

santa barbara  
**symphony**



**Nir Kabaretti**, MUSIC AND ARTISTIC DIRECTOR  
**Gisèle Ben-Dor**, CONDUCTOR LAUREATE

**Santa Barbara Symphony Orchestra Association  
and  
Santa Barbara Symphony Orchestra Endowment Trust**

**Combined Financial Statements  
and Supplemental Information**

**June 30, 2016**

**Santa Barbara Symphony Orchestra Association**  
**and**  
**Santa Barbara Symphony Orchestra Endowment Trust**  
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## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
Santa Barbara Symphony Orchestra Association

Board of Trustees  
Santa Barbara Symphony Orchestra Endowment Trust

RICHARD L. HUNT  
*Consultant*

We have audited the accompanying combined financial statements of the Santa Barbara Symphony Orchestra Association and the Santa Barbara Symphony Orchestra Endowment Trust (both California nonprofit organizations) (hereinafter collectively referred to as "the Symphony") which comprise the statements of financial position as of June 30, 2016 and 2015, the related statement of activities for the year ended June 30, 2016, the statements of cash flows for the years ended June 30, 2016 and 2015, and the related notes to the financial statements.

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### ***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 (U.S. 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.

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### ***Auditors' 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 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 entities 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 entities 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.

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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Symphony as of June 30, 2016 and 2015, 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 21 - 23 are presented for the 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 of 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 the Symphony's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*MacFarlane Faletti & Co. LLP*

Santa Barbara, California  
November 9, 2016

**The Symphony**  
**Combined Statements of Financial Position**  
**June 30, 2016 and 2015**

<b>Assets</b>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and Cash Equivalents	\$ 584,916	\$ 936,351
Accounts Receivable	43,764	23,183
Pledges Receivable - Current, Net (Note 2)	153,383	284,741
Bequests Receivable (Note 2)	210,000	500,000
Prepaid Expenses and Other Current Assets	<u>61,880</u>	<u>31,419</u>
Total Current Assets	<u>1,053,943</u>	<u>1,775,694</u>
Unemployment Reserve Account	31,085	35,045
Property and Equipment, Net (Note 5)	80,903	48,683
Investments (Note 3)	5,811,979	5,459,987
Interest in Charitable Remainder Trust (Note 4)	<u>608,143</u>	<u>640,706</u>
Total Assets	<u><u>\$ 7,586,053</u></u>	<u><u>\$ 7,960,115</u></u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 32,498	\$ 61,351
Accrued Payroll and Related Expenses	97,621	84,964
Deferred Income	<u>384,994</u>	<u>393,684</u>
Total Current Liabilities	<u>515,113</u>	<u>539,999</u>
Net Assets:		
Unrestricted		
Undesignated (Note 14)	1,062,163	297,502
Board Designated (Note 7 and 14)	541,168	566,335
Total Unrestricted	<u>1,603,331</u>	<u>863,837</u>
Temporarily Restricted (Note 7 and 14)	773,249	1,901,356
Permanently Restricted (Note 7)	<u>4,694,360</u>	<u>4,654,923</u>
Total Net Assets	<u>7,070,940</u>	<u>7,420,116</u>
Total Liabilities and Net Assets	<u><u>\$ 7,586,053</u></u>	<u><u>\$ 7,960,115</u></u>

