



**PACIFIC SYMPHONY**

**Financial Statements  
Years Ended June 30, 2017 and 2016  
(With Independent Auditor's Report Thereon)**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of  
Pacific Symphony

We have audited the accompanying financial statements of Pacific Symphony (the “Symphony”), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets 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 material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity’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 entity’s internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT**  
(Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Symphony as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*KSJG, LLP*

April 30, 2018

**KSJG, LLP**

100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

**PACIFIC SYMPHONY**

**Statements of Financial Position  
June 30, 2017 and 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,038,097	\$ 5,371,576
Investments (Note 2)	17,546,663	16,641,353
Accounts receivable (less allowance for doubtful accounts of \$10,000)	529,924	681,564
Prepaid expenses and deposits	1,640,560	989,343
Consortium grant receivable	--	109,978
Contributions receivable, net (Notes 2 and 3)	12,111,373	12,718,396
Beneficial interest in irrevocable deferred gifts (Notes 2 and 4)	891,049	787,486
Property and equipment, net (Note 5)	<u>826,524</u>	<u>473,531</u>
Total assets	<u>\$ 36,584,190</u>	<u>\$ 37,773,227</u>

(Statements of financial position continued on the following page)

**PACIFIC SYMPHONY**

**Statements of Financial Position  
(Continued)  
June 30, 2017 and 2016**

**LIABILITIES AND NET ASSETS**

	<u>2017</u>	<u>2016</u>
Liabilities:		
Accounts payable	\$ 326,747	\$ 661,667
Accrued liabilities (Note 6)	646,537	643,936
Consortium grant distribution liability	--	105,478
Deferred revenue	3,506,380	4,071,420
Total liabilities	<u>4,479,664</u>	<u>5,482,501</u>
Commitments (Note 9)		
Net assets:		
Unrestricted (Note 10)	(1,637,484)	(2,567,194)
Temporarily restricted (Note 10)	11,173,806	12,647,864
Permanently restricted (Notes 7 and 10)	22,568,204	22,210,056
Total net assets	<u>32,104,526</u>	<u>32,290,726</u>
Total liabilities and net assets	<u>\$ 36,584,190</u>	<u>\$ 37,773,227</u>

See accompanying notes to financial statements

**PACIFIC SYMPHONY**

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Concert ticket sales	\$ 6,588,440	\$ --	\$ --	\$ 6,588,440
Contracted concerts	1,460,140	--	--	1,460,140
Interest income	6,282	--	--	6,282
Other income	1,125,837	--	--	1,125,837
Total operating revenues	<u>9,180,699</u>	<u>--</u>	<u>--</u>	<u>9,180,699</u>
Operating expenses:				
Program expenses:				
Program services	11,923,014	--	--	11,923,014
Education and community outreach	2,436,108	--	--	2,436,108
Total program expenses	<u>14,359,122</u>	<u>--</u>	<u>--</u>	<u>14,359,122</u>
Support services:				
Marketing and public relations	2,824,784	--	--	2,824,784
General and administrative	1,659,964	--	--	1,659,964
Development and fund-raising	1,755,945	--	--	1,755,945
Facilities	184,369	--	--	184,369
Total support services	<u>6,425,062</u>	<u>--</u>	<u>--</u>	<u>6,425,062</u>
Total operating expenses	<u>20,784,184</u>	<u>--</u>	<u>--</u>	<u>20,784,184</u>
Operating loss	<u>(11,603,485)</u>	<u>--</u>	<u>--</u>	<u>(11,603,485)</u>

(Statement of activities and changes in net assets continued on the following page)

