



Nir Kabaretti, MUSIC AND ARTISTIC DIRECTOR

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

**Combined Financial Statements
and Supplemental Information**

June 30, 2018



Santa Barbara Symphony Orchestra Association
and
Santa Barbara Symphony Orchestra Endowment Trust
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Santa Barbara Symphony Orchestra Association

Board of Trustees
Santa Barbara Symphony Orchestra Endowment Trust

I 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, 2018, the related statements of activities and of cash flows for the year ended June 30, 2018, and the related notes to the financial statements.

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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion

The Symphony's financial statements do not disclose information pertinent to estimating the valuation of a charitable remainder trust. Management is unable to obtain needed information and believes it is not practicable to estimate the value of the charitable remainder trust. In my opinion, disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In my opinion, except for the omission of the information discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Symphony as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

My 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

I have previously audited the combined financial statements of the Symphony as of June 30, 2017, and expressed an unmodified audit opinion on those audited financial in my report dated September 26, 2017. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Santa Barbara, California
October 1, 2018

THE SANTA BARBARA SYMPHONY
Combined Statement of Financial Position
June 30, 2018
With Summarized Comparative Totals as of June 30, 2017

	Assets	
	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and Cash Equivalents	\$ 545,734	\$ 766,739
Accounts Receivable	42,492	-
Pledges Receivable - Net (Note 2)	491,330	406,200
Bequest Receivable (Note 2)	156,883	25,000
Prepaid Expenses and Other Current Assets	<u>50,845</u>	<u>11,501</u>
Total Current Assets	<u>1,287,284</u>	<u>1,209,440</u>
Unemployment Reserve Account	27,738	33,067
Property and Equipment, Net (Note 3)	26,572	53,408
Investments (Note 4)	5,504,080	5,645,333
Interest in Charitable Remainder Trust (Note 5)	<u>661,534</u>	<u>637,491</u>
Total Assets	<u>\$ 7,507,208</u>	<u>\$ 7,578,739</u>
 Liabilities and Net Assets 		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 52,737	\$ 12,318
Accrued Payroll and Related Expenses	43,113	39,004
Deferred Income	<u>384,455</u>	<u>368,650</u>
Total Current Liabilities	<u>480,305</u>	<u>419,972</u>
Net Assets:		
Unrestricted		
Undesignated	-	525,479
Board Designated (Note 8)	714,904	687,637
Total Unrestricted	<u>714,904</u>	<u>1,213,116</u>
Temporarily Restricted (Note 8)	1,513,336	1,201,744
Permanently Restricted (Note 8)	<u>4,798,663</u>	<u>4,743,907</u>
Total Net Assets	<u>7,026,903</u>	<u>7,158,767</u>
Total Liabilities and Net Assets	<u>\$ 7,507,208</u>	<u>\$ 7,578,739</u>