See accompanying notes

**The Symphony**  
**Combined Statement of Activities**  
**For The Year Ended June 30, 2016**  
**With Summarized Comparative Totals for the Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
<i>Operating Revenue</i>					
Revenue, Gains and Other Support					
Gross Revenue from Fundraising Events	\$ 39,543	\$ -	\$ -	\$ 39,543	\$ 48,188
Less Costs of Direct Benefit to Donors	(12,942)	-	-	(12,942)	(27,336)
Net Revenue from Fundraising Events	26,601	-	-	26,601	20,852
Concert Income	807,584	-	-	807,584	758,895
Contributions and Grants	545,096	644,453	-	1,189,549	1,682,419
Other Income	28,819	-	-	28,819	19,536
Total Revenue, Gains and Other Support	1,408,100	644,453	-	2,052,553	2,481,702
Net Assets Released from Restriction	1,591,789	(1,591,789)	-	-	-
<i>Operating Expenses</i>					
Program Expenses					
Concert and Event Expenses	1,808,304	-	-	1,808,304	1,809,437
Music Education Center	324,415	-	-	324,415	259,909
Total Operating Program Expenses	2,132,719	-	-	2,132,719	2,069,346
Supporting Services					
Management and General	473,952	-	-	473,952	399,506
Fundraising	260,206	-	-	260,206	362,118
Total Supporting Services	734,158	-	-	734,158	761,624
Total Operating Expenses	2,866,877	-	-	2,866,877	2,830,970
Change in Net Assets from Operating Activities	133,012	(947,336)	-	(814,324)	(349,268)
<i>Non-Operating Revenue and Expenses</i>					
Revenue					
Bequests	682,251	160,000	50,000	892,251	699,130
Permanently Restricted Contributions	-	-	22,000	22,000	30,218
Investment Income	25,877	131,187	-	157,064	156,994
Realized (Loss)/Gain on Sales of Investments	(11,099)	(69,091)	-	(80,190)	137,012
Unrealized Loss on Investments	(34,899)	(402,867)	-	(437,766)	(23,572)
Change in Value of Interest in Charitable Remainder Trust	-	-	(32,563)	(32,563)	(13,432)
Total Non-Operating Revenue	662,130	(180,771)	39,437	520,796	986,350
Expenses					
Depreciation Expense	19,069	-	-	19,069	1,691
Investment Advisory and Accounting Fees	36,579	-	-	36,579	34,240
Total Non-Operating Expenses	55,648	-	-	55,648	35,931
Change in Net Assets from Non-Operating Activities	606,482	(180,771)	39,437	465,148	950,419
Net Assets at Beginning of Year, As Previously Reported	1,839,284	925,909	4,654,923	7,420,116	6,818,965
Restatement (Note 14)	(975,447)	975,447	-	-	-
Net Assets at Beginning of Year, As Restated	863,837	1,901,356	4,654,923	7,420,116	6,818,965
Total Change in Net Assets	739,494	(1,128,107)	39,437	(349,176)	601,151
Net Assets at End of Year	<u>\$ 1,603,331</u>	<u>\$ 773,249</u>	<u>\$ 4,694,360</u>	<u>\$ 7,070,940</u>	<u>\$ 7,420,116</u>

See accompanying notes

**The Symphony**  
**Combined Statements of Cash Flows**  
**For The Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (349,176)	\$ 601,151
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	19,069	1,691
Unrealized Loss on Investments	437,766	23,572
Realized Loss/(Gain) on Investments	80,190	(137,012)
Change in Allowance for Doubtful Accounts	(6,500)	16,500
Change in Value of Charitable Remainder Trust	32,563	13,432
Contributions to Endowment	(22,000)	(30,218)
Changes in		
Accounts Receivable	(20,581)	25,926
Pledges Receivable	137,858	83,020
Bequest Receivable	290,000	(495,364)
Prepaid Expenses and Other Current Assets	(30,461)	(31,419)
Unemployment Reserve Account	3,960	(35,045)
Accounts Payable and Accrued Expenses	(28,853)	38,134
Accrued Payroll and Related Expenses	12,657	22,128
Deferred Income	(8,690)	(36,647)
Net Cash Provided by Operating Activities	<u>547,802</u>	<u>59,849</u>
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(51,289)	(48,901)
Purchase of Investments	(1,938,035)	(1,118,565)
Proceeds from Sale of Investments	1,068,087	1,214,031
Net Cash (Used)/Provided by Investing Activities	<u>(921,237)</u>	<u>46,565</u>
Cash Flows from Financing Activities		
Contributions to Enhance Endowment	22,000	30,218
Net Cash Provided by Financing Activities	<u>22,000</u>	<u>30,218</u>
Net (Decrease)/Increase in Cash	(351,435)	136,632
Cash and Cash Equivalents, Beginning of Year	<u>936,351</u>	<u>799,719</u>
Cash and Cash Equivalents, End of Year	<u>\$ 584,916</u>	<u>\$ 936,351</u>

See accompanying notes

**The Symphony**  
**Notes to Combined Financial Statements**

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NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

The accompanying financial statements comprise the Santa Barbara Symphony Orchestra Association, originally incorporated in 1954 as the Santa Barbara Orchestral Society, and the Santa Barbara Symphony Orchestra Endowment Trust, created in 1975, both California nonprofit organizations (hereinafter collectively referred to as “the Symphony”). The purpose of the former 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; and of the latter, is to support the former in achieving its goals.

