

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.

Financial Statements and

Independent Auditor's Report

**For the Years Ended
May 31, 2017 and 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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.

September 28, 2017

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Financial Position
May 31, 2017 and 2016

ASSETS:

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 680,679	\$ 448,169
Short-term investments (Note 3)	30,811	30,765
Receivables	21,500	9,726
Pledges receivable (Note 4)	57,019	7,997
Prepaid expenses	<u>37,026</u>	<u>23,637</u>
Total current assets	<u>827,035</u>	<u>520,294</u>
Investments (Note 5)	7,879,872	7,172,631
Pledges receivable, net of current position (Note 4)	240,419	145,245
Property and equipment:		
Furniture and equipment	96,567	91,550
Leasehold improvements	<u>12,083</u>	<u>12,083</u>
	108,650	103,633
Less: accumulated depreciation	<u>89,562</u>	<u>70,744</u>
Property and equipment, net	<u>19,088</u>	<u>32,889</u>
Total assets	<u>\$8,966,414</u>	<u>\$7,871,059</u>

LIABILITIES AND NET ASSETS:

Current liabilities:		
Accounts payable and accrued expenses	\$ 22,630	\$ 3,191
Deferred income - ticket sales	<u>224,225</u>	<u>312,037</u>
Total current liabilities	<u>246,855</u>	<u>315,228</u>
Net assets:		
Unrestricted:		
Designated by the Board (Note 6)	2,102,882	1,991,166
Undesignated	<u>517,923</u>	<u>411,621</u>
	2,620,805	2,402,787
Temporarily restricted (Note 7)	1,310,843	376,133
Permanently restricted (Note 8)	<u>4,787,911</u>	<u>4,776,911</u>
Total net assets	<u>8,719,559</u>	<u>7,555,831</u>
Total liabilities and net assets	<u>\$8,966,414</u>	<u>\$7,871,059</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Activities
Years ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue, gains and other support:		
Ticket sales	\$ 624,549	\$ 635,505
Contributions	578,732	595,459
Bequests	221,170	610,708
Event income	52,712	33,152
Investment income (loss) (Note 5)	158,956	(71,858)
Acknowledgements	55,770	28,551
Net assets released from restrictions	374,401	330,395
Total revenue gains and other support	<u>2,066,290</u>	<u>2,161,912</u>
Direct expenses:		
Artists' fees	676,400	631,000
Advertising	91,209	58,073
Event expenses	99,396	69,424
Box office fees	5,543	7,591
Publications expense	64,511	58,274
Concert expenses	20,701	18,699
Ticketing network service	16,092	14,362
Rent expense	31,875	38,323
Stage crew and ushers	52,216	41,907
Facility fees	8,577	8,324
Consulting expenses	56,473	65,340
Other expenses	2,695	5,263
Subtotal	<u>1,125,688</u>	<u>1,016,580</u>
General operating and other expenses:		
Accounting	37,275	30,950
Credit card fees	20,913	16,656
Depreciation expense	18,819	17,494
Insurance	30,844	26,732
Office expense	19,431	12,619
Postage and mailing expense	4,554	4,014
Printing and reproduction	12,365	10,770
Payroll expenses	501,665	464,887
Rent expense	70,893	68,637
Telephone and internet services	4,419	4,339
Other expenses	1,406	1,135
Subtotal	<u>722,584</u>	<u>658,233</u>
Total expenses	<u>1,848,272</u>	<u>1,674,813</u>
Change in unrestricted net assets	<u>\$ 218,018</u>	<u>\$ 487,099</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Activities
Years ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	\$ 471,092	\$ 24,623
Investment income (Note 5)	838,019	(288,550)
Restrictions satisfied by:		
Payment of general operating and program costs	<u>(374,401)</u>	<u>(330,395)</u>
Change in temporarily restricted net assets	<u>934,710</u>	<u>(594,322)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	11,000	10,100
Bad debt loss	<u> </u>	<u>(4,500)</u>
Change in permanently restricted assets	<u>11,000</u>	<u>5,600</u>
CHANGE IN NET ASSETS	1,163,728	(101,623)
NET ASSETS, BEGINNING OF YEAR	<u>7,555,831</u>	<u>7,657,454</u>
NET ASSETS, END OF YEAR	<u>\$8,719,559</u>	<u>\$7,555,831</u>

See notes to financial statements.

COMMUNITY ARTS MUSIC ASSOCIATION OF SANTA BARBARA, INC.
Statement of Cash Flows
Years ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$1,163,728	\$ (101,623)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,819	17,494
Contributions restricted for long-term purposes	(11,000)	(10,100)
Realized and unrealized (gain) loss on investments	(800,222)	542,483
Bad debts loss		4,500
(Increase) decrease in operating assets:		
Receivables	(11,774)	17,548
Pledges receivable	(144,196)	
Prepaid expenses	(13,389)	8,206
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	19,439	(3,594)
Deferred revenue	(87,812)	174,330
Net cash provided by (used in) operating activities	<u>133,593</u>	<u>649,244</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment acquired	(5,017)	(9,800)
Purchase of investments	(328,747)	(1,687,489)
Sale of investments	<u>421,681</u>	<u>1,407,511</u>
Net cash provided by (used in) investing activities	<u>87,917</u>	<u>(289,778)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for long-term purposes:		
Endowment fund	<u>11,000</u>	<u>10,100</u>
Net cash provided by financing activities	<u>11,000</u>	<u>10,100</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	232,510	369,566
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>448,169</u>	<u>78,603</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 680,679</u>	<u>\$ 448,169</u>

See notes to financial statements.

Investment income consists of the following:

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 33,195	\$ 192,043	\$ 225,238	\$ 35,861	\$ 175,916	\$ 211,777
Net realized and unrealized gain (loss)	130,120	670,102	800,222	(103,332)	(439,151)	(542,483)
Less investment expenses	(4,359)	(24,126)	(28,485)	(4,387)	(25,315)	(29,702)
Investment income (loss), net	<u>\$ 158,956</u>	<u>\$ 838,019</u>	<u>\$ 996,975</u>	<u>\$ (71,858)</u>	<u>\$ (288,550)</u>	<u>\$(360,408)</u>

Note 6 Board designated funds

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

	2017	2016
Board designated endowment	\$1,241,878	\$1,020,708
Performances	300,000	350,000
Operating reserve	561,004	620,458
	<u>\$2,102,882</u>	<u>\$1,991,166</u>

Note 7 Temporarily restricted net assets

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

	2017	2016
Program activities	\$ 540,774	\$ 157,440
The portion of perpetual endowment funds subject to time restrictions under SPMIFA:		
Without purpose restrictions	770,069	218,693
	<u>\$1,310,843</u>	<u>\$ 376,133</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, 2017:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Board designated endowment funds	\$1,241,878	\$ -	\$ -	\$ 1,241,878
Donor restricted endowment funds		<u>770,069</u>	<u>4,787,911</u>	<u>5,557,980</u>
	<u>\$1,241,878</u>	<u>\$ 770,069</u>	<u>\$ 4,787,911</u>	<u>\$ 6,799,858</u>

