

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, 2015

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, 2015 and 2014, the related statement of activities for the year ended June 30, 2015, the statements of cash flows for the years ended June 30, 2015 and 2014, and the related notes to the financial statements.

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Management's Responsibility for the Financial Statements

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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.

Auditors' Responsibility

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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.

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, 2015 and 2014, 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 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California
October 20, 2015

The Symphony
Combined Statements of Financial Position
June 30, 2015 and 2014

Assets		
	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and Cash Equivalents	\$ 936,351	\$ 799,719
Accounts Receivable	23,183	49,109
Pledges Receivable - Current, Net (Note 2)	284,741	374,261
Bequest Receivable (Note 2)	500,000	4,636
Prepaid Expenses and Other Current Assets	31,419	-
Total Current Assets	<u>1,775,694</u>	<u>1,227,725</u>
Pledge Receivable - Non-Current (Note 2)	-	10,000
Unemployment Reserve Account	35,045	-
Property and Equipment, Net (Note 5)	48,683	1,473
Investments (Note 3)	5,459,987	5,442,013
Interest in Charitable Remainder Trust (Note 4)	640,706	654,138
Total Assets	<u>\$ 7,960,115</u>	<u>\$ 7,335,349</u>

Liabilities and Net Assets

Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 61,351	\$ 23,217
Accrued Payroll and Related Expenses	84,964	62,836
Deferred Income	393,684	430,331
Total Current Liabilities	<u>539,999</u>	<u>516,384</u>
Net Assets:		
Unrestricted		
Undesignated	(114,638)	(377,893)
Board Designated (Note 7)	1,953,922	1,960,631
Total Unrestricted	<u>1,839,284</u>	<u>1,582,738</u>
Temporarily Restricted (Note 7)	925,909	598,090
Permanently Restricted (Note 7)	4,654,923	4,638,137
Total Net Assets	<u>7,420,116</u>	<u>6,818,965</u>
Total Liabilities and Net Assets	<u>\$ 7,960,115</u>	<u>\$ 7,335,349</u>

See accompanying notes

The Symphony
Combined Statement of Activities
For The Year Ended June 30, 2015
With Summarized Comparative Totals for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015	2014
<i>Operating Revenue</i>					
Revenue, Gains and Other Support					
Gross Revenue from Fundraising Events	\$ 48,188	\$ -	\$ -	\$ 48,188	\$ -
Less Costs of Direct Benefit to Donors	(27,336)	-	-	(27,336)	-
Net Revenue from Fundraising Events	20,852	-	-	20,852	-
Concert Income	758,895	-	-	758,895	752,536
Contributions	1,052,607	629,812	-	1,682,419	1,312,416
Other Income	19,536	-	-	19,536	20,450
Total Revenue, Gains and Other Support	1,851,890	629,812	-	2,481,702	2,085,402
Net Assets Released from Restriction	801,993	(801,993)	-	-	-
<i>Operating Expenses</i>					
Program Expenses					
Concert and Event Expenses	1,809,437	-	-	1,809,437	1,688,203
Music Education Center	259,909	-	-	259,909	261,266
Total Operating Program Expenses	2,069,346	-	-	2,069,346	1,949,469
Supporting Services					
Management and General	399,506	-	-	399,506	443,316
Fundraising	362,118	-	-	362,118	330,561
Total Supporting Services	761,624	-	-	761,624	773,877
Total Operating Expenses	2,830,970	-	-	2,830,970	2,723,346
Change in Net Assets from Operating Activities	(177,087)	(172,181)	-	(349,268)	(637,944)
<i>Non-Operating Revenue and Expenses</i>					
Revenue					
Bequests	199,130	500,000	-	699,130	242,878
Permanently Restricted Contributions	-	-	30,218	30,218	320,206
Investment Income	156,994	-	-	156,994	130,725
Realized Gain on Sales of Investments	137,012	-	-	137,012	235,801
Unrealized (Loss)/Gain on Investments	(23,572)	-	-	(23,572)	482,059
Change in Value of Interest in Charitable Remainder Trust	-	-	(13,432)	(13,432)	81,644
Total Non-Operating Revenue	469,564	500,000	16,786	986,350	1,493,313
Expenses					
Depreciation Expense	1,691	-	-	1,691	4,128
Investment Advisory Fees	34,240	-	-	34,240	28,935
Total Non-Operating Expenses	35,931	-	-	35,931	33,063
Change in Net Assets from Non-Operating Activities	433,633	500,000	16,786	950,419	1,460,250
Net Assets at Beginning of Year, As Previously Reported	219,917	598,090	6,000,958	6,818,965	5,996,659
Restatement (Note 14)	1,362,821	-	(1,362,821)	-	-
Net Assets at Beginning of Year, As Restated	1,582,738	598,090	4,638,137	6,818,965	5,996,659
Total Change in Net Assets	256,546	327,819	16,786	601,151	822,306
Net Assets at End of Year	<u>\$ 1,839,284</u>	<u>\$ 925,909</u>	<u>\$ 4,654,923</u>	<u>\$ 7,420,116</u>	<u>\$ 6,818,965</u>