**PACIFIC SYMPHONY**

**Statement of Activities and Changes in Net Assets  
(Continued)  
Year Ended June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions in support of operations:				
Contributions	4,646,786	2,484,351	--	7,131,137
Fund-raising events:				
Contributions from fund-raising events	1,218,765	--	--	1,218,765
Event participation revenue	1,731,970	--	--	1,731,970
Less direct costs of donor benefits	(724,269)	--	--	(724,269)
Net revenues from fund-raising events	2,226,466	--	--	2,226,466
Change in value of insurance assignments	--	2,129	--	2,129
Net assets released from donor restrictions	3,960,538	(3,960,538)	--	--
	3,960,538	(3,958,409)	--	2,129
Total contributions in support of operations	10,833,790	(1,474,058)	--	9,359,732
Change in net assets from operations prior to endowment activities	(769,695)	(1,474,058)	--	(2,243,753)
Endowment activities:				
Contributions and other changes in endowment assets	--	--	256,713	256,713
Investment income	264,271	--	--	264,271
Net realized and unrealized gain on investments	1,631,432	--	--	1,631,432
Change in value of beneficial interest	--	--	101,435	101,435
Investment management expenses	(68,393)	--	--	(68,393)
Capital campaign expenses	(127,905)	--	--	(127,905)
Change in net assets from endowment activities	1,699,405	--	358,148	2,057,553
Change in net assets	929,710	(1,474,058)	358,148	(186,200)
Net assets, beginning of year	(2,567,194)	12,647,864	22,210,056	32,290,726
Net assets, end of year	\$ (1,637,484)	\$ 11,173,806	\$ 22,568,204	\$ 32,104,526

See accompanying notes to financial statements



**PACIFIC SYMPHONY**

**Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues:				
Concert ticket sales	\$ 6,315,333	\$ --	\$ --	\$ 6,315,333
Contracted concerts	1,164,302	--	--	1,164,302
Interest income	4,494	--	--	4,494
Other income	852,271	--	--	852,271
Total operating revenues	<u>8,336,400</u>	<u>--</u>	<u>--</u>	<u>8,336,400</u>
Operating expenses:				
Program expenses:				
Program services	10,923,002	--	--	10,923,002
Education and community outreach	2,086,420	--	--	2,086,420
Total program expenses	<u>13,009,422</u>	<u>--</u>	<u>--</u>	<u>13,009,422</u>
Support services:				
Marketing and public relations	2,809,522	--	--	2,809,522
General and administrative	1,729,954	--	--	1,729,954
Development and fund-raising	1,560,577	--	--	1,560,577
Facilities	201,514	--	--	201,514
Total support services	<u>6,301,567</u>	<u>--</u>	<u>--</u>	<u>6,301,567</u>
Total operating expenses	<u>19,310,989</u>	<u>--</u>	<u>--</u>	<u>19,310,989</u>
Operating loss	<u>(10,974,589)</u>	<u>--</u>	<u>--</u>	<u>(10,974,589)</u>

(Statement of activities and changes in net assets continued on the following page)

**PACIFIC SYMPHONY**

**Statement of Activities and Changes in Net Assets  
(Continued)  
Year Ended June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions in support of operations:				
Contributions	4,564,335	3,105,112	--	7,669,447
Fund-raising events:				
Contributions from fund-raising events	884,025	--	--	884,025
Event participation revenue	1,718,363	--	--	1,718,363
Less direct costs of donor benefits	(659,561)	--	--	(659,561)
Net revenues from fund-raising events	1,942,827	--	--	1,942,827
Change in value of insurance assignments	--	2,592	--	2,592
Net assets released from donor restrictions	3,687,119	(3,687,119)	--	--
	<u>3,687,119</u>	<u>(3,684,527)</u>	<u>--</u>	<u>2,592</u>
Total contributions in support of operations	<u>10,194,281</u>	<u>(579,415)</u>	<u>--</u>	<u>9,614,866</u>
Change in net assets from operations prior to endowment activities	<u>(780,308)</u>	<u>(579,415)</u>	<u>--</u>	<u>(1,359,723)</u>
Endowment activities:				
Contributions and other changes in endowment assets	--	--	115,659	115,659
Investment income	304,574	--	--	304,574
Net realized and unrealized (loss) on investments	(662,476)	--	--	(662,476)
Change in value of beneficial interest	--	--	(4,189)	(4,189)
Investment management expenses	(60,484)	--	--	(60,484)
Capital campaign expenses	(212,947)	--	--	(212,947)
Change in net assets from endowment activities	<u>(631,333)</u>	<u>--</u>	<u>111,470</u>	<u>(519,863)</u>
Change in net assets	(1,411,641)	(579,415)	111,470	(1,879,586)
Net assets, beginning of year	<u>(1,155,553)</u>	<u>13,227,279</u>	<u>22,098,586</u>	<u>34,170,312</u>
Net assets, end of year	<u>\$ (2,567,194)</u>	<u>\$ 12,647,864</u>	<u>\$ 22,210,056</u>	<u>\$ 32,290,726</u>