**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 Orchestra Endowment Trust (Endowment Trust) has elected to be presented as a supporting organization of the Santa Barbara Symphony Orchestra Association (Symphony Orchestra Association). 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.

**Non-Operating Revenue and Expenses**

The Symphony considers revenue and expenses associated with investments, endowments, planned gifts, bequests, and depreciation as non-operating revenue and expenses.



**The Symphony**  
**Notes to Combined Financial Statements**

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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, pledges receivable, and bequest receivable.

**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.

**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.

**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, and not earned 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.

**The Symphony**  
**Notes to Combined Financial Statements**

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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 such 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. This net asset class includes net assets which the Board of Directors has designated for certain purposes.

**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, 2016, or for any period for which the normal statute of limitations remains open.

**The Symphony**  
**Notes to Combined Financial Statements**

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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, 2015, balances, as reported in the prior year financial statements, to make them comparable to the balances reported for the year ended June 30, 2016.

NOTE 2: **PLEDGES AND BEQUESTS RECEIVABLES**

Pledges and bequests receivables are recorded at net realizable value. Management reviews the collectability of receivables based on collection history of accounts receivable and current financial condition and ability to pay, and records an allowance for amounts estimated to be uncollectible. If management determines that additional amounts are uncollectible, the expense will be charged to operations. The allowance for uncollectible pledges was \$10,000 and \$16,500 for the years ended June 30, 2016 and 2015 respectively.

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 of Directors 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, 2016, the Symphony Orchestra Association purchased investments outside of the Endowment Trust. These investments, valued at \$919,733 and \$7,913 for the years ended June 30, 2016 and 2015, respectively, are included in the investments below.

**The Symphony**  
**Notes to Combined Financial Statements**

NOTE 3: **INVESTMENTS** (Continued)

Total investments consist of the following:

	<u>June 30, 2016</u>		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Money market	\$ 213,216	\$ 213,216	\$ -
Mutual funds			
Bond funds	729,151	705,697	(23,454)
Equity funds	2,222,429	2,553,275	330,846
Marketable securities	660,571	756,734	96,163
Fixed income	712,119	706,517	(5,602)
Hedge fund	<u>820,000</u>	<u>876,540</u>	<u>56,540</u>
Totals	<u>\$ 5,357,486</u>	<u>\$ 5,811,979</u>	<u>\$ 454,493</u>
Change in Unrealized Gain			<u>\$ (437,766)</u>
	<u>June 30, 2015</u>		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Money market	\$ 7,913	\$ 7,913	\$ -
Mutual funds			
Bond funds	699,533	675,391	(24,142)
Equity funds	2,340,913	2,930,056	589,143
Marketable securities	699,369	895,205	195,836
Hedge fund	<u>820,000</u>	<u>951,422</u>	<u>131,422</u>
Totals	<u>\$ 4,567,728</u>	<u>\$ 5,459,987</u>	<u>\$ 892,259</u>
Change in Unrealized Gain			<u>\$ (23,572)</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.

**The Symphony**  
**Notes to Combined Financial Statements**

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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.

NOTE 5: **PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Office furniture and equipment	\$ 28,452	\$ 30,879
Software license	58,398	13,248
Instruments	50,488	76,441
Vehicles	38,114	23,875
In process	<u>-</u>	<u>31,975</u>
Total	175,452	176,418
Less: Accumulated depreciation	<u>(94,549)</u>	<u>(127,735)</u>
Property and Equipment, Net	<u>\$ 80,903</u>	<u>\$ 48,683</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$19,069 and \$1,691, 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. During the year ended June 30, 2014, the Symphony extended the agreement for an additional three years, which expired June 30, 2016. Subsequent to year end the Symphony renegotiated the agreement.