See accompanying notes

THE SANTA BARBARA SYMPHONY
Combined Statement of Activities
For The Year Ended June 30, 2018
With Summarized Comparative Totals for the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2018</u>	<u>2017</u>
<i>Operating Revenue</i>					
Revenue, Gains and Other Support					
Gross Revenue from Fundraising Events	\$ 9,800	\$ -	\$ -	\$ 9,800	\$ -
Less Costs of Direct Benefit to Donors	(15,197)	-	-	(15,197)	-
Net Loss from Fundraising Events	(5,397)	-	-	(5,397)	-
Concert Income	876,465	-	-	876,465	859,502
Tuition	28,784	-	-	28,784	29,535
Contributions and Grants	1,177,629	692,900	30,713	1,901,242	1,540,671
Total Revenue, Gains and Other Support	2,077,481	692,900	30,713	2,801,094	2,429,708
Net Assets Released from Restriction	806,383	(806,383)	-	-	-
<i>Operating Expenses</i>					
Program Expenses					
Concert and Event Expenses	2,092,965	-	-	2,092,965	1,792,486
Music Education Center	502,325	-	-	502,325	476,867
Total Operating Program Expenses	2,595,290	-	-	2,595,290	2,269,353
Supporting Services					
Management and General	412,936	-	-	412,936	487,485
Fundraising	397,985	-	-	397,985	381,697
Total Supporting Services	810,921	-	-	810,921	869,182
Total Operating Expenses	3,406,211	-	-	3,406,211	3,138,535
Change in Net Assets from Operations	(522,347)	(113,483)	30,713	(605,117)	(708,827)
<i>Non-Operating Revenue and Expenses</i>					
Revenue					
Bequests	132,335	-	-	132,335	50,899
Permanently Restricted Contributions	-	-	-	-	20,199
Investment Income	2,347	144,509	-	146,856	45,522
Realized Gain on Sales of Investments	-	150,941	-	150,941	166,729
Unrealized Gain on Investments	4,816	129,625	-	134,441	545,893
Change in Value of Interest in Charitable Remainder Trust	-	-	24,043	24,043	29,348
Total Non-Operating Revenue	139,498	425,075	24,043	588,616	858,590
Expenses					
Depreciation Expense	26,836	-	-	26,836	27,495
Feasibility Study	53,568	-	-	53,568	-
Investment Advisory and Accounting Fees	34,959	-	-	34,959	34,441
Total Non-Operating Expenses	115,363	-	-	115,363	61,936
Change in Net Assets from Non-Operating Activities	24,135	425,075	24,043	473,253	796,654
Net Assets at Beginning of Year	1,213,116	1,201,744	4,743,907	7,158,767	7,070,940
Total Change in Net Assets	(498,212)	311,592	54,756	(131,864)	87,827
Net Assets at End of Year	<u>\$ 714,904</u>	<u>\$ 1,513,336</u>	<u>\$ 4,798,663</u>	<u>\$ 7,026,903</u>	<u>\$ 7,158,767</u>

See accompanying notes

THE SANTA BARBARA SYMPHONY
Combined Statement of Cash Flows
For the Year Ended June 30, 2018
With Comparative Totals for the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (131,864)	\$ 87,827
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	26,836	27,495
Unrealized Gain on Investments	(134,441)	(545,893)
Realized Gain on Investments	(150,643)	(166,729)
Change in Allowance for Doubtful Accounts	-	(10,000)
Change in Value of Charitable Remainder Trust	(24,043)	(29,348)
Contributions to Endowment	(30,713)	(20,199)
Changes in		
Accounts Receivable	(42,492)	43,764
Pledges Receivable	(85,130)	(242,817)
Bequest Receivable	(131,883)	185,000
Prepaid Expenses and Other Current Assets	(39,344)	50,379
Unemployment Reserve Account	5,329	(1,982)
Accounts Payable and Accrued Expenses	40,419	(20,180)
Accrued Payroll and Related Expenses	4,109	(58,617)
Deferred Income	15,805	(16,344)
Net Cash Used by Operating Activities	<u>(678,055)</u>	<u>(717,644)</u>
Cash Flows from Investing Activities		
Purchase of Investments	(1,162,532)	(273,458)
Proceeds from Sale of Investments	<u>1,588,869</u>	<u>1,152,726</u>
Net Cash Provided by Investing Activities	<u>426,337</u>	<u>879,268</u>
Cash Flows from Financing Activities		
Contributions to Endowment	<u>30,713</u>	<u>20,199</u>
Net Cash Provided by Financing Activities	<u>30,713</u>	<u>20,199</u>
Net (Decrease) Increase in Cash	(221,005)	181,823
Cash and Cash Equivalents, Beginning of Year	<u>766,739</u>	<u>584,916</u>
Cash and Cash Equivalents, End of Year	<u>\$ 545,734</u>	<u>\$ 766,739</u>

See accompanying notes

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

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 enrich our community by creating powerful musical experiences performed with passion and excellence, and by providing indispensable music education and community engagement; 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:

- Collectability of pledges receivable
- Net present value of the charitable remainder trust
- Fair value of investments

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.