See accompanying notes to financial statements

**PACIFIC SYMPHONY**

**Statements of Cash Flows  
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (186,200)	\$ (1,879,586)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation and amortization	180,673	224,584
Change in value of beneficial interest	(103,563)	1,596
Contributions restricted for long-term investment	(331,253)	(131,115)
Net realized and unrealized (gain) loss on investments	(1,631,432)	662,476
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable - net	151,640	(156,520)
(Increase) in prepaid expenses and deposits	(651,217)	(411,899)
Decrease in consortium grant receivable	109,978	190,022
Decrease in contributions receivable - net	607,023	907,768
(Decrease) in accounts payable	(334,920)	(256,896)
Increase (decrease) in accrued liabilities	2,601	(137,080)
(Decrease) in consortium grant distribution liability	(105,478)	(190,022)
(Decrease) increase in deferred revenue	(565,040)	617,067
Net cash (used in) operating activities	<u>(2,857,188)</u>	<u>(559,605)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(3,608,814)	(4,407,749)
Proceeds from sales of investments	4,334,936	5,069,185
Purchases of property and equipment	(533,666)	(218,635)
Net cash provided by investing activities	<u>192,456</u>	<u>442,801</u>
<b>Cash flows from financing activity:</b>		
Proceeds from contributions restricted for long-term investment	331,253	131,115
Net cash provided by financing activities	<u>331,253</u>	<u>131,115</u>
Net (decrease) increase in cash and cash equivalents	(2,333,479)	14,311
Cash and cash equivalents at beginning of year	<u>5,371,576</u>	<u>5,357,265</u>
Cash and cash equivalents at end of year	<u>\$ 3,038,097</u>	<u>\$ 5,371,576</u>

See accompanying notes to financial statements

**PACIFIC SYMPHONY****Notes to Financial Statements  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** - Pacific Symphony (the Symphony), is a nonprofit corporation founded in 1979 to establish a major orchestra for Orange County, California. The Symphony receives contributions and grant funding from individual donors, various foundations, and corporations.

**Basis of Presentation** - The financial statements of the Symphony have been prepared on the accrual basis of accounting.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Symphony and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations.
- *Temporarily Restricted Net Assets* - Net assets that are subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. The Symphony's contribution receivables are included in this net asset category until the donor restrictions have been met.
- *Permanently Restricted Net Assets* - Net assets subject to donor-imposed restrictions that require the principal balance to be kept in perpetuity while permitting the Symphony to use or expend part or all of the income derived from the assets.

The Symphony records gifts of cash and other assets as temporarily restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from donor restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as unrestricted in the accompanying statement of activities.

Endowment monies are identified in the accompanying financial statements as both permanently restricted net assets, which include donor-restricted contributions, and as unrestricted net assets, which include unspent investment income and realized and unrealized losses on endowments.

(Note 1 continued on the following page)

**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents** - The Symphony considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Additionally, all stock gifts received are considered cash equivalents as they are liquidated to cash as soon as administratively possible.

