

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Financial Statements and

Independent Auditor's Report

For the Years Ended
May 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of the Community Arts Music Association of Santa Barbara, Inc. which comprise the statements of financial position as of May 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatements, 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. 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 these risk assessments, the auditor considers internal control relevant to the organization's 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 organization's 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 that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gary A. Smith

September 13, 2016

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Financial Position
May 31, 2016 and 2015

ASSETS:

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 448,169	\$ 78,603
Short-term investments (Note 3)	30,765	30,712
Receivables	9,726	27,274
Pledges receivable (Note 4)	7,997	12,497
Prepaid expenses	<u>23,637</u>	<u>31,843</u>
Total current assets	<u>520,294</u>	<u>180,929</u>
Investments (Note 5)	7,172,631	7,435,189
Pledges receivable, net of current position (Note 4)	145,245	145,245
Property and equipment:		
Furniture and equipment	91,550	96,161
Leasehold improvements	<u>12,083</u>	<u>12,083</u>
	103,633	108,244
Less: accumulated depreciation	<u>70,744</u>	<u>67,661</u>
Property and equipment, net	<u>32,889</u>	<u>40,583</u>
Total assets	<u>\$7,871,059</u>	<u>\$7,801,946</u>
 LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,191	\$ 6,785
Deferred income - ticket sales	<u>312,037</u>	<u>137,707</u>
Total current liabilities	<u>315,228</u>	<u>144,492</u>
Net assets:		
Unrestricted:		
Designated by the Board (Note 6)	1,991,166	1,489,000
Undesignated	<u>411,621</u>	<u>426,688</u>
	2,402,787	1,915,688
Temporarily restricted (Note 7)	376,133	970,455
Permanently restricted (Note 8)	<u>4,776,911</u>	<u>4,771,311</u>
Total net assets	<u>7,555,831</u>	<u>7,657,454</u>
Total liabilities and net assets	<u>\$7,871,059</u>	<u>\$7,801,946</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Activities
Years ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains and other support:		
Ticket sales	\$ 635,505	\$ 615,496
Contributions	595,459	596,306
Bequest	610,708	
Event income	33,152	43,375
Investment income (loss) (Note 5)	(71,858)	34,208
Acknowledgements	28,551	38,916
Net assets released from restrictions	<u>330,395</u>	<u>380,046</u>
Total revenue gains and other support	<u>2,161,912</u>	<u>1,708,347</u>
Direct expenses:		
Artists' fees	631,000	661,016
Advertising	58,073	92,495
Event expenses	69,424	72,452
Box office fees	7,591	6,299
Publications expense	58,274	63,167
Concert expenses	18,699	25,391
Ticketing network service	14,362	9,650
Rent expense	38,323	38,170
Stage crew and ushers	41,907	41,790
Facility fees	8,324	8,560
Consulting expenses	65,340	62,400
Other expenses	<u>5,263</u>	<u>6,277</u>
Subtotal	<u>1,016,580</u>	<u>1,087,667</u>
General operating and other expenses:		
Accounting	30,950	27,750
Credit card fees	16,656	17,337
Depreciation expense	17,494	8,950
Development expense		430
Insurance	26,732	25,164
Office expense	12,619	20,089
Postage and mailing expense	4,014	6,466
Printing and reproduction	10,770	11,753
Payroll expenses	464,887	450,816
Rent expense	68,637	68,336
Telephone and internet services	4,339	4,333
Other expenses	<u>1,135</u>	<u>1,041</u>
Subtotal	<u>658,233</u>	<u>642,465</u>
Total expenses	<u>1,674,813</u>	<u>1,730,132</u>
Change in unrestricted net assets	<u>\$ 487,099</u>	<u>\$ (21,785)</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Activities
Years ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 24,623	\$ 36,390
Investment income (Note 5)	(288,550)	181,323
Restrictions satisfied by:		
Payment of general operating and program costs	<u>(330,395)</u>	<u>(380,046)</u>
Change in temporarily restricted net assets	<u>(594,322)</u>	<u>(162,333)</u>
 CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	10,100	1,000
Bad debt loss	<u>(4,500)</u>	<u> </u>
Change in permanently restricted assets	<u>5,600</u>	<u>1,000</u>
 CHANGE IN NET ASSETS	 (101,623)	 (183,118)
 NET ASSETS, BEGINNING OF YEAR	 <u>7,657,454</u>	 <u>7,840,572</u>
 NET ASSETS, END OF YEAR	 <u><u>\$7,555,831</u></u>	 <u><u>\$7,657,454</u></u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Cash Flows
Years ended May 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (101,623)	\$ (183,118)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,494	8,950
Contributions restricted for long-term purposes	(10,100)	(40,315)
Realized and unrealized (gain) loss on investments	542,483	(48,093)
Bad debts loss	4,500	
(Increase) decrease in operating assets:		
Receivables	17,548	7,726
Prepaid expenses	8,206	(4,612)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,594)	(6,659)
Deferred revenue	<u>174,330</u>	<u>(41,834)</u>
Net cash provided by (used in) operating activities	<u>649,244</u>	<u>(307,955)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquired	(9,800)	(43,967)
Purchase of investments	(1,687,489)	(320,001)
Sale of investments	<u>1,407,511</u>	<u>516,596</u>
Net cash provided by (used in) investing activities	<u>(289,778)</u>	<u>152,628</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for long-term purposes:		
Ticketing network system		39,315
Endowment fund	<u>10,100</u>	<u>1,000</u>
Net cash provided by financing activities	<u>10,100</u>	<u>40,315</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	369,566	(115,012)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>78,603</u>	<u>193,615</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 448,169</u>	<u>\$ 78,603</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

