

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Financial Statements and

Independent Auditor's Report

May 31, 2011

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Independent Auditor's Report

Board of Directors
Community Arts Music Association of Santa Barbara, Inc.
Santa Barbara, California

I have audited the accompanying statement of financial position of the Community Arts Music Association of Santa Barbara, Inc. ("CAMA") as of May 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of CAMA's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year comparative information has been derived from CAMA's 2010 financial statements and, in my report dated September 7, 2010, I expressed an unqualified opinion on those financial statements.

This audit has been conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that the audit be planned and performed 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. I believe that this audit provides a reasonable basis for the opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Arts Music Association of Santa Barbara, Inc. as of May 31, 2011, 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.

Gary A. Smith

October 3, 2011

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Statement of Financial Position

May 31, 2011

(With comparative totals for 2010)

ASSETS:

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents	\$ 149,992	\$ 242,002
Short-term investments (Note 3)	32,208	31,962
Receivables	35,000	69,350
Pledges receivable (Note 4)	270,210	633,556
Prepaid Expenses	<u>5,750</u>	<u>1,435</u>
Total current assets	<u>493,160</u>	<u>978,305</u>
Investments (Note 5)	6,878,645	4,811,649
Pledges receivable, net of current position (Note 4)	164,063	424,358
Property and equipment:		
Furniture and equipment	44,727	42,536
Leasehold improvements	<u>12,083</u>	<u>12,082</u>
	56,810	54,618
Less: accumulated depreciation	<u>35,749</u>	<u>25,573</u>
Property and equipment, net	<u>21,061</u>	<u>29,045</u>
Total assets	<u>\$7,556,929</u>	<u>\$6,243,357</u>

LIABILITIES AND NET ASSETS:

Current liabilities:		
Accounts payable and accrued expenses	\$ 43,810	\$ 38,938
Deferred income - ticket sales	<u>56,850</u>	<u>109,571</u>
Total current liabilities	<u>100,660</u>	<u>148,509</u>
Net assets (Notes 7, 8, & 9):		
Unrestricted		
Designated by the Board	1,483,000	640,000
Undesignated	<u>121,156</u>	<u>341,780</u>
	1,604,156	981,780
Temporarily restricted	1,162,022	434,621
Permanently restricted	<u>4,690,091</u>	<u>4,678,447</u>
Total net assets	<u>7,456,269</u>	<u>6,094,848</u>
Total liabilities and net assets	<u>\$7,556,929</u>	<u>\$6,243,357</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Activities
Year ended May 31, 2011
(With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains and other support:		
Ticket sales	\$ 505,011	\$ 509,612
Contributions	423,719	575,600
Bequest	500,000	
Event income	50,635	34,582
Handling charges	2,582	3,430
Investment income (Note 5)	138,806	588,402
Acknowledgements	41,794	33,616
Miscellaneous	367	121
Restitution of permanently restricted funds		(13,038)
Net assets released from restrictions	<u>348,068</u>	<u>245,058</u>
Total revenue gains and other support	<u>2,010,982</u>	<u>1,977,383</u>
Direct expenses:		
Artists' fees	469,803	539,935
Advertising	72,770	78,132
Event expenses	88,051	75,264
Box office fees	9,794	7,013
Publications expense	62,349	62,111
Concert expenses	16,472	16,803
Rent expense	22,140	23,959
Stage crew and ushers	28,040	30,476
Theatre restoration	5,779	5,602
Consulting expenses	54,000	48,000
Other expenses	<u>4,920</u>	<u>6,319</u>
Subtotal	<u>834,118</u>	<u>893,614</u>
Administrative and other expenses:		
Accounting	22,050	19,400
Credit card fees	12,332	14,190
Depreciation expense	10,176	10,424
Development expense	7,293	8,915
Insurance	26,212	22,164
Office expense	16,719	14,762
Postage and mailing expense	6,613	8,579
Printing and reproduction	10,296	14,696
Payroll expenses	377,861	377,650
Rent expense	58,989	60,126
Telephone and internet services	4,814	5,020
Other expenses	<u>1,133</u>	<u>1,611</u>
Subtotal	<u>554,488</u>	<u>557,537</u>
Total expenses	<u>1,388,606</u>	<u>1,451,151</u>
Change in unrestricted net assets	<u>\$ 622,376</u>	<u>\$ 526,232</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