**Cash Reserve Fund** - A \$150,000 cash reserve fund was established by a foundation grant that provided cash for operations during the year, as long as the funds were replaced and shown as reserved on the year-end statement.

**Concentration of Credit Risk** - The Symphony maintains its cash balances at two commercial banks and consists of cash on deposit which, at times, may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Symphony has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

**Investments** - Investments are measured and reported at fair value. Those with a readily determinable fair value are based on quotations obtained from national security exchanges. Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. The Symphony management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. Changes in fair value are reported as investment income or loss in the statement of activities. All investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes, could materially affect the amounts reported in the financial statements.

**Endowment Funding of Operations** - The Symphony partially funds its operating activities with earnings from endowment investments. For the years ended June 30, 2017 and 2016, this amount was \$774,128 and \$809,628, respectively, and is included as part of endowment activities in the accompanying statement of activities. See Note 7 for additional details of the changes in endowment net assets.

(Note 1 continued on the following page)

## PACIFIC SYMPHONY

### Notes to Financial Statements (Continued) June 30, 2017 and 2016

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Beneficial Interest in Irrevocable Deferred Gifts** - Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Symphony is also a beneficiary in certain trusts. The Symphony recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Symphony is beneficiary but is not the trustee. When these gifts are revocable in nature, they are not reflected in the financial statements. The Symphony also recognizes as revenue the cash surrender value of the insurance policies for which the Symphony is the beneficiary.

**Property and Equipment** - Property and equipment includes furniture and equipment, musical instruments, music library, production equipment, and leasehold improvements, and is stated at cost, net of accumulated depreciation. Donated assets are recorded at the estimated fair value on the date received and are recorded as temporarily restricted support and subsequently released from restrictions as such assets are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of assets as follows:

Furniture and equipment	3 - 5 years
Musical instruments	50 years
Music library	5 years
Production equipment	7 years

Leasehold improvements are amortized over the shorter of the term of the lease or the life of the improvement.

**Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of** - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Consortium Grant** - The Symphony was awarded grants in which the Symphony is to act as custodian of the monies to be distributed to various beneficiaries, including the Symphony. During the year ended June 30, 2013, the Symphony began receiving and distributing grant funding. At June 30, 2017 the Symphony had no remaining receivable or liability related to the grant. At June 30, 2016 the Symphony had an outstanding receivable of \$109,978 and related liability of \$105,478.

(Note 1 continued on the following page)

**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition** - Deferred revenue consists of ticket sales and deferred programming support pertaining to future concerts. Ticket sales are recorded as revenue when a concert is performed and any related prepaid costs are charged to expense.

**Promises to Give** - Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates commensurate with the risks involved applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Contributed Services and Gifts In-Kind** - Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers and directors have made significant contributions of their time and talent to support the Symphony's functions. Only amounts that meet the criteria above are recorded in the accompanying financial statements.

The Symphony also has received donations of various noncash assets, such as supplies or services that were used for purposes of operating activities. There were no Gift In-Kind contributions recorded as contributions income and management and general expense in the statement of activities for the years ended June 30, 2017 and 2016, respectively. Additionally, the Symphony received other noncash donations that would not ordinarily be purchased by the Symphony.

**Income Taxes** - The Symphony is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, the Symphony is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption.

The Symphony has adopted the accounting standards relating to accounting and reporting for uncertainty in income taxes. For the Symphony, these standards could be applicable to the incurrence of any unrelated business income attributable to the Symphony. Because of the Symphony's general tax-exempt status, these standards are not anticipated to have a material impact on the Symphony's financial statements.

(Note 1 continued on the following page)

**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Vacation Expense** - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

**Use of Estimates** - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements** - The carrying value of financial instruments in the financial statements approximates fair value.

