

SANTA BARBARA SYMPHONY
ORCHESTRA ASSOCIATION
COMBINED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2010

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

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Board of Directors
Santa Barbara Symphony Orchestra Association

We have audited the accompanying Combined Statements of Financial Position of the Santa Barbara Symphony Orchestra Association (the Symphony) as of June 30, 2010 and 2009, and the related Combined Statement of Activities for the year ended June 30, 2010, and the Combined Statements of Cash Flows for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Symphony's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Symphony's 2009 financial statements. In our report dated January 13, 2010, we expressed an unqualified opinion on the financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara Symphony Orchestra Association as of June 30, 2010 and 2009, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Supplemental Schedule of Financial Position by Division, Schedule of Activities by Division and Schedule of Functional Expenses of the Symphony are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

MacFarlane Faletti & Co. LLP

Santa Barbara, California
November 8, 2010

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

| | <u>ASSETS</u> | |
|---|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,315,089 | \$ 1,244,894 |
| Accounts receivable | 55,000 | 75,710 |
| Pledges receivable | 144,850 | 45,390 |
| Prepaid expenses and other assets | 24,681 | 22,831 |
| Total Current Assets | <u>1,539,620</u> | <u>1,388,825</u> |
| Other Assets: | | |
| Investments (Note 3) | 3,174,880 | 2,992,498 |
| Interest in charitable remainder trust (Note 4) | 480,120 | 445,155 |
| Property and equipment, net (Note 5) | 23,686 | 33,071 |
| Total Other Assets | <u>3,678,686</u> | <u>3,470,724</u> |
| Total Assets | <u>\$ 5,218,306</u> | <u>\$ 4,859,549</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities: | | |
| Accounts payable | \$ 29,764 | \$ 58,100 |
| Deferred income | 427,617 | 406,105 |
| Total Current Liabilities | <u>457,381</u> | <u>464,205</u> |
| Net Assets: | | |
| Unrestricted | (585,352) | (791,149) |
| Temporarily restricted | 226,887 | 203,637 |
| Permanently restricted | 5,119,388 | 4,982,856 |
| Total Net Assets | <u>4,760,923</u> | <u>4,395,344</u> |
| Total Liabilities and Net Assets | <u>\$ 5,218,304</u> | <u>\$ 4,859,549</u> |

