

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Financial Statements and

Independent Auditor's Report

May 31, 2012

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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, 2012, 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 2011 financial statements and, in my report dated October 3, 2011, 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 my 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, 2012, 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*

August 22, 2012

**COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.**

**Statement of Financial Position**

**May 31, 2012**

**(With comparative totals for 2011)**

**ASSETS:**

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 340,398	\$ 149,992
Short-term investments (Note 3)	32,355	32,208
Receivables	69,015	35,000
Pledges receivable (Note 4)	15,865	270,210
Prepaid Expenses	<u>7,734</u>	<u>5,750</u>
Total current assets	<u>465,367</u>	<u>493,160</u>
Investments (Note 5)	6,382,349	6,878,645
Pledges receivable, net of current position (Note 4)	165,211	164,063
Property and equipment:		
Furniture and equipment	47,434	44,727
Leasehold improvements	<u>12,083</u>	<u>12,083</u>
	59,517	56,810
Less: accumulated depreciation	<u>45,584</u>	<u>35,749</u>
Property and equipment, net	<u>13,933</u>	<u>21,061</u>
Total assets	<u>\$7,026,860</u>	<u>\$7,556,929</u>

**LIABILITIES AND NET ASSETS:**

Current liabilities:

Accounts payable and accrued expenses	\$ 4,414	\$ 43,810
Deferred income - ticket sales	<u>213,686</u>	<u>56,850</u>
Total current liabilities	<u>218,100</u>	<u>100,660</u>

Net assets:

Unrestricted:

Designated by the Board (Note 6)	1,433,000	1,483,000
Undesignated	<u>177,751</u>	<u>121,156</u>
	1,610,751	1,604,156
Temporarily restricted (Note 7)	466,864	1,162,022
Permanently restricted (Note 8)	<u>4,731,145</u>	<u>4,690,091</u>
Total net assets	<u>6,808,760</u>	<u>7,456,269</u>
Total liabilities and net assets	<u>\$7,026,860</u>	<u>\$7,556,929</u>

See notes to financial statements.

**COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.**  
**Statement of Activities**  
**Year ended May 31, 2012**  
**(With comparative totals for 2011)**

	<u>2012</u>	<u>2011</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>		
Revenue, gains and other support:		
Ticket sales	\$ 547,409	\$ 505,011
Contributions	619,685	423,719
Bequest		500,000
Event income	54,889	50,635
Handling charges	4,420	2,582
Investment income (Note 5)	(83,371)	138,806
Acknowledgements	46,119	41,794
Miscellaneous	186	367
Net assets released from restrictions	<u>381,356</u>	<u>348,068</u>
Total revenue gains and other support	<u>1,570,693</u>	<u>2,010,982</u>
Direct expenses:		
Artists' fees	614,155	469,803
Advertising	77,591	72,770
Event expenses	85,711	88,051
Box office fees	10,688	9,794
Publications expense	58,507	62,349
Concert expenses	12,224	16,472
Rent expense	24,435	22,140
Stage crew and ushers	27,395	28,040
Theatre restoration	6,085	5,779
Consulting expenses	58,320	54,000
Other expenses	<u>7,131</u>	<u>4,920</u>
Subtotal	<u>982,242</u>	<u>834,118</u>
Administrative and other expenses:		
Accounting	23,800	22,050
Credit card fees	14,250	12,332
Depreciation expense	9,835	10,176
Development expense	6,098	7,293
Insurance	26,382	26,212
Office expense	13,136	16,719
Postage and mailing expense	7,175	6,613
Printing and reproduction	10,609	10,296
Payroll expenses	404,895	377,861
Rent expense	60,833	58,989
Telephone and internet services	3,782	4,814
Other expenses	<u>1,061</u>	<u>1,133</u>
Subtotal	<u>581,856</u>	<u>554,488</u>
Total expenses	<u>1,564,098</u>	<u>1,388,606</u>
Change in unrestricted net assets	<u>\$ 6,595</u>	<u>\$ 622,376</u>

See notes to financial statements.

**COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.**

**Statement of Activities**

**Year ended May 31, 2012**

**(With comparative totals for 2011)**

	<u>2012</u>	<u>2011</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 146,017	\$ 108,444
Investment income (loss) (Note 5)	(459,819)	967,025
Restrictions satisfied by:		
Payment of general operating and program costs	<u>(381,356)</u>	<u>(348,068)</u>
Increase (decrease) in temporarily restricted net assets	<u>(695,158)</u>	<u>727,401</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions (See page 10 of Note 8)	<u>41,054</u>	<u>11,644</u>
INCREASE (DECREASE) IN NET ASSETS	(647,509)	1,361,421
NET ASSETS, BEGINNING OF YEAR	<u>7,456,269</u>	<u>6,094,848</u>
NET ASSETS, END OF YEAR	<u>\$6,808,760</u>	<u>\$7,456,269</u>

See notes to financial statements.

**COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.**

**Statement of Cash Flows  
Year ended May 31, 2012  
(With comparative totals for 2011)**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (647,509)	\$1,361,421
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,835	10,176
Contributions restricted for long-term purposes	(41,054)	(11,644)
Realized and unrealized (gain) loss on investments	697,283	(986,002)
(Increase) decrease in operating assets:		
Receivables	(34,015)	34,350
Pledges receivable	10,001	120,185
Prepaid expenses	(1,984)	(4,315)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(39,396)	4,872
Deferred revenue	<u>156,836</u>	<u>(52,721)</u>
Net cash provided by operating activities	<u>109,997</u>	<u>476,322</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Property and equipment acquired	(2,707)	(2,192)
Purchase of investments	(6,271,557)	(2,347,330)
Sale of investments	<u>6,070,423</u>	<u>1,266,090</u>
Net cash used in investing activities	<u>(203,841)</u>	<u>(1,083,432)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for long-term purposes:		
Endowment fund	<u>284,250</u>	<u>515,100</u>
Net cash provided by financing activities	<u>284,250</u>	<u>515,100</u>
 <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 190,406	 (92,010)
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	 <u>149,992</u>	 <u>242,002</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 340,398</u>	<u>\$ 149,992</u>

See notes to financial statements.

**COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.**  
**Notes to Financial Statements**  
**May 31, 2012**

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. These investments are exposed to various risks, such as interest rate, market and credit risks. It is at least reasonably possible that changes within the next year could materially affect the reported amounts.

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 for this year or for those for which the statute remains open.

### 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>2012</u>	<u>2011</u>
In one year or less	\$ 19,497	\$ 280,498
Between one and five years	19,000	21,000
More than five years	215,000	215,000
Discount on pledges	<u>(72,421)</u>	<u>(82,225)</u>
Total pledges receivable	181,076	434,273
Less: current portion	<u>15,865</u>	<u>270,210</u>
Pledges receivable, of current portion	<u>\$ 165,211</u>	<u>\$ 164,063</u>

Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows discounted at a rate of 4%.

### Note 5 Investments

Investments consist of the following:

	<u>2012</u>	<u>2011</u>
Cash and short-term investments	\$ 109,255	\$ 358,795
Equity securities	4,011,022	4,000,970
Fixed income securities	1,755,809	1,748,988
Real estate funds		205,659
Commodity funds	<u>506,263</u>	<u>564,233</u>
	<u>\$6,382,349</u>	<u>\$6,878,645</u>



Investment income consists of the following:

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 38,368	\$ 181,255	\$219,623	\$ 27,587	\$ 151,331	\$ 178,918
Net realized and unrealized gain (loss)	(109,701)	(587,582)	(697,283)	120,383	865,619	986,002
Less investment expenses	<u>(12,038)</u>	<u>(53,492)</u>	<u>(65,530)</u>	<u>(9,164)</u>	<u>(49,925)</u>	<u>(59,089)</u>
Investment income (loss), net	<u>\$ (83,371)</u>	<u>\$ (459,819)</u>	<u>\$ (543,190)</u>	<u>\$ 138,806</u>	<u>\$ 967,025</u>	<u>\$ 1,105,831</u>