See accompanying notes

The Symphony
Combined Statements of Cash Flows
For The Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 601,151	\$ 822,306
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities		
Depreciation	1,691	4,128
Unrealized Loss/(Gain) on Investments	23,572	(482,059)
Realized Gain on Investments	(137,012)	(235,801)
Change in Allowance for Doubtful Accounts	16,500	-
Change in Value of Charitable Remainder Trust	13,432	(81,644)
Contributions to Endowment	(30,218)	(320,206)
Changes in		
Accounts Receivable	25,926	341
Pledges Receivable	83,020	(44,334)
Grant Receivable	-	102,000
Bequest Receivable	(495,364)	-
Prepaid Expenses and Other Current Assets	(31,419)	9,852
Unemployment Reserve Account	(35,045)	-
Accounts Payable and Accrued Expenses	38,134	(5,233)
Accrued Payroll and Related Expenses	22,128	29,563
Deferred Income	(36,647)	13,838
Net Cash Provided/(Used) by Operating Activities	<u>59,849</u>	<u>(187,249)</u>
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(48,901)	-
Purchase of Investments	(1,118,565)	(1,593,388)
Proceeds from Sale of Investments	<u>1,214,031</u>	<u>1,635,598</u>
Net Cash Provided by Investing Activities	<u>46,565</u>	<u>42,210</u>
Cash Flows from Financing Activities		
Contributions to Enhance Endowment	<u>30,218</u>	<u>320,206</u>
Net Cash Provided by Financing Activities	<u>30,218</u>	<u>320,206</u>
Net Increase in Cash	136,632	175,167
Cash and Cash Equivalents, Beginning of Year	<u>799,719</u>	<u>624,552</u>
Cash and Cash Equivalents, End of Year	<u>\$ 936,351</u>	<u>\$ 799,719</u>

See accompanying notes

The Symphony
Notes to Combined Financial Statements

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

General

The accompanying financial statements comprise of 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 corporations (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

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, 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

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. 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, 2015, or for any period for which the statute of limitations remain open.

The Symphony
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, 2014, balances, as reported in the prior year financial statements, to make them comparable to the balances reported for the year ended June 30, 2015.

NOTE 2: **PLEDGES AND BEQUEST RECEIVABLES**

Pledges and bequest 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.

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, 2011, the Symphony Orchestra Association purchased investments outside of the Endowment Trust. These investments, valued at \$7,913 and \$254,813 for the years ended June 30, 2015 and 2014, respectively, are included as money market funds in the investments below.

The Symphony
Notes to Combined Financial Statements

NOTE 3: **INVESTMENTS** (Continued)

Total investments consist of the following:

	June 30, 2015		
	Cost	Market	Unrealized Gain/(Loss)
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	820,000	951,422	131,422
Totals	\$ 4,567,728	\$ 5,459,987	\$ 892,259
Change in Unrealized Gain			\$ (23,572)
	June 30, 2014		
	Cost	Market	Unrealized Gain/(Loss)
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	820,000	891,507	71,507
Totals	\$ 4,526,182	\$ 5,442,013	\$ 915,831
Change in Unrealized Gain			\$ 482,059

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

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>2015</u>	<u>2014</u>
Furniture and office equipment	\$ 120,568	\$ 108,266
Vehicles	23,875	23,875
In process	<u>31,975</u>	<u>-</u>
Total	176,418	132,141
Less: Accumulated depreciation	<u>(127,735)</u>	<u>(130,668)</u>
Property and Equipment, Net	<u>\$ 48,683</u>	<u>\$ 1,473</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$1,691 and \$4,128, 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 the year ended 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 \$6,468. Total rent expense for the years ended June 30, 2015 and 2014, was \$77,249 and \$80,840, respectively.

The Symphony
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>
2016	\$ 77,616
2017	77,616
2018	77,616
2019	<u>77,616</u>
	<u>\$ 310,464</u>

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

Board Designated:

As of June 30, 2015 and 2014, board designated net assets totaled \$1,953,922 and \$1,960,631, respectively, for the longevity of the Symphony.

Temporarily Restricted Net Assets:

At June 30, 2015, there were net assets of \$376,047 that were temporarily restricted for a particular purpose and \$549,862 of contributions that were temporarily restricted by time.

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.

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, 2015 and 2014, the Symphony contributed \$98,128 and \$91,028, respectively, to both plans.

