Total Net Assets	<u>6,818,965</u>	<u>5,996,659</u>
Total Liabilities and Net Assets	<u>\$ 7,335,349</u>	<u>\$ 6,474,875</u>

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014	2013
Revenue, Gains and Other Support:					
Concert income	\$ 752,536	\$ -	\$ -	\$ 752,536	\$ 806,187
Contributions	670,921	641,495	320,206	1,632,622	1,544,855
Bequests	242,878	-	-	242,878	159,170
Investment income	130,725	-	-	130,725	105,995
Realized gain on sales of investment	235,801	-	-	235,801	93,447
Unrealized gain on investments	482,059	-	-	482,059	386,773
Special events (net of expenses of \$0 and \$33,670, respectively)	-	-	-	-	52,681
Other income	20,450	-	-	20,450	53,170
Change in value of interest in charitable remainder trust	-	-	81,644	81,644	27,107
Net assets released from restriction	562,525	(562,525)	-	-	-
Total Revenue, Gains and Other Support	3,097,895	78,970	401,850	3,578,715	3,229,385
Operating Expenses:					
Salaries	1,378,066	-	-	1,378,066	1,374,546
Payroll taxes and benefits	315,225	-	-	315,225	324,360
Total employee expenses	1,693,291	-	-	1,693,291	1,698,906
Accounting	53,620	-	-	53,620	13,600
Advertising	123,815	-	-	123,815	181,105
Concert expenses	182,336	-	-	182,336	166,591
Conferences, meetings and training	25,312	-	-	25,312	31,559
Contract services	247,355	-	-	247,355	305,998
Depreciation	4,128	-	-	4,128	4,548
Development	47,030	-	-	47,030	52,718
Dues and subscriptions	9,331	-	-	9,331	7,439
Equipment rental and maintenance	41,962	-	-	41,962	48,387
Fees	24,478	-	-	24,478	29,402
Insurance	15,737	-	-	15,737	14,820
Investment fees	28,935	-	-	28,935	22,383
Office expense	9,871	-	-	9,871	13,061
Outreach	-	-	-	-	7,896
Printing, postage and copy	26,047	-	-	26,047	21,342
Receptions	20,916	-	-	20,916	28,211
Rent	80,840	-	-	80,840	73,260
Staging and box office	69,992	-	-	69,992	79,775
Supplies	33,911	-	-	33,911	18,185
Telephone	16,608	-	-	16,608	16,895
Travel	894	-	-	894	4,284
Total Operating Expenses	2,756,409	-	-	2,756,409	2,840,365
Change in Net Assets	341,486	78,970	401,850	822,306	389,020
Net Assets at Beginning of Year	(121,569)	519,120	5,599,108	5,996,659	5,607,639
Net Assets at End of Year	\$ 219,917	\$ 598,090	\$ 6,000,958	\$ 6,818,965	\$ 5,996,659

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 822,306	\$ 389,020
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	4,128	4,548
Unrealized gain on investments	(482,059)	(386,773)
Realized gain on investments	(235,801)	(93,447)
Change in value of charitable remainder trust	(81,644)	(27,107)
Contributions to endowment	(320,206)	(271,393)
Changes in:		
Accounts receivable	341	(49,450)
Pledges receivable	(44,334)	(26,102)
Grant receivable	102,000	88,000
Prepaid and other assets	9,852	23,806
Accounts payable and accrued expenses	(5,233)	11,260
Accrued payroll and related expenses	29,563	10,126
Deferred income	13,838	(21,469)
Net Cash Used by Operating Activities	<u>(187,249)</u>	<u>(348,981)</u>
Cash Flows from Investing Activities		
Purchase of investments	(1,593,388)	(2,261,722)
Proceeds from sale of investments	<u>1,635,598</u>	<u>2,077,868</u>
Net Cash Provided/(Used) by Investing Activities	<u>42,210</u>	<u>(183,854)</u>
Cash Flows from Financing Activities		
Contributions to enhance endowment	<u>320,206</u>	<u>271,393</u>
Net Cash Provided by Financing Activities	<u>320,206</u>	<u>271,393</u>
Net Increase/(Decrease) in Cash	175,167	(261,442)
Cash and Cash Equivalents, Beginning of Year	<u>624,552</u>	<u>885,994</u>
Cash and Cash Equivalents, End of Year	<u>\$ 799,719</u>	<u>\$ 624,552</u>