The Symphony has adopted the accounting standard for fair value measurements of financial assets and financial liabilities (Note 2), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The accounting standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments and beneficial interests in irrevocable deferred gifts. The Symphony has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

The accounting standard establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Symphony's Level 1 assets include common stock and institutional mutual funds.
- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Symphony's Level 2 assets include alternative investments, life insurance contracts, and charitable gift annuities.

(Note 1 continued on the following page)



**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and property appraisal, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Symphony's Level 3 assets include contributions receivable, investments in real property, real estate investment trusts, and a limited partnership.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

**Collective Bargaining Agreement** - Employees of the Symphony performing services as musicians are employed under a collective bargaining agreement. Employees subject to the agreement approximate fifty-five percent of the Symphony's expenses for salaries and benefits. Management has no indication of any work stoppages and believes any would be unlikely. Any such labor disruption could cause a severe impact on the Symphony's operations. Under the Symphony's collective bargaining agreement, any work stoppages are prohibited for the term of the contract, which expires August 31, 2021.

**Recent Accounting Pronouncements** – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU No. 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. The Organization is in the process of assessing the potential impact of the ASU on its financial statements.

(Note 1 continued on the following page)

**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under ASU No. 2016-14, not-for-profit entities will be required to provide additional information as follows:

- Transition to a two-class net asset classification;
- Liquidity and availability disclosures;
- Expense reporting presented by function and nature and the allocation methodology disclosed;
- Investment returns will be required to be presented, net of all investment expenses; and
- Statement of cash flows changes where the direct method no longer needs the indirect reconciliation.

ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2018. The Organization is in the process of assessing the potential impact of the ASU on its combined financial statements.

**Subsequent Events** - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for a disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through April 30, 2018, which is the date the financial statements were available to be issued.

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 2 - INVESTMENTS**

Investments as of June 30, 2017 and 2016 consist of common stock, mutual funds, alternative assets, and assets held in irrevocable deferred gifts such as mutual funds, life insurance contracts, real estate investment trusts, limited partnerships, and real property.

The following table sets forth by level, within the fair value hierarchy, the Symphony's assets at fair value as of June 30, 2017 and 2016:

	<i>Assets at Fair Value as of June 30, 2017</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Domestic funds	\$ 1,977,983	\$ --	\$ --	\$ 1,977,983
Fixed income funds	3,643,290	--	--	3,643,290
International funds	4,425,321	--	--	4,425,321
	<u>10,046,594</u>	<u>--</u>	<u>--</u>	<u>10,046,594</u>
Common stock:				
Basic materials	521,777	--	--	521,777
Communication	--	--	--	--
Consumer goods	1,004,881	--	--	1,004,881
Energy	124,813	--	--	124,813
Financial	1,171,733	--	--	1,171,733
Healthcare	633,827	--	--	633,827
Industrial goods	708,403	--	--	708,403
Services	345,185	--	--	345,185
Technology	1,003,820	--	--	1,003,820
Utilities	88,018	--	--	88,018
	<u>5,602,457</u>	<u>--</u>	<u>--</u>	<u>5,602,457</u>
Contributions receivable	--	--	12,111,373	12,111,373
Alternative assets	--	1,897,612	--	1,897,612
Irrevocable deferred gifts	25,246	167,473	698,330	891,049
	<u>\$ 15,674,297</u>	<u>\$ 2,065,085</u>	<u>\$ 12,809,703</u>	<u>\$ 30,549,085</u>

(Note 2 continued on the following page)

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 2 - INVESTMENTS (Continued)**