The Symphony
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, initially expiring September 5, 2015. At June 30, 2015, the interest rate was 5.25% and there was no balance outstanding. Subsequent to year end the Symphony renewed the line of credit, which expires September 5, 2016.

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, 2015, the Symphony had \$372,000 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 \$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 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 Symphony
Notes to Combined Financial Statements

NOTE 11: **DONOR RESTRICTED 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 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 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.

The Symphony
Notes to Combined Financial Statements

NOTE 11: **DONOR RESTRICTED 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 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, 2015, the Symphony had no fund deficiencies.

Endowment Trust endowments 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
Investment 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>

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>

The Symphony
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.

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>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
Unemployment reserve account	-	35,045	
Charitable Remainder Trust	-	-	<u>640,706</u>
Totals	<u>\$ 4,534,730</u>	<u>\$ 766,142</u>	<u>\$ 861,031</u>

	<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	-	-	<u>654,138</u>
Totals	<u>\$ 4,550,506</u>	<u>\$ 891,507</u>	<u>\$ 654,138</u>

There were no transfers between Level I, Level II, and Level III of the fair value hierarchy during the years ended June 30, 2015 and 2014.

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>2015</u>	<u>2014</u>
Charitable remainder trust at beginning of the year	\$ 654,138	\$ 572,494
Change in value of charitable remainder trust	<u>(13,432)</u>	<u>81,644</u>
Charitable Remainder Trust at End of Year	<u>\$ 640,706</u>	<u>\$ 654,138</u>

The Symphony
Notes to Combined Financial Statements

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

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.

Unemployment reserve account – Funds held for unemployment claims by a third party.

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: **RELATED PARTY**

A Board member is an employee of the company the Symphony uses to manage a portion of investments. Total fees paid to the company totaled \$9,047 and \$8,084 for the years ended June 30, 2015 and 2014, respectively.

NOTE 14: **RESTATE NET ASSETS**

Based upon information gathered in the current year, the Symphony determined no donor restrictions existed regarding the earnings related to the Endowment. The Symphony restated net assets at June 30, 2013; by increasing unrestricted board designated net assets and decreasing permanently restricted net assets by \$1,362,821, reflecting board designated net assets previously reported as permanently restricted net assets.

NOTE 15: **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 19, 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 except:

- Subsequent to year end, the Symphony renewed the line of credit (See Note 9).

Supplemental Schedules

The Symphony
Supplemental Schedule of Financial Position by Entity
June 30, 2015
With Summarized Comparative Totals for June 30, 2014

	Assets			
	Symphony Orchestra Association	Endowment Trust	2015	2014
Current Assets:				
Cash and Cash Equivalents	\$ 854,556	\$ 81,795	\$ 936,351	\$ 799,719
Accounts Receivable	1,053	22,130	23,183	49,109
Pledges Receivable, Current Net	284,741	-	284,741	374,261
Bequest Receivable	500,000	-	500,000	4,636
Prepaid Expenses and Other Current Assets	31,419	-	31,419	-
Total Current Assets	1,671,769	103,925	1,775,694	1,227,725
Pledge Receivable - Non-Current	-	-	-	10,000
Unemployment Reserve Account	35,045	-	35,045	-
Property and Equipment:				
Automobiles	23,875	-	23,875	23,875
Office Equipment and Furniture	120,568	-	120,568	108,266
In Progress	31,975	-	31,975	-
Less: Accumulated Depreciation	(127,735)	-	(127,735)	(130,668)
Net Property and Equipment	48,683	-	48,683	1,473
Investments	7,913	5,452,074	5,459,987	5,442,013
Interest in Charitable Remainder Trust	-	640,706	640,706	654,138
Total Assets	\$ 1,763,410	\$ 6,196,705	\$ 7,960,115	\$ 7,335,349
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable and Accrued Expenses	\$ 61,351	\$ -	\$ 61,351	\$ 23,217
Accrued Payroll and Related Expenses	84,964	-	84,964	62,836
Deferred Income	393,684	-	393,684	430,331
Total Current Liabilities	539,999	-	539,999	516,384
Net Assets:				
Unrestricted				
Undesignated	297,502	(412,140)	(114,638)	(377,893)
Board Designated	-	1,953,922	1,953,922	1,960,631
Total Unrestricted	297,502	1,541,782	1,839,284	1,582,738
Temporarily Restricted	925,909	-	925,909	598,090
Permanently Restricted	-	4,654,923	4,654,923	4,638,137
Total Net Assets	1,223,411	6,196,705	7,420,116	6,818,965
Total Liabilities and Net Assets	\$ 1,763,410	\$ 6,196,705	\$ 7,960,115	\$ 7,335,349

See accompanying notes

The Symphony
Supplemental Schedule of Activities by Entity
For The Year Ended June 30, 2015
With Summarized Comparative Totals for the Year Ended June 30, 2014