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Santa Barbara Symphony Orchestra Association (the Symphony), a California nonprofit corporation, was founded in 1953. Its purpose is to be a highly respected symphony orchestra, performing great works with passion and excellence, and to be an indispensable partner to the community, providing enrichment through inspiring concerts, music education programs and access for all.

Basis of Presentation

The accompanying financial statements of the Symphony have been presented on an accrual basis of accounting in accordance with generally accepted accounting standards. All funds that are received free of any donor imposed restriction are recorded as unrestricted net assets.

Principles of Combination

The Santa Barbara Symphony Endowment Trust (Endowment Trust) has elected to be presented as a supporting organization of the Symphony. Consequently, the Symphony has eliminated all material interorganizational transfers between the two organizations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Symphony to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities and the reported revenue and expenses.

Significant estimates used in preparing these financial statements include:

- Depreciable lives of property and equipment
- Net present value of the charitable remainder trust
- Collectability of accounts and pledges receivable

It is at least reasonably possible that the significant estimates used will change within the next year.

Fair Value of Financial Instruments

The carrying value of cash in banks, accounts receivable, prepaid expenses and other assets, and liabilities approximate fair value due to the relatively short maturity of these instruments.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Symphony classifies its unrestricted short-term, highly liquid investments having original maturities of three months or less as cash equivalents, except for cash which is held by the investment portfolio manager until suitable long term investments are identified.

Receivables

Receivables are comprised of a service fee receivable, amounts due from granting organizations, and pledges receivable. Management expects no material write-offs as of June 30, 2014; therefore, there is no current provision for doubtful accounts.

Investments and Investment Income

Investments are carried at their fair market value. Investment income and gains and losses on investments are classified as unrestricted unless a donor or law temporarily or permanently restricts their use. Unrealized gains and losses are included in the change in net assets.

Property, Equipment and Depreciation

Property is recorded at cost or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The Symphony's policy is to capitalize assets with a minimum value of \$1,000 that have a useful life of greater than one year.

Deferred Revenue

The Symphony records cash received in advance for future periods, including season tickets and advertising income, as deferred revenue.

Contributions

Contributions are recorded at their fair value on the date of donation. The Symphony records all contributions as increases in unrestricted net assets unless the donor stipulates any restrictions. Donor restricted contributions are recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets. Unconditional promises to give are recorded when made. Unconditional promises to give in future years are reported at the present value of their net realizable value, using risk free interest rates applicable to the year in which the promise is received.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services

A substantial number of people have donated their time to the Symphony as volunteers. As this volunteer service does not meet the recognition requirements of generally accepted accounting principles, no amount has been recorded in these financial statements for these services.

Fund Accounting

The Symphony reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets:

Unrestricted net assets consist of funds free of any legally enforceable donor-imposed restrictions.

Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of contributions and other inflows of funds temporarily subject to donor-imposed restrictions. The restrictions are temporary in that they are expected to expire with the passage of time or be satisfied and removed by actions of the Symphony that fulfill donor stipulations.

Permanently Restricted Net Assets:

Permanently restricted net assets consist of contributions subject to the donor-imposed restriction that the money be invested in perpetuity to provide income for specific activities.

Income Taxes

The Symphony is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code, and is not considered a private foundation. Contributions made to the Symphony are deductible by the donor for income tax purposes according to the provisions of the Internal Revenue Code and similar state provisions. The Symphony is unaware of any uncertain tax positions at June 30, 2014, or for any period for which the statute of limitations remain open.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The Symphony allocates its expenses on a functional basis among its various program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases

Reclassifications

Certain reclassifications have been made to the June 30, 2013, balances, as reported in the prior year financial statements, to make them comparable to the balances reported for the year ended June 30, 2014.