	<i>Assets at Fair Value as of June 30, 2016</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds:				
Domestic funds	\$ 1,805,754	\$ --	\$ --	\$ 1,805,754
Fixed income funds	3,308,428	--	--	3,308,428
International funds	5,503,539	--	--	5,503,539
	<u>10,617,721</u>	<u>--</u>	<u>--</u>	<u>10,617,721</u>
Common stock:				
Basic materials	407,148	--	--	407,148
Communication	17,057	--	--	17,057
Consumer goods	913,263	--	--	913,263
Energy	102,276	--	--	102,276
Financial	794,731	--	--	794,731
Healthcare	538,164	--	--	538,164
Industrial goods	585,641	--	--	585,641
Services	139,778	--	--	139,778
Technology	615,296	--	--	615,296
Utilities	108,363	--	--	108,363
	<u>4,221,717</u>	<u>--</u>	<u>--</u>	<u>4,221,717</u>
Contributions receivable	--	--	12,718,396	12,718,396
Alternative assets	--	1,801,915	--	1,801,915
Irrevocable deferred gifts	38,920	165,335	583,231	787,486
	<u>\$ 14,878,358</u>	<u>\$ 1,967,250</u>	<u>\$ 13,301,627</u>	<u>\$ 30,147,235</u>

(Note 2 continued on the following page)

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 2 - INVESTMENTS (Continued)**

During the years ended June 30, 2017 and 2016, investment income (loss) consisted of the following:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 264,271	\$ 304,574
Investment management expenses	(68,393)	(60,484)
Net realized and unrealized gain (loss)	1,631,432	(662,476)
Change in value of beneficial interest	101,435	(4,189)
	<u>\$ 1,928,745</u>	<u>\$ (422,575)</u>

The following table sets forth a summary of all of the Symphony's Level 3 assets measured at fair value at June 30, 2017 and 2016.

	<u>Contribution Receivable</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 12,718,396	\$ 13,626,166
New pledges	10,279,920	10,684,696
Payments received	(10,894,697)	(11,163,479)
Write-offs	(34,837)	(832)
Change in allowance for uncollectible pledges	--	(500,000)
Change in present value discount amount	42,591	71,845
Balance, end of year	<u>\$ 12,111,373</u>	<u>\$ 12,718,396</u>

	<u>Irrevocable Deferred Gifts</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 583,231	\$ 570,544
Investment gains, net	115,099	12,687
Balance, end of year	<u>\$ 698,330</u>	<u>\$ 583,231</u>

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 3 - CONTRIBUTIONS RECEIVABLE**

At June 30, 2017, contributions receivable include amounts that have been discounted at rates ranging from 0.7% to 5.1% as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Amounts due in:				
Less than one year	\$ 1,025,922	\$ 4,287,618	\$ 580,747	\$ 5,894,287
One to five years	--	4,233,611	840,000	5,073,611
Thereafter	--	1,190,000	750,000	1,940,000
Total promises to give	<u>1,025,922</u>	<u>9,711,229</u>	<u>2,170,747</u>	<u>12,907,898</u>
Less:				
Discount to reflect contributions at present value	--	(112,526)	(83,999)	(196,525)
Reserve for uncollectibles	<u>(100,000)</u>	<u>--</u>	<u>(500,000)</u>	<u>(600,000)</u>
Net promises to give	<u>\$ 925,922</u>	<u>\$ 9,598,703</u>	<u>\$ 1,586,748</u>	<u>\$ 12,111,373</u>

At June 30, 2016, contributions receivable include amounts that have been discounted at rates ranging from 0.7% to 5.1% as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Amounts due in:				
Less than one year	\$ 817,962	\$ 3,585,281	\$ 581,000	\$ 4,984,243
One to five years	--	5,002,269	921,000	5,923,269
Thereafter	--	1,900,000	750,000	2,650,000
Total promises to give	<u>817,962</u>	<u>10,487,550</u>	<u>2,252,000</u>	<u>13,557,512</u>
Less:				
Discount to reflect contributions at present value	--	(148,404)	(90,712)	(239,116)
Reserve for uncollectibles	<u>(100,000)</u>	<u>--</u>	<u>(500,000)</u>	<u>(600,000)</u>
Net promises to give	<u>\$ 717,962</u>	<u>\$ 10,339,146</u>	<u>\$ 1,661,288</u>	<u>\$ 12,718,396</u>

