

Santa Rosa Symphony Association
(a California Not-for-Profit Corporation)

Financial Statements

For the Year Ended June 30, 2023

Together with Independent Auditors' Report

Santa Rosa Symphony Association

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Independent Auditors' Report

To the Board of Directors of
Santa Rosa Symphony Association
Santa Rosa, California

Opinion

We have audited the financial statements of Santa Rosa Symphony Association, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Santa Rosa Symphony Association as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Santa Rosa Symphony Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Santa Rosa Symphony Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Santa Rosa Symphony Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt the Santa Rosa Symphony Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Dillwood Burkel + Millar, LLP

Santa Rosa, California

April 11, 2024

Santa Rosa Symphony Association

Statement of Financial Position

As of June 30, 2023

	<u>Operations</u>	<u>Endowment</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 2,109,520	\$ 116,116	\$ 2,225,636
Restricted cash and cash equivalents	569,454	-	569,454
Pledges receivable, net	758,750	-	758,750
Due to (from) endowment	17,267	(17,267)	-
Other receivables	66,912	-	66,912
Prepaid expenses	118,902	-	118,902
Total current assets	<u>3,640,805</u>	<u>98,849</u>	<u>3,739,654</u>
Equipment and improvements, net	18,965	-	18,965
Investments	2,100,396	17,409,626	19,510,022
Noncurrent pledges receivable, net	115,000	-	115,000
Operating lease right-of-use asset, net	122,373	-	122,373
Leasehold interest	672,000	-	672,000
Split-interest agreements	182,725	-	182,725
Total assets	<u>\$ 6,852,264</u>	<u>\$ 17,508,475</u>	<u>\$ 24,360,739</u>

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Santa Rosa Symphony Association

Statement of Financial Position

As of June 30, 2023

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	<u>Operations</u>	<u>Endowment</u>	<u>Total</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 93,922	\$ -	\$ 93,922
Operating lease liability, current portion	114,272	-	114,272
Deferred revenue	979,730	-	979,730
Total current liabilities	<u>1,187,924</u>	<u>-</u>	<u>1,187,924</u>
Operating lease liability, non-current portion	<u>26,038</u>	<u>-</u>	<u>26,038</u>
Total liabilities	1,213,962	-	1,213,962
Net assets			
Net assets without donor restrictions			
Undesignated	2,830,373	4,351,745	7,182,118
Board designated	500,000	5,645,445	6,145,445
	<u>3,330,373</u>	<u>9,997,190</u>	<u>13,327,563</u>
Net assets with donor restrictions			
With temporary restrictions	2,307,929	988,435	3,296,364
With permanent restrictions	-	6,522,850	6,522,850
	<u>2,307,929</u>	<u>7,511,285</u>	<u>9,819,214</u>
Total net assets	<u>5,638,302</u>	<u>17,508,475</u>	<u>23,146,777</u>
Total liabilities and net assets	<u>\$ 6,852,264</u>	<u>\$ 17,508,475</u>	<u>\$ 24,360,739</u>

See accompanying Notes to Financial Statements

Santa Rosa Symphony Association

Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2023

	Without Donor Restrictions		With Donor Restrictions		Total
	Operations	Endowment	Operations	Endowment	
Revenues, gains and other support					
Contributions of financial assets	\$ 865,105	\$ 145,950	\$ 1,117,617	\$ 31,032	\$ 2,159,704
Ticket sales	1,061,847	-	-	-	1,061,847
Government grants	367,928	-	69,000	-	436,928
Concert performance fees	354,632	-	-	-	354,632
Education revenue	264,786	-	-	-	264,786
Foundation grants	172,000	-	22,500	-	194,500
Advertising and other	102,604	-	-	-	102,604
Investment income:					
Interest and dividends, net of fees	107,801	349,073	-	49,524	506,398
Net realized and unrealized gains (losses)	(1,272)	863,943	-	202,996	1,065,667
Special events, net	37,619	-	-	-	37,619
Net assets released from restrictions	1,272,360	-	(1,272,360)	-	-
Endowment draw utilized for operations	569,397	(489,397)	-	(80,000)	-
Total revenues, gains and other support	<u>5,174,807</u>	<u>869,569</u>	<u>(63,243)</u>	<u>203,552</u>	<u>6,184,685</u>
Expenses					
Artistic services	3,128,198	-	-	-	3,128,198
Education services	783,251	-	-	-	783,251
General and administrative	612,695	5,085	-	-	617,780
Development and fundraising	363,627	6,232	-	-	369,859
Total expenses	<u>4,887,771</u>	<u>11,317</u>	<u>-</u>	<u>-</u>	<u>4,899,088</u>
Changes in net assets	287,036	858,252	(63,243)	203,552	1,285,597
Net assets at beginning of year, restated	<u>3,043,337</u>	<u>9,138,938</u>	<u>2,371,172</u>	<u>7,307,733</u>	<u>21,861,180</u>
Net assets at end of year	<u>\$ 3,330,373</u>	<u>\$ 9,997,190</u>	<u>\$ 2,307,929</u>	<u>\$ 7,511,285</u>	<u>\$ 23,146,777</u>

See accompanying Notes to Financial Statements.