NOTE 2: PLEDGES RECEIVABLE

Except for \$10,000, all pledges are due within one year. Management anticipates full receipt of these receivables; therefore, no allowance for uncollectible receivables has been recorded.

NOTE 3: INVESTMENTS

The Endowment Trust owns a portfolio of marketable securities which has been both donated and purchased and is intended to provide investment income to be used for the Symphony's programs and activities. The hedge fund's market value is derived from the brokerage firm that is managing the funds. The remaining investments are stated at fair value determined by active markets. Prior to 1996, the Symphony was the primary donor to the Endowment Trust and the majority of these investments are permanently restricted. Current additions to the endowment consist of contributions that are permanently restricted by the donor and funds that are designated by the board to be added to the endowment. The Trustees of the Endowment Trust designate funds that can be withdrawn from the Endowment Trust. During the year ended June 30, 2011 the Symphony purchased investments outside of the Endowment Trust. These investments, valued at \$254,813 and \$185,433 for the years ended June 30, 2014 and 2013, respectively are included in the investments below.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 3: INVESTMENTS (Continued)

Total investments consist of the following:

	June 30, 2014		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Money market	\$ 132,684	\$ 132,684	\$ -
Fixed income	122,455	122,129	(326)
Mutual funds			
Bond funds	677,334	660,410	(16,924)
Equity funds	2,127,692	2,791,492	663,800
Marketable securities	646,017	843,791	197,774
Hedge fund	<u>820,000</u>	<u>891,507</u>	<u>71,507</u>
Totals	<u>\$ 4,526,182</u>	<u>\$ 5,442,013</u>	<u>\$ 915,831</u>
Change in unrealized gain			<u>\$ 482,059</u>

	June 30, 2013		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Money market	\$ 13,477	\$ 13,477	\$ -
Fixed income	171,957	171,957	-
Mutual funds			
Bond funds	890,316	852,894	(37,422)
Equity funds	1,976,502	2,235,906	259,404
Marketable securities	553,479	688,201	134,722
Hedge fund	<u>726,860</u>	<u>803,928</u>	<u>77,068</u>
Totals	<u>\$ 4,332,591</u>	<u>\$ 4,766,363</u>	<u>\$ 433,772</u>
Change in unrealized gain			<u>\$ 386,773</u>

NOTE 4: CHARITABLE REMAINDER TRUST

During the year ended June 30, 2008, the Symphony was named as the remainder beneficiary in a charitable remainder trust. The trust, which was originally funded with \$1,170,900, was presented on the financial statements as a contribution and an asset equivalent to the present value of the trust assets and estimated future income net of the present value of estimated future payouts to the income beneficiaries. The present value of the estimated future value of assets to be received by the Symphony is calculated using the IRS annuity tables and a discount rate based on the Symphony's historic risk free rate of return.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 4: CHARITABLE REMAINDER TRUST (Continued)

All changes in the present value of assets held under charitable remainder trust agreements or actual assets received upon distribution in subsequent years are recorded in the statement of activities as "change in the value of interest in charitable remainder trust."

As the donor has restricted the proceeds of the assets held under this charitable remainder trust to benefit the Endowment Trust, the present value of assets held under this charitable remainder trust are classified as permanently restricted net assets in the financial statements. However, the earnings are unrestricted.

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Furniture and office equipment	\$ 108,266	\$ 108,266
Vehicles	<u>23,875</u>	<u>23,875</u>
Total	132,141	132,141
Less: Accumulated depreciation	<u>(130,668)</u>	<u>(126,540)</u>
Property and Equipment, Net	<u>\$ 1,473</u>	<u>\$ 5,601</u>

Depreciation expense for the years ended June 30, 2014 and 2013, was \$4,128 and \$4,548, respectively.

NOTE 6: COMMITMENTS

The Symphony has a collective bargaining agreement with the American Federation of Musicians Local 308, which governs the employment agreements with orchestra members. The original agreement expired on June 30, 2010. The Symphony extended the agreement for three years which expired on June 30, 2013. During year end June 30, 2014, the Symphony extended the agreement for an additional three years, which expires June 30, 2016.