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.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables are comprised of amounts due from granting organizations, pledges receivable, and bequests 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 \$5,000 that have a useful life of greater than one year.

Deferred Revenue

The Symphony records deferred revenue when cash is received in advance for services to be performed in future periods such as season tickets and advertising income.

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.

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.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018, or for any period for which the normal statute of limitations remains open.

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 based on relative time spent.

Reclassifications

Certain reclassifications have been made to the June 30, 2017, balances as reported in the prior year financial statements to make them comparable to the balances reported for the year ended June 30, 2018.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

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. Management determined the pledges and bequest receivable are fully collectible at June 30, 2018.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Office furniture and equipment	\$ 28,452	\$ 28,452
Software license	58,398	58,398
Instruments	50,488	50,488
Vehicles	38,114	38,114
Total	<u>175,452</u>	<u>175,452</u>
Less: Accumulated depreciation	<u>(148,880)</u>	<u>(122,044)</u>
Property and Equipment, Net	<u>\$ 26,572</u>	<u>\$ 53,408</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$26,836 and \$27,495, respectively.

NOTE 4: 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. As of June 30, 2018, the Symphony Orchestra Association held investments outside of the Endowment Trust. These investments, valued at \$0 and \$375,321 for the years ended June 30, 2018 and 2017, respectively, are included in the investments below.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 4: INVESTMENTS (Continued)

Total investments consist of the following:

	June 30, 2018		
	Cost	Market	Unrealized Gain/(Loss)
Mutual funds			
Bond funds	\$ 823,071	\$ 795,946	\$ (27,125)
Equity funds	2,269,793	2,915,221	645,428
Marketable securities	556,390	863,782	307,392
Hedge fund	720,000	929,131	209,131
Totals	\$ 4,369,254	\$ 5,504,080	\$ 1,134,826
Change in Unrealized Gain			\$ 134,441
	June 30, 2017		
	Cost	Market	Unrealized Gain/(Loss)
Money market	\$ 25,000	\$ 25,000	\$ -
Certificate of deposit	250,000	250,000	-
Mutual funds			
Bond funds	752,454	714,949	(37,505)
Equity funds	2,166,134	2,809,494	643,360
Marketable securities	626,221	868,511	242,290
Fixed income	105,139	100,321	(4,818)
Hedge fund	720,000	877,058	157,058
Totals	\$ 4,644,948	\$ 5,645,333	\$ 1,000,385
Change in Unrealized Gain			\$ 545,893

NOTE 5: CHARITABLE REMAINDER TRUST

During the year ended June 30, 2008, the Symphony Orchestra Association 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 Orchestra Association is calculated using the IRS annuity tables and a discount rate of 4% based on the Symphony Orchestra Association's historic risk free rate of return.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 5: 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, the present value of assets held under this charitable remainder trust are classified as permanently restricted net assets in the financial statements.

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 current agreement was renegotiated in 2017, and expires on June 30, 2019.

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, 2018 and 2017, was \$80,041 and \$78,849, respectively.

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

<u>Year ended June 30,</u>	<u>Amount</u>
2019	\$ 77,616

NOTE 7: LINE OF CREDIT

The Symphony has an unsecured line of credit with Montecito Bank and Trust for \$250,000, expiring March 5, 2019, with an interest rate of the prime rate quoted in the Wall Street Journal plus 0.25. At June 30, 2018, the current interest rate is 5.25%. As of June 30, 2018, there was no balance outstanding.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 8: BOARD DESIGNATED AND DONOR RESTRICTED NET ASSETS

Board Designated:

As of June 30, 2018 and 2017, combined board designated net assets totaled \$714,904 and \$687,637, respectively, for the Symphony Orchestra Association's operating reserves.