**The Symphony**  
**Notes to Combined Financial Statements**

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NOTE 6: **COMMITMENTS** (Continued)

The Symphony entered into a lease agreement to rent office space effective July 1, 2009, which expires June 30, 2019 with monthly rent of \$6,468. Total rent expense for the years ended June 30, 2016 and 2015, was \$83,789 and \$77,249, respectively.

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

<u>Year ended June 30,</u>	<u>Amount</u>
2017	\$ 77,616
2018	77,616
2019	<u>77,616</u>
	<u>\$ 232,848</u>

NOTE 7: **BOARD DESIGNATED AND DONOR RESTRICTED NET ASSETS**

**Board Designated:**

As of June 30, 2016 and 2015, board designated net assets totaled \$541,168 and \$1,541,782, as restated (see Note 14), respectively.

**Temporarily Restricted Net Assets:**

Temporarily restricted net assets consist of the following amounts at June 30:

	<u>2016</u>	<u>2015</u>
Concert sponsorships	\$ 238,500	\$ 306,280
Pre-concert talks	10,822	28,119
Maestro housing	10,700	25,250
Youth symphony	-	10,000
General education	4,530	-
Music van	3,622	3,732
Technology	-	2,666
Other	331	36
Unappropriated endowment earnings	341,069	975,447
Future periods	<u>163,675</u>	<u>549,826</u>
Total Temporarily Restricted Net Assets	<u>\$ 773,249</u>	<u>\$ 1,901,356</u>

**Permanently Restricted Net Assets:**

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

**The Symphony**  
**Notes to Combined Financial Statements**

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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 a 3% of participating employee's salary. At June 30, 2016 and 2015, the Symphony contributed \$106,678 and \$98,128, respectively, to both plans.

NOTE 9: **LINE OF CREDIT**

The Symphony had an unsecured line of credit with Montecito Bank and Trust for \$250,000, which was renewed on September 5, 2015. At June 30, 2016, the interest rate was 5.25% and there was no balance outstanding. Subsequent to year end on October 18, 2016, the Symphony replaced the line of credit, which expired September 5, 2016, with a secured line of credit for \$250,000 with an interest rate of 3.5% and a 36 month term.

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 Symphony occasionally has more than \$250,000 on deposit with financial institutions. At June 30, 2016, the Symphony had \$164,700 of 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 RESTRICTED 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 Symphony

### Notes to Combined Financial Statements

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NOTE 11: DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS (Continued)

The Boards of the Symphony have 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.

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 Symphony, 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 Boards. 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**  
**Notes to Combined Financial Statements**

NOTE 11: **DONOR RESTRICTED AND BOARD DESIGNATED ENDOWMENTS** (Continued)

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.

From time to time, the fair value of assets associated with donor-restricted funds may fall below the level that current law requires the Symphony to retain for a fund of perpetual duration. These deficiencies would be reported in the combined financial statements as a reduction in unrestricted net assets. As of June 30, 2016, the Symphony had no fund deficiencies.

As disclosed in the supplemental schedules, Endowment Trust net assets as of June 30, 2016, 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, 2015	\$ 592,590	\$ 975,447	\$ 4,014,217	\$ 5,582,254
Contributions	-	-	72,000	72,000
Investment income	18,090	131,187	-	149,277
Depreciation (realized and unrealized)	(65,079)	(471,958)	-	(537,037)
Professional fees	(4,433)	(32,146)	-	(36,579)
Transfer in	-	-	608,143	608,143
Amounts appropriated for expenditure	<u>-</u>	<u>(261,461)</u>	<u>-</u>	<u>(261,461)</u>
Total Funds	<u>\$ 541,168</u>	<u>\$ 341,069</u>	<u>\$ 4,694,360</u>	<u>\$ 5,576,597</u>

As disclosed in the supplemental schedules, Endowment Trust net assets as of June 30, 2015, 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, 2014	\$ 569,271	\$ 1,005,475	\$ 3,983,999	\$ 5,558,745
Contributions	-	-	30,218	30,218
Investment income	15,547	136,903	-	152,450
Appreciation (realized and unrealized)	11,264	99,190	-	110,454
Professional fees	(3,492)	(30,748)	-	(34,240)
Amounts appropriated for expenditure	<u>-</u>	<u>(235,373)</u>	<u>-</u>	<u>(235,373)</u>
Total Funds	<u>\$ 592,590</u>	<u>\$ 975,447</u>	<u>\$ 4,014,217</u>	<u>\$ 5,582,254</u>

**The Symphony**  
**Notes to Combined Financial Statements**

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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.