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2010 | 2009 |
|--|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| Revenue, Gains and Other Support | | | | | |
| Concert income | \$ 742,891 | \$ - | \$ - | \$ 742,891 | \$ 788,071 |
| Contributions | 1,153,662 | 181,497 | 101,567 | 1,436,726 | 1,653,113 |
| Bequests | 378,706 | - | - | 378,706 | 112,908 |
| Investment income | 20,133 | - | - | 20,133 | 19,216 |
| Realized losses on sales of investment | (244,554) | - | - | (244,554) | (208,235) |
| Unrealized gains/(losses) on investments | 492,387 | - | - | 492,387 | (915,488) |
| Special events (net of expenses of \$109,052 and \$113,511, respectively) | 3,423 | - | - | 3,423 | 29,135 |
| Other income | 76,106 | - | - | 76,106 | 49,370 |
| Change in value of interest in charitable remainder trust | - | - | 34,965 | 34,965 | (136,327) |
| Released from restriction: | | | | | |
| Due to time | 45,390 | (45,390) | - | - | - |
| Due to expenditure | 112,857 | (112,857) | - | - | - |
| Total Revenue, Gains and Other Support | 2,781,001 | 23,250 | 136,532 | 2,940,783 | 1,391,763 |
| Operating Expenses | | | | | |
| Salaries | 1,217,961 | - | - | 1,217,961 | 1,267,597 |
| Payroll taxes and benefits | 248,748 | - | - | 248,748 | 200,412 |
| Total employee expenses | 1,466,709 | - | - | 1,466,709 | 1,468,009 |
| Accounting | 14,358 | - | - | 14,358 | 24,790 |
| Advertising | 168,658 | - | - | 168,658 | 189,272 |
| Bad debt | - | - | - | - | 12,410 |
| Concert expenses | 103,584 | - | - | 103,584 | 165,181 |
| Conferences and meetings | 6,406 | - | - | 6,406 | 15,240 |
| Contract services | 131,890 | - | - | 131,890 | 66,868 |
| Depreciation | 9,385 | - | - | 9,385 | 6,290 |
| Development | 24,851 | - | - | 24,851 | 45,092 |
| Dues and subscriptions | 8,739 | - | - | 8,739 | 9,075 |
| Equipment rental and maintenance | 47,047 | - | - | 47,047 | 50,488 |
| Fees | 20,790 | - | - | 20,790 | 20,249 |
| Insurance | 13,634 | - | - | 13,634 | 25,240 |
| Investment fees | 27,919 | - | - | 27,919 | 25,640 |
| Legal | 1,443 | - | - | 1,443 | 24,745 |
| Office expense | 13,376 | - | - | 13,376 | 31,264 |
| Outreach | 180,189 | - | - | 180,189 | 157,440 |
| Printing, postage and copy | 23,386 | - | - | 23,386 | 27,533 |
| Receptions | 12,928 | - | - | 12,928 | 7,325 |
| Rent | 71,001 | - | - | 71,001 | 64,062 |
| Staging and box office | 64,507 | - | - | 64,507 | 65,004 |
| Supplies | 29,866 | - | - | 29,866 | 22,957 |
| Telephone | 16,992 | - | - | 16,992 | 14,246 |
| Travel | 117,546 | - | - | 117,546 | 2,787 |
| Total Operating Expenses | 2,575,204 | - | - | 2,575,204 | 2,541,207 |
| Change in Net Assets | 205,797 | 23,250 | 136,532 | 365,579 | (1,149,444) |
| Net Assets at Beginning of Year | (791,149) | 203,637 | 4,982,856 | 4,395,344 | 5,544,788 |
| Net Assets at End of Year | <u>\$ (585,352)</u> | <u>\$ 226,887</u> | <u>\$ 5,119,388</u> | <u>\$ 4,760,923</u> | <u>\$ 4,395,344</u> |

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Increase/(Decrease) in net assets | \$ 365,579 | \$ (1,149,444) |
| Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities: | | |
| Depreciation | 9,385 | 6,290 |
| Net (increase)/decrease in unrealized gains on investments | (492,387) | 915,488 |
| Realized loss on investments | 244,554 | 208,235 |
| Change in value of charitable remainder trust | (34,965) | 136,327 |
| Contributions to endowment | (101,567) | (16,350) |
| Changes in: | | |
| Accounts receivable | 20,710 | (50,660) |
| Pledges receivable | (99,460) | 26,510 |
| Prepaid and other assets | (1,850) | 32,093 |
| Accounts payable | (28,334) | (2,293) |
| Deferred income | 21,512 | (165,577) |
| Net Cash Used by Operating Activities | <u>(96,823)</u> | <u>(59,381)</u> |
| Cash Flows from Investing Activities | | |
| Purchase of fixed assets | - | (21,285) |
| Purchase of investments | (2,748,191) | (2,039,211) |
| Proceeds from sale of investments | 2,813,642 | 2,075,448 |
| Net Cash Provided by Investing Activities | <u>65,451</u> | <u>14,952</u> |
| Cash Flows from Financing Activities | | |
| Contributions to enhance endowment | 101,567 | 16,350 |
| Net Cash Provided by Financing Activities | <u>101,567</u> | <u>16,350</u> |
| Net Increase/(Decrease) in Cash | 70,195 | (28,079) |
| Cash and Cash Equivalents, Beginning of Year | <u>1,244,894</u> | <u>1,272,973</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,315,089</u> | <u>\$ 1,244,894</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 Santa Barbara Symphony Orchestra Association 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
- Collectibility of accounts and pledges receivable

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

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.

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 or permanently restricted 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 federal income tax purposes according to the provisions of the Internal Revenue Code and similar state provisions. At June 30, 2010, the Symphony is not aware of any uncertain tax positions requiring accrual.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the June 30, 2009, balances, as reported in the prior year financial statements, to make them comparable to the balances reported for the year ended June 30, 2010.

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable are expected to be received fully within one year. Therefore, management has not provided for an allowance for uncollectibility.