Temporarily Restricted Net Assets:

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

	<u>2018</u>	<u>2017</u>
Concert sponsorships	\$ 307,560	\$ 175,300
Pre-concert talks	15,000	-
Education	207,419	111,900
Unappropriated endowment trust earnings	736,587	713,044
Future periods	<u>246,770</u>	<u>201,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,513,336</u>	<u>\$ 1,201,744</u>

Permanently Restricted Net Assets:

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

NOTE 9: 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. For the years ended June 30, 2017 and 2016, the Symphony contributed \$99,520 and \$106,245, respectively, to both plans.

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, 2018, the Symphony had approximately \$250,000 of uninsured funds.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 10: CONCENTRATION OF RISK (Continued)

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 and holds the endowments other than the charitable remainder trust. 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 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.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

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

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.

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, 2018, the Symphony had no fund deficiencies.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

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

Changes in the Symphony's endowment net assets are as follows as of June 30, 2018:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Trust</u>
Endowment Trust Net				
Assets June 30, 2017	\$ 619,238	\$ 713,044	\$ 4,743,907	\$ 6,076,189
Contributions	-	-	30,713	30,713
Investment income	16,453	128,056	-	144,509
Appreciation (realized and unrealized)	31,945	248,621	-	280,566
Professional fees	(3,980)	(30,979)	-	(34,959)
Change in charitable trust	-	-	24,043	24,043
Amounts appropriated for expenditure	-	(322,155)	-	(322,155)
Total Funds	<u>\$ 663,656</u>	<u>\$ 736,587</u>	<u>\$ 4,798,663</u>	<u>\$ 6,198,906</u>

As of June 30, 2017, 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, 2016	\$ 541,168	\$ 341,069	\$ 4,694,360	\$ 5,576,597
Contributions	-	-	20,199	20,199
Investment income	3,235	26,461	-	29,696
Appreciation (realized and unrealized)	78,587	642,916	-	721,503
Professional fees	(3,751)	(30,690)	-	(34,441)
Change in charitable trust	-	-	29,348	29,348
Amounts appropriated for expenditure	-	(266,713)	-	(266,713)
Total Funds	<u>\$ 619,238</u>	<u>\$ 713,044</u>	<u>\$ 4,743,907</u>	<u>\$ 6,076,189</u>

THE SANTA BARBARA 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 SANTA BARBARA 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>2018</u>			
Money market	\$ 33,292	\$ -	\$ -
Certificate of deposit	-	252,947	-
Mutual funds			
Bond funds	795,946	-	-
Equity funds	2,915,221	-	-
Marketable securities	863,782	-	-
Hedge fund	-	929,131	-
Charitable Remainder Trust	-	661,534	-
Totals	<u>\$ 4,608,241</u>	<u>\$ 1,843,612</u>	<u>\$ -</u>
<u>2017</u>			
Money market	\$ 193,686	\$ -	\$ -
Certificate of deposit	-	250,000	-
Mutual funds			
Bond funds	714,949	-	-
Equity funds	2,809,492	-	-
Marketable securities	868,511	-	-
Fixed income	100,321	-	-
Hedge fund	-	877,058	-
Charitable Remainder Trust	-	637,491	-
Totals	<u>\$ 4,686,959</u>	<u>\$ 1,764,549</u>	<u>\$ -</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.

Certificate of deposit – Funds held in certificates of deposit are valued at initial deposit plus earned interest to approximate daily pricing due to relatively short term nature of the holding.

Bond Funds – Investment in domestic and international bonds held as separate ownership shares in the form of mutual funds with daily pricing.

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.

THE SANTA BARBARA SYMPHONY
Notes to Combined Financial Statements

NOTE 12: FAIR VALUE MEASUREMENT (Continued)

Marketable Securities- Investments in marketable securities are valued at the closing price reported on the active market on which the individual securities are traded.

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 investment manager the Symphony uses to manage a portion of investments.

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

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 1, 2018, which is the date the financial statements were available to be issued.