In accordance with ASU No. 2009-12, Investment in Certain Entities that Calculate Net Asset Value Per Share, the NAV per share or its equivalent is used to fair value investments that follow the American Institute of Certified Public Accountants Guide in arriving at their reported NAV.

**The Symphony**  
**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>2016</u>			
Money market	\$ 239,424	\$ -	\$ -
Mutual funds			
Bond funds	705,697	-	-
Equity funds	2,553,275	-	-
Marketable securities	756,734	-	-
Fixed income	695,856	-	-
Hedge fund	-	876,419	-
Charitable Remainder Trust	-	608,143	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Totals	<u>\$ 4,950,986</u>	<u>\$ 1,484,562</u>	<u>\$ -</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2015</u>			
Money market	\$ 85,490	\$ -	\$ -
Mutual funds			
Bond funds	675,391	-	-
Equity funds	2,930,058	-	-
Marketable securities	843,791	-	-
Hedge fund	-	731,097	220,325
Charitable Remainder Trust	-	-	640,706
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Totals	<u>\$ 4,534,730</u>	<u>\$ 731,097</u>	<u>\$ 861,031</u>

There was a transfer from Level III to Level II for the investment in a hedge fund and the charitable remainder trust for the year ended June 30, 2016. There was a transfer from Level II to Level III for the investment in a hedge fund for the year ended June 30, 2015.

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>2016</u>	<u>2015</u>
Beginning of year	\$ 861,031	\$ 654,138
Change in value of charitable remainder trust	(32,563)	(13,432)
Transfer to Level II from Level III	828,468	-
Transfer to Level III from Level II	<u>                    </u>	<u>                    </u>
	-	220,325
End of year	<u>\$ -</u>	<u>\$ 861,031</u>

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.

**The Symphony**  
**Notes to Combined Financial Statements**

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NOTE 12: **FAIR VALUE MEASUREMENT** (Continued)

**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 Fund** – Investments in the hedge fund are valued based on the Net Asset Value (NAV) per the most recent audited financial statements and interim information provided by the fund manager.

NOTE 13: **RELATED PARTY**

A Board member is an employee of the company the Symphony uses to manage a portion of investments.

A Board member is a senior vice president at a financial institution where the Symphony maintains an account.

NOTE 14: **PRIOR PERIOD ADJUSTMENT**

During the year ended June 30, 2016, the Board of Trustees retroactively undesignated \$412,140 of Endowment Trust board designated funds for the year ended June 30, 2015. Endowment temporarily restricted net assets were also restated by \$975,447 for unappropriated endowment earnings, which were previously reported as board designated net assets. As a result, the Endowment Trust restated its unrestricted and temporary restricted net assets as of the beginning of June 30, 2016:

	<u>Undesignated Net Assets</u>	<u>Board Designated Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total Change in Net Assets</u>
Net Assets as originally presented	\$ (412,140)	\$ 1,953,922	\$ -	\$ 1,541,782
Unappropriated earnings	-	(975,447)	975,447	-
Undesignated	<u>412,140</u>	<u>(412,140)</u>	<u>-</u>	<u>-</u>
Net Assets, Restated	<u>\$ -</u>	<u>\$ 566,335</u>	<u>\$ 975,447</u>	<u>\$ 1,541,782</u>

**The Symphony**  
**Notes to Combined Financial Statements**

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NOTE 15: **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through November 9, 2016, which is the date the financial statements were available to be issued.