**Statement of Activities
Year ended May 31, 2011
(With comparative totals for 2010)**

	<u>2011</u>	<u>2010</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 108,444	\$ 118,831
Investment income (Note 5)	967,025	248,633
Restrictions satisfied by:		
Payment of general operating and program costs	<u>(348,068)</u>	<u>(245,058)</u>
Increase in temporarily restricted net assets	<u>727,401</u>	<u>122,406</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	11,644	49,049
Restitution of permanently restricted funds	<u> </u>	<u>13,038</u>
Increase in permanently restricted net assets	<u>11,644</u>	<u>62,087</u>
INCREASE IN NET ASSETS	1,361,421	710,725
NET ASSETS, BEGINNING OF YEAR	<u>6,094,848</u>	<u>5,384,123</u>
NET ASSETS, END OF YEAR	<u>\$7,456,269</u>	<u>\$6,094,848</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Statement of Cash Flows

Year ended May 31, 2011

(With comparative totals for 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$1,361,421	\$ 710,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,176	10,424
Contributions restricted for long-term purposes	(11,644)	(49,049)
Realized and unrealized (gain) loss on investments	(986,002)	(682,829)
(Increase) decrease in operating assets:		
Receivables	34,350	(34,500)
Pledges receivable	120,185	20,885
Prepaid expenses	(4,315)	(1,435)
Increase (decrease) in operating liabilities:		
Accounts payable	4,872	32,019
Deferred revenue	<u>(52,721)</u>	<u>99,621</u>
Net cash provided by operating activities	<u>476,322</u>	<u>105,861</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquired	(2,192)	
Increase in investments	(2,347,330)	(5,472,748)
Sale of investments	<u>1,266,090</u>	<u>4,662,180</u>
Net cash used in investing activities	<u>(1,083,432)</u>	<u>(810,568)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for long-term purposes:		
Endowment fund	<u>515,100</u>	<u>630,516</u>
Net cash provided by financing activities	<u>515,100</u>	<u>630,516</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(92,010)	(74,191)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>242,002</u>	<u>316,193</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 149,992</u></u>	<u><u>\$ 242,002</u></u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Notes to Financial Statements
May 31, 2011

Note 1 Nature of organization

The Community Arts Music Association of Santa Barbara, Inc. (CAMA) is a non-profit corporation organized to bring high quality classical musicians from around the globe to the Santa Barbara area to perform orchestral, vocal, solo instrumental, and chamber concerts. The financial statements include the accounts of the CAMA Women's Board, an auxiliary group that promotes a public response and appreciation of concerts presented by CAMA.

Note 2 Summary of significant accounting policies

Cash and equivalents

For financial statement purpose, CAMA considers all investments with a maturity at purchase of three months or less to be cash equivalents.

Investments

Investments are stated at market value.

Equipment

Equipment and leasehold improvements are stated at cost and depreciated using the straight-line method over an estimated useful life of 5 to 7 years.

Unrestricted net assets

The unrestricted net assets include contributions, the uses of which are not restricted by donors or grantors.

Temporarily restricted net assets

Temporarily restricted net assets are those whose use is limited by donors to a specific purpose or time period. All temporarily restricted funds whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Permanently restricted net assets

Permanently restricted net assets are designated by donors to be maintained by CAMA in perpetuity.

Income Taxes

CAMA is exempt from Federal and California income taxes. Management believes that the tax positions taken are more likely than not to be sustained upon examination.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk

Financial instruments which potentially subject CAMA to concentrations of credit risk consist of cash, money market funds, and receivables. CAMA places its cash and money market funds with high credit quality financial institutions. Cash and money market funds may, at times, exceed federal insurance limits. CAMA has not experienced any losses on such accounts. With respect to receivables, CAMA performs ongoing credit evaluations and writes off uncollectible amounts as they become known.

Note 3 Short-term investments

Short-term investments consist of a certificate of deposit.

Note 4 Pledges receivable

Unconditional promises to give are expected to be realized in the following periods:

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 280,498	\$ 658,897
Between one and five years	21,000	283,000
More than five years	215,000	215,000
Discount on pledges	<u>(82,225)</u>	<u>(98,983)</u>
Total pledges receivable	434,273	1,057,914
Less: current portion	<u>270,210</u>	<u>633,556</u>
Pledges receivable, net of current portion	<u>\$ 164,063</u>	<u>\$ 424,358</u>

Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at the risk-free interest rate at the date of the contribution.

Note 5 Investments

Investments consist of the following:

	<u>2011</u>	<u>2010</u>
Cash and short-term investments	\$ 358,795	\$ 267,226
Equity securities	4,000,970	2,759,333
Fixed income securities	1,748,988	1,233,617
Real estate funds	205,659	143,208
Commodity funds	<u>564,233</u>	<u>408,265</u>
	<u>\$6,878,645</u>	<u>\$4,811,649</u>

Investment income consists of the following:

	<u>2011</u>		<u>2010</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Interest and dividends	\$ 27,587	\$151,331	\$ 16,010	\$ 138,196
Net realized and unrealized gain	120,383	865,619	572,392	110,437
Less investment expenses	<u>(9,164)</u>	<u>(49,925)</u>	<u>(-)</u>	<u>(-)</u>
Investment income, net	<u>\$138,806</u>	<u>\$967,025</u>	<u>\$ 588,402</u>	<u>\$ 248,633</u>

Note 6 Fair Value Measurements

CAMA applies ASC Topic 820, Fair Value Measurements and Disclosures to financial instruments that are measured and reported on a fair value basis. The standard establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets.