	Symphony Orchestra Association	Endowment Trust	2015	2014
<i>Operating Revenue</i>				
Revenue, Gains and Other Support				
Gross Revenue from Fundraising Events	\$ 48,188	\$ -	\$ 48,188	\$ -
Less Costs of Direct Benefit to Donors	(27,336)	-	(27,336)	-
Net Revenue from Fundraising Events	20,852	-	20,852	-
Concert Income	758,895	-	758,895	752,536
Contributions	1,682,419	-	1,682,419	1,312,416
Other Income	19,536	-	19,536	20,450
Operational Draw	235,373	(235,373)	-	-
Total Revenue, Gains and Other Support	2,717,075	(235,373)	2,481,702	2,085,402
<i>Operating Expenses</i>				
Program Expenses				
Concert and Event Expenses	1,809,437	-	1,809,437	1,688,203
Music Education Center	259,909	-	259,909	261,266
Total Operating Program Expenses	2,069,346	-	2,069,346	1,949,469
Supporting Services				
Management and General	399,506	-	399,506	443,316
Fundraising	362,118	-	362,118	330,561
Total Supporting Services	761,624	-	761,624	773,877
Total Operating Expenses	2,830,970	-	2,830,970	2,723,346
Change in Net Assets from Operating Activities	(113,895)	(235,373)	(349,268)	(637,944)
<i>Non-Operating Revenue and Expenses</i>				
Revenue				
Bequests	699,130	-	699,130	242,878
Permanently Restricted Contributions	-	30,218	30,218	320,206
Investment Income	4,544	152,450	156,994	130,725
Realized Gain on Sales of Investments	2,660	134,352	137,012	235,801
Unrealized (Loss)/Gain on Investments	326	(23,898)	(23,572)	482,059
Change in Value of Interest in Charitable Remainder Trust	-	(13,432)	(13,432)	81,644
Total Non-Operating Revenue	706,660	279,690	986,350	1,493,313
Expenses				
Depreciation Expense	1,691	-	1,691	4,128
Investment Advisory Fees	-	34,240	34,240	28,935
Total Non-Operating Expenses	1,691	34,240	35,931	33,063
Change in Net Assets from Non-Operating Activities	704,969	245,450	950,419	1,460,250
Total Change in Net Assets	591,074	10,077	601,151	822,306
Net Assets at Beginning of Year	632,337	6,186,628	6,818,965	5,996,659
Net Assets at End of Year	\$ 1,223,411	\$ 6,196,705	\$ 7,420,116	\$ 6,818,965

See accompanying notes

The Symphony
Supplemental Schedule of Functional Expenses of the
Santa Barbara Symphony Orchestra Association
For The Year Ended June 30, 2015
With Summarized Comparative Totals for the Year Ended June 30, 2014

	Program Services	Management and General	Fundraising	2015 Expenses	2014 Expenses
Salaries	\$ 1,088,736	\$ 101,388	\$ 200,753	\$ 1,390,877	\$ 1,378,066
Payroll Taxes and Benefits	240,245	15,204	47,495	302,944	315,225
Total Salaries and Related Expenses	1,328,981	116,592	248,248	1,693,821	1,693,291
Accounting	-	51,750	-	51,750	53,620
Advertising	109,309	-	31,387	140,696	123,815
Bad Debt	-	16,500	-	16,500	-
Concert Expenses	193,864	-	-	193,864	182,336
Conferences, Meetings, and Training	1,432	9,604	1,247	12,283	25,312
Contract Services	190,576	71,569	145	262,290	258,005
Development	-	-	47,046	47,046	36,725
Dues and Subscriptions	1,257	7,831	720	9,808	9,331
Equipment Rental and Maintenance	36,309	352	-	36,661	41,962
Fees	41,980	3,608	16,716	62,304	24,478
Insurance	1,034	16,017	-	17,051	15,737
Office Expense	-	14,864	-	14,864	9,526
Printing, Postage, and Copy	18,325	5,886	9,866	34,077	26,047
Receptions	46,881	-	-	46,881	20,916
Rent	19,312	57,937	-	77,249	80,840
Staging and Box Office	78,899	-	-	78,899	69,992
Supplies	887	9,270	5,646	15,803	33,911
Telephone	-	17,231	-	17,231	16,608
Travel	300	495	1,097	1,892	894
Total Expenses Before Depreciation	2,069,346	399,506	362,118	2,830,970	2,723,346
Depreciation Expense	-	1,691	-	1,691	4,128
Total Expenses - June 30, 2015	\$ 2,069,346	\$ 401,197	\$ 362,118	\$ 2,832,661	
Total Expenses - June 30, 2014	\$ 1,994,517	\$ 336,161	\$ 396,796		\$ 2,727,474