NOTE 3: INVESTMENTS

The Endowment Trust owns a portfolio of marketable securities which have been both donated and purchased and are intended to provide investment income to be used for the Santa Barbara Symphony Orchestra Association'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. 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 designate funds that can be withdrawn from the Endowment Trust. Investments consist of the following:

| | <u>June 30, 2010</u> | | |
|-----------------------------------|----------------------|---------------------|--|
| | <u>Cost</u> | <u>Market</u> | <u>Unrealized Appreciation/ (Depreciation)</u> |
| Commodities | \$ 42,339 | \$ 51,577 | \$ 9,238 |
| Mutual funds | 561,253 | 574,991 | 13,738 |
| Marketable securities | 1,450,099 | 1,250,376 | (199,723) |
| Hedge fund | <u>1,350,000</u> | <u>1,297,935</u> | <u>(52,065)</u> |
| Totals | <u>\$ 3,403,691</u> | <u>\$ 3,174,879</u> | <u>\$ (228,812)</u> |
| Change in unrealized appreciation | | | <u>\$ 492,387</u> |

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 3: INVESTMENTS (Continued)

| | <u>June 30, 2009</u> | | |
|-----------------------|----------------------|---------------------|------------------------------------|
| | <u>Cost</u> | <u>Market</u> | <u>Unrealized Appreciation</u> |
| Commodities | \$ 22,233 | \$ 22,795 | \$ 562 |
| Fixed income | 1,946,442 | 1,485,178 | (461,264) |
| Marketable securities | 237,072 | 247,449 | 10,377 |
| Hedge fund | <u>1,507,950</u> | <u>1,237,076</u> | <u>(270,874)</u> |
| Totals | <u>\$ 3,713,695</u> | <u>\$ 2,992,498</u> | <u>\$ (721,199)</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.

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, 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.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

| | 2010 | 2009 |
|--------------------------------|------------|------------|
| Furniture and office equipment | \$ 107,213 | \$ 107,213 |
| Vehicles | 23,875 | 23,875 |
| Total | 131,088 | 131,088 |
| Less: Accumulated depreciation | (107,402) | (98,017) |
| Property and Equipment, Net | \$ 23,686 | \$ 33,071 |

Depreciation expense for the years ended June 30, 2010 and 2009, was \$9,385 and \$6,290, 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 expires on June 30, 2013.

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, 2010 and 2009 was \$71,001 and \$64,062, respectively. Minimum annual lease commitments under the current lease agreement are as follows:

| Year ended June 30, | Amount |
|---------------------|------------|
| 2011 | \$ 69,480 |
| 2012 | 69,480 |
| 2013 | 69,480 |
| 2014 | 69,480 |
| 2015 | 69,480 |
| Thereafter | 277,920 |
| | \$ 625,320 |

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 7: RESTRICTED NET ASSETS

Temporarily Restricted Net Assets:

At June 30, 2010, there were net assets of \$82,037 that were temporarily restricted for a particular purpose and \$144,850 of pledged contributions that were temporarily restricted by time.

At June 30, 2009, there were net assets of \$158,247 that were temporarily restricted for a particular purpose and \$45,390 of pledged 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 is programs and activities.

NOTE 8: 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, 2010, the Organization had approximately \$215,000 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 \$100,000 per broker-dealer; the remaining cash equivalents and investments up to \$500,000.

NOTE 9: DONOR RESTRICTED ENDOWMENTS

The Santa Barbara Symphony Endowment is a separate 501(c)(3) and was established to support the ongoing operations of the Santa Barbara Symphony Orchestra. 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.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9: DONOR AND BOARD DESIGNATED ENDOWMENTS (Continued)

The Board of Directors of the Organization 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 Organization 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 Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization 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 Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Organization 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 Organization 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.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9: DONOR AND BOARD DESIGNATED ENDOWMENTS (Continued)

Spending Policy

The Organization has established a spending policy that includes the annual distributions, as well as the cost of managing the funds. The Organization has a policy of appropriating for distribution each year 6% 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 Organization considered the funding needs of the Organization as well as the goal of protecting the purchasing power of endowment assets over the long-term.

The Organization 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 Organization'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 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, 2009, the endowment fund deficiencies totaled \$1,069,610. 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.