Level 2: Inputs other than quoted prices in active or inactive markets for the same or similar assets.

Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

The table below presents the balances of assets measured at fair value as of May 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	<u>\$6,878,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,878,645</u>

Note 7 Board designated funds

Unrestricted Board designated funds consist of the following at May 31, 2011:

	<u>2011</u>	<u>2010</u>
Board designated endowment	\$ 410,000	\$ 410,000
Performances	500,000	
Reserves	<u>573,000</u>	<u>230,000</u>
	<u>\$1,483,000</u>	<u>\$ 640,000</u>

Note 8 Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2011</u>	<u>2010</u>
Program activities	\$ 348,835	\$ 222,965
Periods after May 31	13,000	133,186
The portion of perpetual endowment funds subject to time restrictions under SPMIFA:		
Without purpose restrictions	<u>800,187</u>	<u>78,470</u>
	<u>\$1,162,022</u>	<u>\$ 434,621</u>

Note 9 Endowment

CAMA's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, 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.

Interpretation of relevant law

The Board of Directors 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, CAMA 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 fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (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
- (7) The investment policies of the organization

Return objectives and risk parameters

CAMA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended, to produce results that are appropriate for a moderate level of investment risk.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, CAMA relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). CAMA targets a diversified asset allocation to achieve its long-term return objectives.

Spending policy

CAMA's spending policy is to withdraw in any given year no more than 6% of the fair market value of the assets of the fund valued as of the first day of each fiscal year. Current Board policy on the spending rate is 4.75% per annum, based on a five-year rolling average. As part of its integrated investment policy to preserve long-term endowments, the Board of Directors believes it has the capabilities (subject to explicit donor prohibition) to invade principal for annual distributions. This could occur in a given year when the income earned on investments is less than the amount distributed under CAMA's spending policy.

Endowment net asset composition by type of fund as of May 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 410,000	\$ -	\$ -	\$ 410,000
Donor restricted endowment funds		816,395	4,690,091	5,506,486
	<u>\$ 410,000</u>	<u>\$ 816,395</u>	<u>\$ 4,690,091</u>	<u>\$ 5,916,486</u>

Change in endowment net assets for the year ended May 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 410,000	\$ 78,470	\$ 4,678,447	\$ 5,166,917
Investment return:				
Interest and dividends		151,331		151,331
Realized and unrealized gains		865,619		865,619
Less: investment expenses		(49,925)		(49,925)
Contributions			11,644	11,644
Appropriation for expenditures		(245,308)		(245,308)
Endowment net assets, end of year	<u>\$ 410,000</u>	<u>\$ 800,187</u>	<u>\$ 4,690,091</u>	<u>\$ 5,900,278</u>

Funds with deficiencies

From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the value of the initial and subsequent gift amounts. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. There were no such deficiencies as of May 31, 2011.

Note 10 Retirement plan

CAMA maintains a retirement savings plan for eligible employees. Each participant may elect to contribute a percentage of their annual compensation to the plan. CAMA's matching contribution to the plan was \$5,358 and \$6,818 for the years ended May 31, 2011 and 2010 respectively.

Note 11 Commitments

At May 31, 2011, CAMA has contractual obligations with orchestras and artists for the 2011-2012 year totaling \$612,500.

CAMA leases office space under a lease agreement that expires in July 2013, with an option to renew for an additional five years. This lease is subject to annual increases for inflation. CAMA also leases office equipment under an agreement expiring in August 2013.

At May 31, 2011, future minimum lease payments under these agreements were as follows:

<u>Year ending May 31</u>	<u>Amount</u>
2012	\$ 56,958
2013	56,958
2014	<u>9,845</u>
Total	<u>\$ 123,761</u>

Note 12 Concentration in amount of revenue received from donors

In 2011 CAMA received \$500,000 from one donor.

Note 13 Functional expenses

Functional classification of expenses is as follows:

	<u>2011</u>	<u>2010</u>
Program services	\$ 943,689	\$1,006,436
Costs of direct benefits to donors	88,051	75,264
Supporting services:		
Management and general	206,094	231,076
Fundraising	<u>150,772</u>	<u>138,375</u>
	<u>\$1,388,606</u>	<u>\$1,451,151</u>

Note 14 Related party transactions

In 2011 CAMA paid consulting fees in amount of \$21,000 to a Board member.

Note 15 Subsequent events

Subsequent events have been evaluated through October 1, 2011, which is the date the financial statements were available to be issued.