The Symphony entered into a lease agreement to rent office space effective July 1, 2009 which expires June 30, 2019 with monthly rent of \$5,790. Total rent expense for the years ended June 30, 2014 and 2013, was \$80,840 and \$73,260, respectively.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 6: COMMITMENTS (Continued)

Minimum annual lease commitments under the current lease agreement are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2015	\$ 69,480
2016	69,480
2017	69,480
2018	69,480
2019	<u>69,480</u>
	<u>\$ 347,400</u>

NOTE 7: RESTRICTED NET ASSETS

Temporarily Restricted Net Assets:

At June 30, 2014, there were net assets of \$187,953 that were temporarily restricted for a particular purpose and \$410,137 of contributions that were temporarily restricted by time.

At June 30, 2013, there were net assets of \$77,193 that were temporarily restricted for a particular purpose and \$441,927 of contributions that were temporarily restricted by time.

Permanently Restricted Net Assets:

Permanently restricted net assets consist of funds invested into perpetuity for support of the Symphony's programs and activities.

NOTE 8: RETIREMENT PLAN

For musicians employed under the American Federation of Musicians Local 308 agreement, the Symphony contributes 16.35% of their salary to the American Federation of Musicians and Employers Pension Fund. The Symphony has a 403(b) retirement plan for all other employees who qualify, which is maintained by an outside broker. Employees may contribute a percentage of their salaries to the plan up to the maximum allowable under the Internal Revenue Code. The Symphony matches up to 3% of participating employee's salary. At June 30, 2014 and 2013, the Symphony contributed \$91,028 and \$100,397, respectively, to both plans.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9: LINE OF CREDIT

The Symphony has an unsecured line of credit with Montecito Bank and Trust for \$250,000. At June 30, 2014, the interest rate was 5.25% and there was no balance outstanding. The line of credit expires September 5, 2015.

NOTE 10: CONCENTRATION OF RISK

The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit with any one bank. The Organization occasionally has more than \$250,000 on deposit with financial institutions. At June 30, 2014, the Organization had no uninsured funds.

Certain of the Symphony's investments and cash and cash equivalents are held at a broker-dealer and are subject to the Securities Investor Protection Corporation (SIPC). Under SIPC, cash is insured up to \$250,000 per broker-dealer; the remaining cash equivalents and investments are insured up to \$500,000 as per the terms of SIPC.

NOTE 11: DONOR AND BOARD DESIGNATED ENDOWMENTS

The Endowment Trust is a separate 501(c)(3) and was established to support the ongoing operations of the Symphony. The endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Symphony has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, the Symphony classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11: DONOR AND BOARD DESIGNATED ENDOWMENTS (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Symphony in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Symphony considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Symphony's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Symphony has adopted investment and spending policies for the endowment assets and these policies have been approved by the Board of Directors. The objective of the investment policy is to provide adequate returns to meet the spending needs of the Symphony while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return which exceeds the annual distribution with acceptable levels of risk. Actual returns in any given year may vary from this amount. 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. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, commodities and hedge funds.

Spending Policy

The Symphony has established a spending policy that includes the annual distributions, as well as the cost of managing the funds. The Symphony has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value at year end for each of the prior three years preceding the year in which the distribution is planned. In establishing this policy, the Symphony considered the funding needs of the Symphony as well as the goal of protecting the purchasing power of endowment assets over the long-term.

The Symphony expects the current spending policy to allow its endowment funds to grow at a rate that is at least at the rate of inflation. This is consistent with the Symphony's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 11: DONOR AND BOARD DESIGNATED ENDOWMENTS (Continued)

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that current law requires the Organization to retain for a fund of perpetual duration. These deficiencies are reported in the combined financial statements as a reduction in unrestricted net assets. As of June 30, 2014, the endowment fund deficiencies totaled \$48,385. The board is aware of this deficit and believes it has arisen from unfavorable market conditions. The board expects the condition to be temporary, with restoration occurring through market recovery.