**Notes to Financial Statements
Years Ended May 31, 2016 and 2015**

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 estimated useful lives of 3 to 5 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. CAMA's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

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>2016</u>	<u>2015</u>
In one year or less	\$ 7,997	\$ 12,497
More than five years	215,000	215,000
Discount on pledges	<u>(69,755)</u>	<u>(69,755)</u>
Total pledges receivable	153,242	157,742
Less: current portion	<u>7,997</u>	<u>12,497</u>
Pledges receivable, net of current portion	<u>\$ 145,245</u>	<u>\$ 145,245</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>2016</u>	<u>2015</u>
Money Market	\$ 151,114	\$ 49,557
Equity securities	4,993,469	5,493,178
Fixed income securities	1,766,960	1,570,743
Commodity funds	<u>261,088</u>	<u>321,711</u>
	<u>\$7,172,631</u>	<u>\$7,435,189</u>

Investment income consists of the following:

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 35,861	\$ 175,916	\$ 211,777	\$ 35,669	\$ 157,544	\$ 193,213
Net realized and unrealized gain (loss)	(103,332)	(439,151)	(542,483)	2,753	45,340	48,093
Less investment expenses	(4,387)	(25,315)	(29,702)	(4,214)	(21,561)	(25,775)
Investment income (loss), net	<u>\$ (71,858)</u>	<u>\$(288,550)</u>	<u>\$(360,408)</u>	<u>\$ 34,208</u>	<u>\$ 181,323</u>	<u>\$ 215,531</u>

Note 6 Board designated funds

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

	2016	2015
Board designated endowment	\$1,020,708	\$ 410,000
Performances	350,000	300,000
Operating reserve	<u>620,458</u>	<u>779,000</u>
	<u>\$1,991,166</u>	<u>\$1,489,000</u>

Note 7 Temporarily restricted net assets

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

	2016	2015
Program activities	\$ 157,440	\$ 173,367
The portion of perpetual endowment funds subject to time restrictions under SPMIFA:		
Without purpose restrictions	<u>218,693</u>	<u>797,088</u>
	<u>\$ 376,133</u>	<u>\$ 970,455</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, 2016:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated endowment funds	\$1,020,708	\$ -	\$ -	\$ 1,020,708
Donor restricted endowment funds		218,693	4,776,911	4,995,604
	<u>\$1,020,708</u>	<u>\$ 218,693</u>	<u>\$ 4,776,911</u>	<u>\$ 6,016,312</u>

Change in endowment net assets for the year ended May 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 410,000	\$ 797,088	\$ 4,771,311	\$ 5,978,399
Investment return:				
Interest and dividends		175,916		175,916
Realized and unrealized gains (loss)		(439,151)		(439,151)
Less: investment expenses		(25,315)		(25,315)
Contributions			10,100	10,100
Transfer to increase board- designated endowment funds	610,708			610,708
Bad debt loss			(4,500)	(4,500)
Appropriation for expenditures	<u> </u>	<u>(289,845)</u>	<u> </u>	<u>(289,845)</u>
Endowment net assets, end of year	<u>\$ 1,020,708</u>	<u>\$ 218,693</u>	<u>\$ 4,776,911</u>	<u>\$ 6,016,312</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, 2016.

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 2016 and 2015.

Level 3: Inputs that are unobservable, with valuations based on cash flow models and similar techniques, and not based on market activity. Level 3 inputs were not utilized in 2016 and 2015.

Assets measured at fair value as of May 31, 2016 and 2015 are as follows:

Measured on a recurring basis:

	<u>Level 1</u>	
	<u>2016</u>	<u>2015</u>
Money market	\$ 151,114	\$ 49,557
Equity securities	4,993,469	5,493,178
Fixed income securities	1,766,960	1,570,743
Commodity funds	<u>261,088</u>	<u>321,711</u>
	<u>\$ 7,172,631</u>	<u>\$ 7,435,189</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 \$9,138 and \$8,775 for the years ended May 31, 2016 and 2015 respectively.

Note 11 Commitments

At May 31, 2016, CAMA has contractual obligations with orchestras and artists for the 2016-2017 fiscal year totaling \$684,000.

CAMA leases office space under a lease agreement that expires in July 2018. This lease is subject to annual increases for inflation. CAMA leases equipment under an operating lease that expires in March 2018.

At May 31, 2016, future minimum lease payments under these agreements were as follows:

<u>Year ending May 31</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 60,960	\$ 4,083	\$ 65,043
2018	60,960	680	61,640
2019	10,160		10,160
Total	<u>\$ 132,080</u>	<u>\$ 4,763</u>	<u>\$ 136,843</u>

Note 12 Functional expenses

Functional classification of expenses is as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 1,201,143	\$1,265,918
Costs of direct benefits to donors	69,424	72,452
Supporting services:		
Management and general	246,259	233,730
Fundraising	<u>157,987</u>	<u>158,032</u>
	<u>\$ 1,674,813</u>	<u>\$1,730,132</u>

Note 13 Related party transactions

In 2016 CAMA paid consulting fees in amount of \$26,040 and \$3,300 respectively to two Board members.

Note 14 Subsequent events

Subsequent events have been evaluated through September 13, 2016, which is the date the financial statements were available to be issued.