Supplemental Schedules

THE SANTA BARBARA SYMPHONY
Combining Statement of Financial Position
June 30, 2018
With Summarized Comparative Totals for June 30, 2017

	Assets			
	Symphony Orchestra Association	Endowment Trust	2018	2017
Current Assets:				
Cash and Cash Equivalents	\$ 512,442	\$ 33,292	\$ 545,734	\$ 766,739
Accounts Receivable	42,492	-	42,492	-
Pledges Receivable	491,330	-	491,330	406,200
Bequest Receivable	156,883	-	156,883	25,000
Prepaid Expenses and Other Current Assets	50,845	-	50,845	11,501
Total Current Assets	1,253,992	33,292	1,287,284	1,209,440
Unemployment Reserve Account	27,738	-	27,738	33,067
Property and Equipment:				
Automobiles	38,114	-	38,114	38,114
Office Equipment and Furniture	137,338	-	137,338	137,338
Less: Accumulated Depreciation	(148,880)	-	(148,880)	(122,044)
Net Property and Equipment	26,572	-	26,572	53,408
Investments	-	5,504,080	5,504,080	5,645,333
Interest in Charitable Remainder Trust	661,534	-	661,534	637,491
Total Assets	\$ 1,969,836	\$ 5,537,372	\$ 7,507,208	\$ 7,578,739
Liabilities and Net Assets				
Current Liabilities:				
Accounts Payable and Accrued Expenses	\$ 52,737	\$ -	\$ 52,737	\$ 12,318
Accrued Payroll and Related Expenses	43,113	-	43,113	39,004
Deferred Income	384,455	-	384,455	368,650
Total Current Liabilities	480,305	-	480,305	419,972
Net Assets:				
Unrestricted				
Undesignated	-	-	-	525,479
Board Designated	51,248	663,656	714,904	687,637
Total Unrestricted	51,248	663,656	714,904	1,213,116
Temporarily Restricted	776,749	736,587	1,513,336	1,201,744
Permanently Restricted	661,534	4,137,129	4,798,663	4,743,907
Total Net Assets	1,489,531	5,537,372	7,026,903	7,158,767
Total Liabilities and Net Assets	\$ 1,969,836	\$ 5,537,372	\$ 7,507,208	\$ 7,578,739

See accompanying notes

THE SANTA BARBARA SYMPHONY
Combining Statement of Activities
For The Year Ended June 30, 2018
With Summarized Comparative Totals for the Year Ended June 30, 2017

	Symphony Orchestra Association	Endowment Trust	2018	2017
<i>Operating Revenue</i>				
Revenue, Gains and Other Support				
Revenue from Fundraising Events	\$ 9,800	\$ -	\$ 9,800	\$ -
Less Costs of Direct Benefit to Donors	(15,197)	-	(15,197)	-
Net Loss from Fundraising Events	(5,397)	-	(5,397)	-
Concert Income	876,465	-	876,465	859,502
Tuition	28,784	-	28,784	29,535
Contributions and Grants	1,870,529	30,713	1,901,242	1,540,671
Operational Draw	322,155	(322,155)	-	-
Total Revenue, Gains and Other Support	3,092,536	(291,442)	2,801,094	2,429,708
<i>Operating Expenses</i>				
Program Expenses				
Concert and Event Expenses	2,092,965	-	2,092,965	1,792,486
Music Education Center	502,325	-	502,325	476,867
Total Operating Program Expenses	2,595,290	-	2,595,290	2,269,353
Supporting Services				
Management and General	412,936	-	412,936	487,485
Fundraising	397,985	-	397,985	381,697
Total Supporting Services	810,921	-	810,921	869,182
Total Operating Expenses	3,406,211	-	3,406,211	3,138,535
Change in Net Assets from Operations	(313,675)	(291,442)	(605,117)	(708,827)
<i>Non-Operating Revenue and Expenses</i>				
Revenue				
Bequests	132,335	-	132,335	50,899
Permanently Restricted Contributions	-	-	-	20,199
Investment Income	2,347	144,509	146,856	45,522
Realized Gain on Sales of Investments	-	150,941	150,941	166,729
Unrealized Gain on Investments	4,816	129,625	134,441	545,893
Change in Value of Interest in Charitable Remainder Trust	24,043	-	24,043	29,348
Total Non-Operating Revenue	163,541	425,075	588,616	858,590
Expenses				
Depreciation Expense	26,836	-	26,836	27,495
Feasibility Study	53,568	-	53,568	-
Investment Advisory and Accounting Fees	-	34,959	34,959	34,441
Total Non-Operating Expenses	80,404	34,959	115,363	61,936
Change in Net Assets from Non-Operating Activities	83,137	390,116	473,253	796,654
Total Change in Net Assets	(230,538)	98,674	(131,864)	87,827
Net Assets at Beginning of Year	1,720,069	5,438,698	7,158,767	7,070,940
Net Assets at End of Year	\$ 1,489,531	\$ 5,537,372	\$ 7,026,903	\$ 7,158,767