## Supplemental Schedules

**The Symphony**  
**Supplemental Schedule of Financial Position by Entity**  
**June 30, 2016**  
**With Summarized Comparative Totals for June 30, 2015**

	<b>Assets</b>			
	Symphony Orchestra Association	Endowment Trust	2016	2015
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 558,708	\$ 26,208	\$ 584,916	\$ 936,351
Accounts Receivable	43,764	-	43,764	23,183
Pledges Receivable, Current Net	153,383	-	153,383	284,741
Bequests Receivable	160,000	50,000	210,000	500,000
Prepaid Expenses and Other Current Assets	61,880	-	61,880	31,419
<b>Total Current Assets</b>	<b>977,735</b>	<b>76,208</b>	<b>1,053,943</b>	<b>1,775,694</b>
Unemployment Reserve Account	31,085	-	31,085	35,045
<b>Property and Equipment:</b>				
Automobiles	38,114	-	38,114	23,875
Office Equipment and Furniture	137,338	-	137,338	120,568
In Progress	-	-	-	31,975
Less: Accumulated Depreciation	(94,549)	-	(94,549)	(127,735)
<b>Net Property and Equipment</b>	<b>80,903</b>	<b>-</b>	<b>80,903</b>	<b>48,683</b>
Investments	919,733	4,892,246	5,811,979	5,459,987
Interest in Charitable Remainder Trust	-	608,143	608,143	640,706
<b>Total Assets</b>	<b>\$ 2,009,456</b>	<b>\$ 5,576,597</b>	<b>\$ 7,586,053</b>	<b>\$ 7,960,115</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Expenses	\$ 32,498	\$ -	\$ 32,498	\$ 61,351
Accrued Payroll and Related Expenses	97,621	-	97,621	84,964
Deferred Income	384,994	-	384,994	393,684
<b>Total Current Liabilities</b>	<b>515,113</b>	<b>-</b>	<b>515,113</b>	<b>539,999</b>
<b>Net Assets:</b>				
<b>Unrestricted</b>				
Undesignated	1,062,163	-	1,062,163	297,502
Board Designated	-	541,168	541,168	566,335
<b>Total Unrestricted</b>	<b>1,062,163</b>	<b>541,168</b>	<b>1,603,331</b>	<b>863,837</b>
Temporarily Restricted	432,180	341,069	773,249	1,901,356
Permanently Restricted	-	4,694,360	4,694,360	4,654,923
<b>Total Net Assets</b>	<b>1,494,343</b>	<b>5,576,597</b>	<b>7,070,940</b>	<b>7,420,116</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,009,456</b>	<b>\$ 5,576,597</b>	<b>\$ 7,586,053</b>	<b>\$ 7,960,115</b>

See accompanying notes

**The Symphony**  
**Supplemental Schedule of Activities by Entity**  
**For The Year Ended June 30, 2016**  
**With Summarized Comparative Totals for the Year Ended June 30, 2015**

	Symphony Orchestra Association	Endowment Trust	2016	2015
<i>Operating Revenue</i>				
Revenue, Gains and Other Support				
Gross Revenue from Fundraising Events	\$ 39,543	\$ -	\$ 39,543	\$ 48,188
Less Costs of Direct Benefit to Donors	(12,942)	-	(12,942)	(27,336)
Net Revenue from Fundraising Events	26,601	-	26,601	20,852
Concert Income	807,584	-	807,584	758,895
Contributions and Grants	1,189,549	-	1,189,549	1,682,419
Other Income	28,819	-	28,819	19,536
Operational Draw	261,461	(261,461)	-	-
Total Revenue, Gains and Other Support	2,314,014	(261,461)	2,052,553	2,481,702
<i>Operating Expenses</i>				
Program Expenses				
Concert and Event Expenses	1,808,304	-	1,808,304	1,809,437
Music Education Center	324,415	-	324,415	259,909
Total Operating Program Expenses	2,132,719	-	2,132,719	2,069,346
Supporting Services				
Management and General	473,952	-	473,952	399,506
Fundraising	260,206	-	260,206	362,118
Total Supporting Services	734,158	-	734,158	761,624
Total Operating Expenses	2,866,877	-	2,866,877	2,830,970
Change in Net Assets from Operating Activities	(552,863)	(261,461)	(814,324)	(349,268)
<i>Non-Operating Revenue and Expenses</i>				
Revenue				
Bequests	842,251	50,000	892,251	699,130
Permanently Restricted Contributions	-	22,000	22,000	30,218
Investment Income	7,787	149,277	157,064	156,994
Realized (Loss)/ Gain on Sales of Investments	(1,572)	(78,618)	(80,190)	137,012
Unrealized Loss on Investments	(5,602)	(432,164)	(437,766)	(23,572)
Change in Value of Interest in Charitable Remainder Trust	-	(32,563)	(32,563)	(13,432)
Total Non-Operating Revenue	842,864	(322,068)	520,796	986,350
Expenses				
Depreciation Expense	19,069	-	19,069	1,691
Investment Advisory and Accounting Fees	-	36,579	36,579	34,240
Total Non-Operating Expenses	19,069	36,579	55,648	35,931
Change in Net Assets from Non-Operating Activities	823,795	(358,647)	465,148	950,419
Total Change in Net Assets	270,932	(620,108)	(349,176)	601,151
Net Assets at Beginning of Year (Note 14)	1,223,411	6,196,705	7,420,116	6,818,965
Net Assets at End of Year	\$ 1,494,343	\$ 5,576,597	\$ 7,070,940	\$ 7,420,116