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 9: DONOR AND BOARD DESIGNATED ENDOWMENTS (Continued)

Endowment net assets as of June 30, 2010, all of which have been restricted by the donor, are as follows:

| | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------------|---------------------------|--------------|
| Endowment Net Assets June 30, 2009 | \$ 203,637 | \$ 3,364,148 | \$ 3,567,785 |
| Contributions | 181,497 | 226,567 | 408,064 |
| Investment income | - | 6,806 | 6,806 |
| Depreciation (realized and unrealized) | - | 247,833 | 247,833 |
| Investment fees | - | (27,919) | (27,919) |
| Amounts appropriated for expenditure | (158,247) | (260,280) | (418,527) |
| Total Funds | \$ 226,887 | \$ 3,557,155 | \$ 3,784,042 |

NOTE 10: FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unobservable inputs are those supported by little or no market activity and are significant to the fair value of the assets or liabilities. Fair Value Measurements at June 30, 2010 are summarized as follows:

| | Quoted prices in active markets for identical assets | Significant other observable inputs | Significant unobservable inputs |
|---|--|---|---------------------------------------|
| Marketable securities held for trading purposes | \$ 1,876,944 | \$ - | \$ - |
| Hedge funds | - | 1,297,935 | - |
| Charitable remainder trusts | - | - | 480,120 |
| Pledge receivables | - | 144,850 | - |
| Total | \$ 1,876,944 | \$ 1,442,785 | \$ 480,120 |

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10: FAIR VALUE MEASUREMENT (Continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2010:

| | <u>2010</u> |
|--|-------------------|
| Contributions receivable from charitable remainder trusts at beginning of the year | \$ 445,155 |
| Change in value based on present value calculation | <u>34,965</u> |
| Contributions receivable from charitable remainder trusts at end of year | <u>\$ 480,120</u> |

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2010 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, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

| <u>ASSETS</u> | | | | | | |
|---|---|----------------------------|----------------------------|---------------------------|---------------------|---------------------|
| | <u>Symphony Orchestra Association</u> | <u>Endowment Trust</u> | <u>Symphony League</u> | <u>Youth Symphony</u> | <u>2010</u> | <u>2009</u> |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 826,742 | \$ 282,275 | \$ 7,048 | 199,024 | \$ 1,315,089 | \$ 1,244,894 |
| Accounts receivable | 55,000 | - | - | - | 55,000 | 75,710 |
| Pledges receivable | 44,850 | 100,000 | - | - | 144,850 | 45,390 |
| Prepaid expenses and other assets | 24,681 | - | - | - | 24,681 | 22,831 |
| Total Current Assets | <u>951,273</u> | <u>382,275</u> | <u>7,048</u> | <u>199,024</u> | <u>1,539,620</u> | <u>1,388,825</u> |
| Other Assets: | | | | | | |
| Investments | - | 3,174,880 | - | - | 3,174,880 | 2,992,498 |
| Interest in charitable remainder trust | - | 480,120 | - | - | 480,120 | 445,155 |
| Property and Equipment: | | | | | | |
| Automobiles | 23,875 | - | - | - | 23,875 | 23,875 |
| Office equipment and furniture | 107,213 | - | - | - | 107,213 | 107,213 |
| Less: Accumulated depreciation | (107,402) | - | - | - | (107,402) | (98,017) |
| Net property and equipment | <u>23,686</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>23,686</u> | <u>33,071</u> |
| Total Other Assets | <u>23,686</u> | <u>3,655,000</u> | <u>-</u> | <u>-</u> | <u>3,678,686</u> | <u>3,470,724</u> |
| Due (to)/from other funds | - | - | - | - | - | - |
| Total Assets | <u>\$ 974,959</u> | <u>\$ 4,037,275</u> | <u>\$ 7,048</u> | <u>\$ 199,024</u> | <u>\$ 5,218,306</u> | <u>\$ 4,859,549</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | | |
| Current Liabilities: | | | | | | |
| Accounts payable and accrued expenses | \$ 29,764 | \$ - | \$ - | \$ - | \$ 29,764 | \$ 58,100 |
| Deferred Income | 427,617 | - | - | - | 427,617 | 406,105 |
| Total Current Liabilities | <u>457,381</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>457,381</u> | <u>464,205</u> |
| Net Assets: | | | | | | |
| Unrestricted | 290,690 | (1,082,113) | 7,048 | 199,023 | (585,352) | (791,149) |
| Temporarily restricted | 226,887 | - | - | - | 226,887 | 203,637 |
| Permanently restricted | - | 5,119,388 | - | - | 5,119,388 | 4,982,856 |
| Total Net Assets | <u>517,577</u> | <u>4,037,275</u> | <u>7,048</u> | <u>199,023</u> | <u>4,760,923</u> | <u>4,395,344</u> |
| Total Liabilities and Net Assets | <u>\$ 974,958</u> | <u>4,037,275</u> | <u>7,048</u> | <u>199,023</u> | <u>\$ 5,218,304</u> | <u>\$ 4,859,549</u> |