Santa Rosa Symphony Association

Statement of Functional Expenses For the Year Ended June 30, 2023

	Program Services			Support Services		Total
	Artistic Services	Education Services	Total	General and Administrative	Development and Fundraising	
Personnel						
Salaries and wages	\$ 1,976,078	\$ 468,134	\$ 2,444,212	\$ 402,203	\$ 203,556	\$ 3,049,971
Employee benefits	214,688	48,671	263,359	69,284	36,693	369,336
Payroll taxes	122,836	31,499	154,335	24,804	14,516	193,655
	2,313,602	548,304	2,861,906	496,291	254,765	3,612,962
Operating						
Production costs	310,838	39,600	350,438	-	-	350,438
Marketing costs	246,321	5,174	251,495	-	7,715	259,210
Facility costs	140,405	81,063	221,468	9,188	12,515	243,171
Professional/consultant fees	9,096	28,943	38,039	50,640	1,516	90,195
Business/donor cultivation	-	-	-	21,840	63,320	85,160
Bank charges, taxes and licenses	38,584	11,024	49,608	1,800	5,513	56,921
Supplies	21,565	5,121	26,686	1,808	1,600	30,094
Financial aid	-	19,681	19,681	-	-	19,681
Insurance	9,203	4,601	13,804	3,681	920	18,405
Information technology	-	-	-	12,607	-	12,607
Other	885	252	1,137	2,309	3,706	7,152
Interest expense	2,025	2,025	4,050	675	1,013	5,738
Professional development	208	-	208	3,126	-	3,334
	779,130	197,484	976,614	107,674	97,818	1,182,106
Depreciation and amortization	35,466	37,463	72,929	13,815	17,276	104,020
Total expenses	\$ 3,128,198	\$ 783,251	\$ 3,911,449	\$ 617,780	\$ 369,859	\$ 4,899,088

See accompanying Notes to Financial Statements.

Santa Rosa Symphony Association

Statement of Cash Flows

For the Year Ended June 30, 2023

	<i>Increase (decrease) in cash and cash equivalents</i>
Cash flows from operating activities	
Increase in net assets	\$ 1,285,597
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	104,020
Amortization of leasehold interest	48,000
Changes in value of split-interest agreements	4,070
Net realized and unrealized gain	(1,065,667)
Donations of marketable securities	(54,507)
Dividends reinvested	(23,091)
Decrease (increase) in operating assets:	
Other receivables	(44,959)
Pledges receivable, net	43,750
Prepaid expenses	(17,284)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(196,178)
Operating lease liability	(105,206)
Deferred revenue	154,627
Net cash and cash equivalents provided by operating activities	<u>133,172</u>
Cash flows from investing activities	
Proceeds from sales of marketable securities	365,738
Purchases of marketable securities	(2,391,849)
Acquisition of equipment	(14,399)
Net cash and cash equivalents used in investing activities	<u>(2,040,510)</u>
Net decrease in cash and cash equivalents	(1,907,338)
Balance at beginning of year	<u>4,702,428</u>
Balance at end of year	<u><u>\$ 2,795,090</u></u>
Unrestricted cash and cash equivalents	\$ 2,225,636
Restricted cash and cash equivalents	<u>569,454</u>
Total cash and cash equivalents	<u><u>\$ 2,795,090</u></u>

See accompanying Notes to Financial Statements

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 1. Nature of Activities

Santa Rosa Symphony Association (the "Association") is a California not-for-profit corporation. The Association's mission is to inspire and engage the residents of Sonoma County and its environs with the finest musical performances and educational programs while maintaining its core values of organizational strength, innovative programming, fiscal responsibility and community service.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Without donor restrictions – Revenues without donor restrictions include unconditional promises to give by donors without any use or time restrictions. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds and for certain endowment funds in accordance with donor stipulations. Net assets without donor restrictions are available for all operations conducted by the Association.

With donor restrictions – Revenues include unconditional promises to give by donors that specify a specific use or the occurrence of a certain future event. When a restriction is met, net assets with donor restrictions are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Revenues with donor restrictions also include unconditional promises to give by donors that specify that the assets donated be maintained to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the Association may determine the income's availability to the Association's operations.

In order to ensure observance of limitations and restrictions placed on the use of resources available to the Association, the accompanying financial statements are presented in separate funds for operations and endowment. The restrictions on such funds are consistent with the classifications described above.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except when a restriction is imposed, which limits the investment's use to long-term. Cash is held in demand accounts at banks, and cash balances may exceed the federally insured amounts during the year. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. Cash and cash equivalents include only funds that are not restricted by the donor.