Note 6 Board designated funds

Unrestricted Board designated funds consist of the following at May 31, 2012:

	2012	2011
Board designated endowment	\$ 410,000	\$ 410,000
Performances	450,000	500,000
Reserves	<u>573,000</u>	<u>573,000</u>
	<u>\$1,433,000</u>	<u>\$1,483,000</u>

Note 7 Temporarily restricted net assets

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

	2012	2011
Program activities	\$ 389,352	\$ 348,835
Periods after May 31	3,000	13,000
The portion of perpetual endowment funds subject to time restrictions under SPMIFA:		
Without purpose restrictions	<u>74,512</u>	<u>800,187</u>
	<u>\$ 466,864</u>	<u>\$ 1,162,022</u>

Note 8 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.

#### Endowment net asset composition by type of fund as of May, 31, 2012

	<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	<u>                    </u>	<u>74,512</u>	<u>4,731,145</u>	<u>4,805,657</u>
	<u>\$ 410,000</u>	<u>\$ 74,512</u>	<u>\$ 4,731,145</u>	<u>\$ 5,215,657</u>

Change in endowment net assets for the year ended May 31, 2012:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 410,000	\$ 800,187	\$ 4,690,091	\$ 5,900,278
Investment return:				
Interest and dividends		181,255		181,255
Realized and unrealized gains (losses)		(587,582)		(587,582)
Less: investment expenses		(53,492)		(53,492)
Contributions			41,054	41,054
Appropriation for expenditures	_____	(265,856)	_____	(265,856)
Endowment net assets, end of year	<u>\$ 410,000</u>	<u>\$ 74,512</u>	<u>\$ 4,731,145</u>	<u>\$ 5,215,657</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, 2012.

Note 9 Fair value measurements

CAMA measures the fair value of financial instruments in accordance with ASC 820 *Fair Value Measures*. 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 or liabilities.
- Level 2: Quoted prices in active or inactive markets for the same or similar assets. Level 2 inputs were not utilized in 2012.
- Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity.

Assets measured at fair value as of May 31, 2012 are as follows:

Measured on a recurring basis:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Cash and short-term investments	\$ 109,255	\$ -	\$ 109,255
Equity securities	4,011,022		4,011,022
Fixed income securities	1,755,809		1,755,809
Commodity funds	506,263		506,263
	<u>\$ 6,382,349</u>	<u>\$ -</u>	<u>\$ 6,382,349</u>
Measured on a non-recurring basis:			
Pledges receivable	<u>\$ -</u>	<u>\$ 165,211</u>	<u>\$ 165,211</u>

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 \$7,221 and \$5,358 for the years ended May 31, 2012 and 2011 respectively.

Note 11 Commitments

At May 31, 2012, CAMA has contractual obligations with orchestras and artists for the 2012-2013 year totaling \$631,500.

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, 2012, future minimum lease payments under these agreements were as follows:

<u>Year ending May 31</u>	<u>Amount</u>
2013	\$ 58,760
2014	<u>10,142</u>
Total	<u>\$ 68,902</u>

Note 12 Functional expenses

Functional classification of expenses is as follows:

	<u>2012</u>	<u>2011</u>
Program services	\$ 1,111,777	\$ 943,689
Costs of direct benefits to donors	85,711	88,051
Supporting services:		
Management and general	213,232	206,094
Fundraising	<u>153,378</u>	<u>150,772</u>
	<u>\$ 1,564,098</u>	<u>\$1,388,606</u>

Note 13 Related party transactions

In 2012 CAMA paid consulting fees in amount of \$22,800 to a Board member.

Note 14 Subsequent events

Subsequent events have been evaluated through August 22, 2012, which is the date the financial statements were available to be issued.