See accompanying notes

SANTA BARBARA SYMPHONY ORCHESTRA ASSOCIATION
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY DIVISION
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

| | Symphony Orchestra Association | Endowment Trust | Symphony League | Youth Symphony | 2010 | 2009 |
|---|--------------------------------------|---------------------|--------------------|-------------------|---------------------|---------------------|
| Revenue, Gains and Other Support | | | | | | |
| Concert income | \$ 738,374 | \$ - | \$ - | \$ 4,517 | \$ 742,891 | \$ 788,071 |
| Contributions | 1,181,094 | 101,567 | 5,045 | 149,020 | 1,436,726 | 1,653,113 |
| Bequests | 378,706 | | | | 378,706 | 112,908 |
| Investment income | 4,821 | 6,806 | - | 8,506 | 20,133 | 19,216 |
| Realized loss on sales of investments | - | (244,554) | - | - | (244,554) | (208,235) |
| Unrealized gain/(loss) on investments | - | 492,387 | - | - | 492,387 | (915,488) |
| Special events (net of expenses of \$198,512 and \$62,589, respectively) | (7,403) | - | 10,826 | - | 3,423 | 29,135 |
| Other income | 60,048 | - | 16,058 | - | 76,106 | 49,370 |
| Change in value of interest in charitable remainder trust | - | 34,965 | - | - | 34,965 | (136,327) |
| Transfer | 143,779 | (135,280) | (19,450) | 10,951 | - | - |
| Total Revenue, Gains and Other Support | <u>2,499,419</u> | <u>255,891</u> | <u>12,479</u> | <u>172,994</u> | <u>2,940,783</u> | <u>1,391,763</u> |
| Operating Expenses | | | | | | |
| Salaries | 1,217,961 | - | - | - | 1,217,961 | 1,267,597 |
| Payroll taxes and benefits | 248,748 | - | - | - | 248,748 | 200,412 |
| Total employee expenses | 1,466,709 | - | - | - | 1,466,709 | 1,468,009 |
| Accounting | 14,358 | - | - | - | 14,358 | 24,790 |
| Advertising | 168,658 | - | - | - | 168,658 | 189,272 |
| Bad debt | - | - | - | - | - | 12,410 |
| Concert expenses | 103,584 | - | - | - | 103,584 | 165,181 |
| Conferences and meetings | 6,406 | - | - | - | 6,406 | 15,240 |
| Contract services | 131,890 | - | - | - | 131,890 | 66,868 |
| Depreciation | 9,385 | - | - | - | 9,385 | 6,290 |
| Development | 24,851 | - | - | - | 24,851 | 45,092 |
| Dues and subscriptions | 8,739 | - | - | - | 8,739 | 9,075 |
| Equipment rental and maintenance | 47,047 | - | - | - | 47,047 | 50,488 |
| Fees | 20,790 | - | - | - | 20,790 | 20,249 |
| Insurance | 13,634 | - | - | - | 13,634 | 25,240 |
| Investment fees | - | 27,919 | - | - | 27,919 | 25,640 |
| Legal | 1,443 | - | - | - | 1,443 | 24,745 |
| Office expense | 13,376 | - | - | - | 13,376 | 31,264 |
| Outreach | - | - | 11,875 | 168,314 | 180,189 | 157,440 |
| Printing, postage and copy | 23,386 | - | - | - | 23,386 | 27,533 |
| Receptions | 12,928 | - | - | - | 12,928 | 7,325 |
| Rent | 71,001 | - | - | - | 71,001 | 64,062 |
| Staging and box office | 64,507 | - | - | - | 64,507 | 65,004 |
| Supplies | 29,866 | - | - | - | 29,866 | 22,957 |
| Telephone | 16,992 | - | - | - | 16,992 | 14,246 |
| Travel | 117,546 | - | - | - | 117,546 | 2,787 |
| Total Operating Expenses | <u>2,367,096</u> | <u>27,919</u> | <u>11,875</u> | <u>168,314</u> | <u>2,575,204</u> | <u>2,541,207</u> |
| Change in Net Assets | 132,323 | 227,972 | 604 | 4,680 | 365,579 | (1,149,444) |
| Net Assets at Beginning of Year | 385,254 | 3,809,303 | 6,444 | 194,343 | 4,395,344 | 5,544,788 |
| Net Assets at End of Year | <u>\$ 517,577</u> | <u>\$ 4,037,275</u> | <u>\$ 7,048</u> | <u>\$ 199,023</u> | <u>\$ 4,760,923</u> | <u>\$ 4,395,344</u> |