See accompanying notes



**The Symphony**  
**Supplemental Schedule of Functional Expenses of the**  
**Santa Barbara Symphony Orchestra Association**  
**For The Year Ended June 30, 2016**  
**With Summarized Comparative Totals for the Year Ended June 30, 2015**

	Program Services		Total Program Services	Management and General	Fundraising	2016 Expenses	2015 Expenses
	Concert	Education					
Salaries	\$ 748,884	\$ 222,692	\$ 971,576	\$ 224,617	\$ 139,513	\$ 1,335,706	\$ 1,390,877
Payroll Taxes and Benefits	373,785	36,348	410,133	12,355	29,675	452,163	302,944
Total Salaries and Related Expenses	1,122,669	259,040	1,381,709	236,972	169,188	1,787,869	1,693,821
Accounting	-	-	-	54,550	-	54,550	51,750
Advertising	86,646	-	86,646	-	-	86,646	140,696
Bad Debt	-	-	-	3,866	-	3,866	16,500
Ancillary Concert Expenses	276,329	36,536	312,865	-	-	312,865	330,996
Conferences, Meetings, and Training	1,016	2,745	3,761	7,871	3,031	14,663	12,283
Contract Services	255,103	3,153	258,256	19,367	18,110	295,733	287,234
Hospitality	-	-	-	-	52,268	52,268	68,983
Dues and Subscriptions	1,397	22	1,419	11,666	75	13,160	9,808
Equipment Rental and Maintenance	32,077	3,653	35,730	7,228	-	42,958	36,661
Fees	64	492	556	1,362	96	2,014	4,071
Insurance	-	1,034	1,034	16,017	-	17,051	17,051
Office Expense	-	-	-	1,947	4,541	6,488	14,864
Printing, Postage, and Copy	30,217	3,086	33,303	5,483	3,227	42,013	34,077
Rent	-	-	-	83,789	4,421	88,210	77,249
Supplies	2,381	14,654	17,035	7,708	1,785	26,528	15,803
Telephone	-	-	-	15,978	-	15,978	17,231
Travel	405	-	405	148	3,464	4,017	1,892
Total Expenses Before Depreciation	1,808,304	324,415	2,132,719	473,952	260,206	2,866,877	2,830,970
Depreciation Expense	-	-	-	19,069	-	19,069	1,691
Total Expenses - June 30, 2016	<u>\$ 1,808,304</u>	<u>\$ 324,415</u>	<u>\$ 2,132,719</u>	<u>\$ 493,021</u>	<u>\$ 260,206</u>	<u>\$ 2,885,946</u>	
Total Expenses - June 30, 2015	<u>\$ 1,809,437</u>	<u>\$ 259,909</u>	<u>\$ 2,069,346</u>	<u>\$ 401,197</u>	<u>\$ 362,118</u>		<u>\$ 2,832,661</u>

See accompanying notes