Endowment Trust endowments as of June 30, 2014, are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Trust</u>
Endowment Trust Net				
Assets June 30, 2013	\$ 496,575	\$ 480,361	\$ 3,663,793	\$ 4,640,729
Contributions	-	-	320,206	320,206
Investment income	10,925	111,376	-	122,301
Appreciation (realized and unrealized)	64,356	656,052	-	720,408
Investment fees	(2,585)	(26,348)	-	(28,933)
Amounts appropriated for expenditure	<u>-</u>	<u>(215,966)</u>	<u>-</u>	<u>(215,966)</u>
Total Funds	<u>\$ 569,271</u>	<u>\$ 1,005,475</u>	<u>\$ 3,983,999</u>	<u>\$ 5,558,745</u>

Endowment Trust endowments as of June 30, 2013, are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Trust</u>
Endowment Trust Net				
Assets June 30, 2012	\$ 443,720	\$ 177,323	\$ 3,392,400	\$ 4,013,443
Contributions	-	-	271,393	271,393
Investment income	9,079	85,871	-	94,950
Appreciation (realized and unrealized)	45,916	434,304	-	480,220
Investment fees	(2,140)	(20,243)	-	(22,383)
Amounts appropriated for expenditure	<u>-</u>	<u>(196,894)</u>	<u>-</u>	<u>(196,894)</u>
Total Funds	<u>\$ 496,575</u>	<u>\$ 480,361</u>	<u>\$ 3,663,793</u>	<u>\$ 4,640,729</u>

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12: FAIR VALUE MEASUREMENT

The Symphony has adopted a framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Symphony to sell an asset or be paid by the Symphony to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The standard describes three levels of inputs that may be used to measure fair value as follows:

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 active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including general partner estimates and recent third-party appraisals.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statements of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Fair market valuation of Level 3 assets is based on other market factors to determine if the carrying value of these investments should be adjusted.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12: FAIR VALUE MEASUREMENT (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis at June 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2014</u>			
Money market	\$ 132,684	\$ -	\$ -
Fixed income	122,129	-	-
Mutual funds			
Bond funds	660,410	-	-
Equity funds	2,791,492	-	-
Marketable securities	843,791	-	-
Hedge fund	-	891,507	-
Charitable Remainder Trust	-	-	654,138
Totals	<u>\$ 4,550,506</u>	<u>\$ 891,507</u>	<u>\$ 654,138</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2013</u>			
Money market	\$ 13,477	\$ -	\$ -
Fixed income	171,957	-	-
Mutual funds			
Bond funds	852,894	-	-
Equity funds	2,235,906	-	-
Marketable securities	688,201	-	-
Hedge fund	-	803,928	-
Charitable Remainder Trust	-	-	572,494
Totals	<u>\$ 3,962,435</u>	<u>\$ 803,928</u>	<u>\$ 572,494</u>

The following is a reconciliation of the Symphony's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Charitable remainder trust at beginning of the year	\$ 572,494	\$ 545,387
Change in value of charitable remainder trust	<u>81,644</u>	<u>27,107</u>
Charitable remainder trust at end of year	<u>\$ 654,138</u>	<u>\$ 572,494</u>

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 12: FAIR VALUE MEASUREMENT (Continued)

There were no transfers between Level I, Level II, and Level III of the fair value hierarchy during the years ended June 30, 2014 and 2013.

The following is a description of the general classification of such instruments pursuant to the valuation hierarchy:

Money Market – Funds held in highly liquid money market accounts with daily pricing where net asset value equals \$1.

Equity funds – Investment in domestic and international equities of varying market capitalizations. Equities are held as separate ownership shares of a specific company or in the form of mutual funds. All assets have daily pricing.

Fixed Income – Investment in domestic and international fixed income positions held in the investment portfolio through either individual bond holdings (treasuries, corporate, government, mortgage, etc.) or through fixed income mutual funds. All assets have daily pricing.

Charitable Remainder Trust – The present value of the estimated future value to be received by the Symphony is calculated using the IRS annuity tables and a discount rate of 4%, based on the Symphony's historic risk free rate of return.

Hedge Funds – Investments in hedge funds are based upon net asset values as determined by the fund managers.