See accompanying notes

THE SANTA BARBARA SYMPHONY
Schedule of Functional Expenses of the
Santa Barbara Symphony Orchestra Association
For The Year Ended June 30, 2018
With Summarized Comparative Totals for the Year Ended June 30, 2017

	Program Services		Total Program Services	Management and General	Fundraising	2018 Expenses	2017 Expenses
	Concert	Education					
Salaries	\$ 865,350	\$ 352,717	\$ 1,218,067	\$ 63,920	\$ 216,204	\$ 1,498,191	\$ 1,464,485
Payroll Taxes and Benefits	175,298	48,337	223,635	34,189	51,893	309,717	278,584
Total Salaries and Related Expenses	1,040,648	401,054	1,441,702	98,109	268,097	1,807,908	1,743,069
Accounting	-	-	-	95,920	-	95,920	99,300
Advertising and Public Relations	124,548	695	125,243	1,160	-	126,403	122,570
Bad Debt	-	-	-	-	-	-	4,738
Core Concert Expenses	123,540	10,478	134,018	-	-	134,018	121,233
Conferences, Meetings, and Training	2,621	1,181	3,802	5,317	5,119	14,238	7,083
Contract Services	540,436	6,706	547,142	63,171	43,029	653,342	474,926
Hospitality	10,995	1,008	12,003	1,843	60,026	73,872	54,128
Dues and Subscriptions	1,906	-	1,906	11,102	168	13,176	16,538
Equipment Rental and Maintenance	28,526	8,033	36,559	1,916	-	38,475	31,497
Fees	45,918	569	46,487	907	9	47,403	49,375
Insurance	-	1,273	1,273	12,563	-	13,836	25,665
Office Expense	-	-	-	10,981	-	10,981	21,167
Printing, Postage, and Copy	45,293	9,092	54,385	6,624	18,227	79,236	38,694
Rent	122,664	21,314	143,978	80,041	-	224,019	236,330
Supplies	3,568	8,515	12,083	8,758	3,184	24,025	36,163
Telecomm	-	68	68	11,761	-	11,829	14,022
Travel and Transportation	2,302	32,339	34,641	2,763	126	37,530	42,037
Total Expenses before Depreciation and Feasibility Study	2,092,965	502,325	2,595,290	412,936	397,985	3,406,211	3,138,535
Depreciation Expense	-	7,623	7,623	19,213	-	26,836	27,495
Feasibility Study	-	-	-	-	53,568	53,568	-
Total Expenses - June 30, 2018	\$ 2,092,965	\$ 509,948	\$ 2,602,913	\$ 432,149	\$ 451,553	\$ 3,486,615	
Total Expenses - June 30, 2017	\$ 1,792,486	\$ 484,490	\$ 2,276,976	\$ 507,357	\$ 381,697		\$ 3,166,030

See accompanying notes