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, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

| | Program Services | Management and General | Fundraising | 2010 Expenses | 2009 Expenses |
|-------------------------------------|---------------------|------------------------------|-------------------|---------------------|---------------------|
| Salaries | 881,924 | 225,304 | 110,733 | \$ 1,217,961 | \$ 759,619 |
| Payroll taxes and benefits | 203,775 | 17,796 | 27,177 | 248,748 | 211,174 |
| Total Salaries and Related Expenses | 1,085,699 | 243,100 | 137,910 | 1,466,709 | 970,793 |
| Accounting | - | 14,358 | - | 14,358 | 24,790 |
| Advertising | 168,658 | - | - | 168,658 | 189,424 |
| Bad Debt Expense | - | - | - | - | 12,410 |
| Concert expenses | 103,584 | - | - | 103,584 | 620,467 |
| Conferences and meetings | 2,140 | 2,878 | 1,388 | 6,406 | 15,240 |
| Contract services | 33,905 | 80,153 | 17,832 | 131,890 | 75,123 |
| Design and layout | - | - | - | - | 2,844 |
| Development | - | - | 24,851 | 24,851 | 44,925 |
| Dues and subscriptions | 1,778 | 6,961 | - | 8,739 | 9,075 |
| Equipment rental and maintenance | 38,335 | 8,712 | - | 47,047 | 49,783 |
| Fees | 20,110 | 680 | - | 20,790 | 20,139 |
| Insurance | 1,819 | 11,815 | - | 13,634 | 14,645 |
| Legal | - | 1,443 | - | 1,443 | 24,745 |
| Office Expense | - | 13,376 | - | 13,376 | 47,754 |
| Outreach | 180,189 | - | - | 180,189 | 157,440 |
| Printing, postage, and copy | 15,162 | 1,302 | 6,922 | 23,386 | 27,381 |
| Receptions | 12,928 | - | - | 12,928 | 3,309 |
| Rent | 17,750 | 53,251 | - | 71,001 | 64,062 |
| Staging and box office | 64,507 | - | - | 64,507 | 8,602 |
| Supplies | 6,935 | 14,524 | 8,407 | 29,866 | 22,957 |
| Telephone | - | 16,992 | - | 16,992 | 14,744 |
| Travel | 116,195 | 1,337 | 14 | 117,546 | 113,868 |
| Total Expenses Before Depreciation | 1,869,694 | 470,882 | 197,324 | 2,537,900 | 2,534,520 |
| Depreciation expense | - | 9,385 | - | 9,385 | 6,290 |
| Total Expenses - June 30, 2010 | <u>\$ 1,869,694</u> | <u>\$ 480,267</u> | <u>\$ 197,324</u> | <u>\$ 2,547,285</u> | |
| Total Expenses - June 30, 2009 | <u>\$ 1,677,684</u> | <u>\$ 566,346</u> | <u>\$ 249,289</u> | | <u>\$ 2,540,810</u> |

See accompanying notes