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 4 - BENEFICIAL INTEREST IN IRREVOCABLE DEFERRED GIFTS**

The Symphony has been named as a third-party beneficiary in a charitable remainder unitrust agreement for which the Symphony is not the trustee. The trust shall terminate upon the death of the donor, at which time the Symphony will receive the trust assets to invest in perpetuity. The estimated fair value of the trust assets, consisting primarily of real estate and real estate investment trusts at June 30, 2017 and 2016, is \$724,286 and \$622,851, respectively, and is recorded as a component of permanently restricted net assets.

The Symphony is the beneficiary of several life insurance policies whereby the Symphony receives a cash payment upon the death of the donors. The fair values of the life insurance assignments were determined by using the cash surrender value of the policies, which totaled \$166,763 and \$164,635, at June 30, 2017 and 2016, respectively, and are recorded as temporarily restricted net assets.

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 1,035,770	\$ 1,026,477
Musical instruments	284,991	284,991
Music library	84,703	84,703
Production equipment	1,051,351	861,797
Leasehold improvements	<u>189,119</u>	<u>166,856</u>
	2,645,934	2,424,824
Less accumulated depreciation	<u>(1,819,410)</u>	<u>(1,951,293)</u>
	<u>\$ 826,524</u>	<u>\$ 473,531</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$180,673 and \$224,584, respectively.

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 6 - ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2017 and 2016 consist of the following:

	<b>2017</b>	<b>2016</b>
Accrued bonuses	\$ 19,377	\$ 52,500
Accrued pension expense	108,367	109,526
Accrued vacation	248,838	215,688
Deferred rent expense	26,269	72,756
Employee wages and benefits	223,364	145,318
Other	20,322	48,148
	\$ 646,537	\$ 643,936

**NOTE 7 - ENDOWMENT**

The Symphony has adopted the accounting standard for Endowments of Not-for-Profit Organizations. A key component of the accounting standard is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Symphony.

The accounting standard provides guidance with respect to the accounting for donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which the State of California has enacted. In addition, the accounting standard requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the accounting standard, the Symphony has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar value of donor-restricted endowment contributions is reported as permanently restricted net assets.

(Note 7 continued on the following page)



**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 7 - ENDOWMENT (Continued)**

The Symphony's endowment was established for the purpose of supporting the Symphony's mission.

**Changes in Endowment Net Assets for the Years Ending June 30, 2017 and 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ (1,732,644)	\$ --	\$ 22,098,586	\$ 20,365,942
Changes in the value of beneficial interest	--	--	(4,189)	(4,189)
Contributions	--	--	615,659	615,659
Other changes and transfers of endowment net assets	--	--	(500,000)	(500,000)
Investment income, net	244,088	--	--	244,088
Net depreciation (realized and unrealized)	(662,476)	--	--	(662,476)
Capital campaign expenses	(212,947)	--	--	(212,947)
Expenditure of appropriated funds	<u>(809,628)</u>	<u>--</u>	<u>--</u>	<u>(809,628)</u>
Endowment net assets, June 30, 2016	(3,173,607)	--	22,210,056	19,036,449
Changes in the value of beneficial interest	--	--	101,435	101,435
Contributions	--	--	250,000	250,000
Other changes and transfers of endowment net assets	--	--	6,713	6,713
Investment income, net	195,879	--	--	195,879
Net appreciation (realized and unrealized)	1,631,432	--	--	1,631,432
Capital campaign expenses	(127,905)	--	--	(127,905)
Expenditure of appropriated funds	<u>(774,128)</u>	<u>--</u>	<u>--</u>	<u>(774,128)</u>
Endowment net assets, June 30, 2017	<u>\$ (2,248,329)</u>	<u>\$ --</u>	<u>\$ 22,568,204</u>	<u>\$ 20,319,875</u>

(Note 7 continued on the following page)