NOTE 13: SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 29, 2015, which is the date the financial statements were available to be issued pending final approval by the Board of Directors. Management has determined no subsequent events requiring disclosure have occurred.

Supplemental Schedules

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION BY DIVISION
JUNE 30, 2014
WITH SUMMARIZED COMPARATIVE TOTALS FOR JUNE 30, 2013

	<u>ASSETS</u>					
	Symphony Orchestra Association	Endowment Trust	Symphony League	Education	2014	2013
Current Assets:						
Cash and cash equivalents	\$ 476,559	\$ 323,160	\$ -	\$ -	\$ 799,719	\$ 624,552
Accounts receivable	26,979	22,130	-	-	49,109	49,450
Pledges receivable	349,261	-	-	25,000	374,261	329,927
Prepaid expenses and other current assets	4,636	-	-	-	4,636	14,488
Grant receivable	-	-	-	-	-	102,000
Total Current Assets	857,435	345,290	-	25,000	1,227,725	1,120,417
Other Assets:						
Investments	254,813	5,187,200	-	-	5,442,013	4,766,363
Pledge receivable - non-current portion	-	-	-	10,000	10,000	20,000
Interest in charitable remainder trust	-	654,138	-	-	654,138	572,494
Property and Equipment:						
Automobiles	23,875	-	-	-	23,875	23,875
Office equipment and furniture	108,266	-	-	-	108,266	108,266
Less: Accumulated depreciation	(130,668)	-	-	-	(130,668)	(126,540)
Net property and equipment	1,473	-	-	-	1,473	5,601
Total Other Assets	256,286	5,841,338	-	10,000	6,107,624	5,364,458
Total Assets	<u>\$ 1,113,721</u>	<u>\$ 6,186,628</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 7,335,349</u>	<u>\$ 6,484,875</u>
<u>LIABILITIES AND NET ASSETS</u>						
Current Liabilities:						
Accounts payable and accrued expenses	\$ 23,217	\$ -	\$ -	\$ -	\$ 23,217	\$ 38,450
Accrued payroll and related expenses	62,836	-	-	-	62,836	33,273
Deferred Income	430,331	-	-	-	430,331	416,493
Total Current Liabilities	516,384	-	-	-	516,384	488,216
Net Assets:						
Unrestricted	(753)	185,670	-	35,000	219,917	(121,569)
Temporarily restricted	598,090	-	-	-	598,090	519,120
Permanently restricted	-	6,000,958	-	-	6,000,958	5,599,108
Total Net Assets	597,337	6,186,628	-	35,000	6,818,965	5,996,659
Total Liabilities and Net Assets	<u>\$ 1,113,721</u>	<u>\$ 6,186,628</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 7,335,349</u>	<u>\$ 6,484,875</u>