**PACIFIC SYMPHONY****Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016****NOTE 7 - ENDOWMENT (Continued)****Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Symphony to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$2,248,329 and \$3,173,607 as of June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions and continued appropriation for certain programs that was deemed prudent by the Symphony. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**Return Objectives and Risk Parameters**

The Symphony has adopted investment and spending policies for endowment assets that provides continued financial stability for the Symphony and a revenue stream for spending on the Symphony's mission. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that ensures safety through diversification while obtaining a competitive rate of return with the secondary objective to maintain liquidity. The Symphony expects its endowment funds over time, to provide an average rate of return of approximately 7% annually.

**Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return, the Symphony relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Symphony targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Symphony's investment policy includes an endowment spending rate not to exceed 4.5% of the endowment fund's market value at the start of the fiscal year, and calculated using a rolling three-year average. This spending rate constitutes the Board of Director's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the significant and immediate spending of the income of the portfolio, provide a target rate of return for the Endowment Fund for the Symphony, and provide a sustainable spending level that will allow for support of the Symphony's initiatives in fulfilling its mission, while maintaining the purchasing power of the Endowment Fund's assets.

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 8 - RETIREMENT PLAN**

During the year ended June 30, 2008, the Symphony instituted a 401(k) retirement plan covering all eligible employees. Employee contributions to the plan are at the participants' discretion. For the years ended June 30, 2017 and 2016, the Symphony made contributions of \$108,431 and \$98,679, respectively, into the plan for eligible nonunion participants. The Symphony is not responsible for managing the investments available in the plan, or funding of the plan beyond the amount of the annual contributions.

**NOTE 9 - COMMITMENTS**

**Employment Agreements** - The Symphony has entered into certain employment agreements, which expire at various dates through June 2019. The total commitment remaining under these agreements is approximately \$492,235.

**Operating Leases** - The Symphony leases certain facilities and equipment under noncancelable operating lease agreements, which expire at various dates through December 2026. Future minimum lease payments under all noncancelable operating leases as of June 30, 2017 are as follows:

Years ending June 30:	
2018	\$ 431,720
2019	442,454
2020	449,711
2021	395,621
2022	392,281
Thereafter	<u>1,933,037</u>
	<u>\$ 4,044,824</u>

Total rent expense under all operating leases amounted to \$302,259 and \$350,394 for the years ended June 30, 2017 and 2016, respectively.

**PACIFIC SYMPHONY**

**Notes to Financial Statements  
(Continued)  
June 30, 2017 and 2016**

**NOTE 10 - NET ASSETS**

The following is a summary of the Symphony's unrestricted, and temporarily and permanently restricted net assets at June 30, 2017 and 2016:

**Unrestricted**

	<u>2017</u>	<u>2016</u>
Operating	\$ 610,845	\$ 606,413
Endowment	<u>(2,248,329)</u>	<u>(3,173,607)</u>
	<u>\$ (1,637,484)</u>	<u>\$ (2,567,194)</u>

**Temporarily Restricted**

	<u>2017</u>	<u>2016</u>
Operating fund cash - time restricted or for sponsorship of certain events	\$ 993,874	\$ 1,729,617
Cash - restricted for special projects and instrument acquisitions	153,474	153,474
Contributions receivable	9,598,703	10,339,146
Beneficial interests	166,763	164,635
Instruments acquisition fund	<u>260,992</u>	<u>260,992</u>
	<u>\$ 11,173,806</u>	<u>\$ 12,647,864</u>

**Permanently Restricted**

	<u>2017</u>	<u>2016</u>
Endowment cash and cash equivalents	\$ 913,001	\$ 561,508
Endowment investments	19,344,169	19,364,410
Contributions receivable	1,586,748	1,661,288
Beneficial interest	<u>724,286</u>	<u>622,850</u>
	<u>\$ 22,568,204</u>	<u>\$ 22,210,056</u>