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY DIVISION
FOR THE YEAR ENDED JUNE 30, 2014
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Symphony Orchestra Association	Endowment Trust	Symphony League	Youth Symphony	2014	2013
Revenue, Gains and Other Support:						
Concert income	\$ 752,456	\$ -	\$ -	\$ 80	\$ 752,536	\$ 806,187
Contributions	1,054,932	320,206	-	257,484	1,632,622	1,544,855
Bequests	242,878	-	-	-	242,878	159,170
Investment income	8,424	122,301	-	-	130,725	105,995
Realized (loss)/gain on sales of investment	(2,224)	238,025	-	-	235,801	93,447
Unrealized gain on investments	(326)	482,385	-	-	482,059	386,773
Special events (net of expenses of \$0 and \$33,670 respectively)	-	-	-	-	-	52,681
Other income	1,684	-	-	18,766	20,450	53,170
Change in value of interest in charitable remainder trust	-	81,644	-	-	81,644	27,107
Operational draw	200,060	(215,966)	-	15,906	-	-
Total Revenue, Gains and Other Support	2,257,884	1,028,595	-	292,236	3,578,715	3,229,385
Operating Expenses:						
Salaries	1,190,326	-	-	187,740	1,378,066	1,374,546
Payroll taxes and benefits	294,436	-	-	20,789	315,225	324,360
Total employee expenses	1,484,762	-	-	208,529	1,693,291	1,698,906
Accounting	53,620	-	-	-	53,620	13,600
Advertising	120,715	-	-	3,100	123,815	181,105
Concert expenses	146,132	-	-	36,204	182,336	166,591
Conferences, meetings, and training	25,092	-	-	220	25,312	31,559
Contract services	230,563	-	-	16,792	247,355	305,998
Depreciation	4,128	-	-	-	4,128	4,548
Development	39,615	-	-	7,415	47,030	52,718
Dues and subscriptions	9,331	-	-	-	9,331	7,439
Equipment rental and maintenance	33,488	-	-	8,474	41,962	48,387
Fees	24,232	-	-	246	24,478	29,402
Insurance	14,231	-	-	1,506	15,737	14,820
Investment fees	-	28,935	-	-	28,935	22,383
Office expense	9,871	-	-	-	9,871	13,061
Outreach	-	-	-	-	-	7,896
Printing, postage, and copy	25,153	-	-	894	26,047	21,342
Receptions	20,916	-	-	-	20,916	28,211
Rent	80,840	-	-	-	80,840	73,260
Staging and box office	66,353	-	-	3,639	69,992	79,775
Supplies	33,911	-	-	-	33,911	18,185
Telephone	16,608	-	-	-	16,608	16,895
Travel	677	-	-	217	894	4,284
Total Operating Expenses	2,440,238	28,935	-	287,236	2,756,409	2,840,365
Change in Net Assets	(182,354)	999,660	-	5,000	822,306	389,020
Transfer	8,160	-	(8,160)	-	-	-
Net Assets at Beginning of Year	771,531	5,186,968	8,160	30,000	5,996,659	5,607,639
Net Assets at End of Year	\$ 597,337	\$ 6,186,628	\$ -	\$ 35,000	\$ 6,818,965	\$ 5,996,659

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES OF THE
SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
FOR THE YEAR ENDED JUNE 30, 2014
WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Management and General	Fundraising	2014 Expenses	2013 Expenses
Salaries	\$ 1,051,959	\$ 75,399	\$ 250,708	\$ 1,378,066	\$ 1,374,546
Payroll taxes and benefits	252,712	23,674	38,839	315,225	324,360
Total Salaries and Related Expenses	1,304,671	99,073	289,547	1,693,291	1,698,906
Accounting	-	53,620	-	53,620	13,600
Advertising	95,846	-	27,969	123,815	181,105
Concert expenses	182,336	-	-	182,336	166,591
Conferences, meetings, and training	332	23,847	1,133	25,312	31,559
Contract services	219,612	20,862	17,531	258,005	305,998
Development	-	-	36,725	36,725	52,718
Dues and subscriptions	730	8,345	256	9,331	7,439
Equipment rental and maintenance	35,306	6,656	-	41,962	48,387
Fees	21,585	2,893	-	24,478	29,402
Insurance	1,506	14,231	-	15,737	14,820
Legal	-	-	-	-	-
Office Expense	-	9,526	-	9,526	13,061
Outreach	-	-	-	-	7,896
Printing, postage, and copy	14,817	900	10,330	26,047	21,342
Receptions	20,916	-	-	20,916	28,211
Rent	20,210	60,630	-	80,840	73,260
Staging and box office	69,992	-	-	69,992	79,775
Supplies	6,156	14,450	13,305	33,911	18,185
Telephone	-	16,608	-	16,608	16,895
Travel	502	392	-	894	4,284
Total Expenses Before Depreciation	1,994,517	332,033	396,796	2,723,346	2,813,434
Depreciation expense	-	4,128	-	4,128	4,548
Total Expenses - June 30, 2014	<u>\$ 1,994,517</u>	<u>\$ 336,161</u>	<u>\$ 396,796</u>	<u>\$ 2,727,474</u>	
Total Expenses - June 30, 2013	<u>\$ 2,075,728</u>	<u>\$ 380,006</u>	<u>\$ 362,248</u>		<u>\$ 2,817,982</u>

See accompanying notes