As of June 30, 2023, the Association held cash and cash equivalents with donor imposed purpose or time restrictions. Such restricted cash and cash equivalents are reported separately on the Statement of Financial Position. Restricted cash totaled \$569,454 as of June 30, 2023.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 2. Summary of Significant Accounting Policies, *continued*

Investments

Investments, which may include equity securities, government securities, mutual funds and alternative investments, are carried at fair value. Unrealized gains and losses are included in the Statement of Activities and Changes in Net Assets. Investment earnings that have been restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the earnings are recognized.

Fair Value Measurements

Fair value of an investment is the amount that would be received if the investment was sold in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1: Valuation based on quoted market prices in active markets for identical assets or liabilities that the Association has the ability to access.
- Level 2: Valuation based on pricing inputs that are other than quoted prices in active markets which are either directly or indirectly observable.
- Level 3: Valuation derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the Association's perceived risk of that investment.

Pledges and Other Receivables

Verifiable pledges for contributions are recorded as pledges receivable. Pledges that are expected to be collected within one year are recorded at net realizable value, and reported as current pledges receivable. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, and reported as noncurrent pledges receivable. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are made. Amortization of the discount is included in contribution revenue. The Association uses the allowance method to reserve for uncollectable accounts. Management periodically evaluates the allowance. An allowance of \$10,000 was recorded as of June 30, 2023.

The Association has other receivables related to sales of tickets for future performances and fees related to educational programs.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 2. Summary of Significant Accounting Policies, *continued*

Endowment Funds

The State of California adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The board of directors has interpreted UPMIFA 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, the Association 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) additions to the permanent endowment in accordance with donor directions. The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending policy – In accordance with UPMIFA, the Association 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 Association and the endowment funds
- 3) General economic conditions
- 4) The possible effects of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Association
- 7) The investment policies of the Association

The Association's endowment spending policy is calculated proportionately from the earnings on the various donor-restricted funds. The maximum annual draw is calculated at 4% of the trailing three-year annual average of the market value of the endowment. The principal of the endowment fund may only be used if the survival of the Association is at stake as determined by a unanimous vote of the executive committee of the board and a two-thirds majority vote of the board.

Investment policy – The Association's investment policy for endowment funds is designed to preserve principal while earning returns relative to the overall market consistent with a prudent level of risk.

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 or UPMIFA requires the Association to retain as a fund of perpetual duration. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds book value.

Equipment and Improvements

Equipment and improvements are stated at cost. Depreciation is computed principally on the straight-line method over useful lives ranging from three to ten years. Donated property is recorded at the estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted. It is the Association's policy to capitalize property and equipment over \$1,000.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 2. Summary of Significant Accounting Policies, *continued*

Leases

Transactions give rise to leases when the Association receives substantially all of the economic benefits from, and has the ability to direct the use of specified property and equipment. The Association has lessee activity that is classified as an operating lease. The operating lease is included in operating lease right-of-use asset, operating lease liability-current portion, and operating lease liability, non-current portion on the Statement of Financial Position.

An operating lease right-of-use asset represents the right to use an underlying asset for the lease term and an operating lease liability represents obligations to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. When discount rates implicit in the lease cannot be readily determined, the Association uses their applicable incremental borrowing rate, or a risk free rate, at lease commencement to perform lease classification tests and to measure the lease liability and right-of-use asset. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Certain optional renewal periods would not be included in the determination of the lease liability and right-of-use asset if management determined it was not reasonably certain that the lease would be extended or if the payments were not determinable.

The Association has agreements with lease and non-lease components, such as common area maintenance, and has elected the practical expedient to not separate the lease and non-lease components when calculating the lease liability and right-of-use asset when it relates to office leases. The Association has also elected not to recognize right-of-use assets and lease liabilities for leases of terms less than 12 months.

Revenue Recognition and Deferred Revenue

Sales of concert event tickets are recorded as revenue in the period in which the events occur. Education revenue is recognized over the period covered by the tuition payments. Deferred revenue represents revenues from ticket sales for future events and tuitions paid for future education programs which are deferred and recognized in the period to which they relate.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts and other assets as restricted support 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 and Changes in Net Assets as net assets released from restriction. Temporarily restricted contributions whose donor-imposed restrictions are fulfilled or expire within the same reporting period are reported as unrestricted contributions.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 2. Summary of Significant Accounting Policies, *continued*

Contributions, *continued*

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated fair value at date of receipt. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received. Many individuals volunteer their time and perform a variety of tasks that assist the Association at programming events and fundraising activities; however, these donated services are not reflected in the financial statements as the services do not require specialized skills.

Concert Production Costs

Concert production costs are those expenses that are specifically allocable to a symphony production. There has been no allocation of fixed expenses to production costs.

Marketing Costs

The Association promotes its concerts to the public. General marketing costs are expensed when incurred. The costs of direct-response marketing associated with specific performances are capitalized when initially incurred, and expensed when the related revenues are recognized. Marketing costs amounted to \$259,210 for the year ended June 30, 2023.

Income Taxes

The Association is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, the Association 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, commonly referred to as unrelated business income.

The Association determines whether its tax positions are "more-likely-than-not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of June 30, 2023, the Association has reviewed its tax positions and has concluded no reserve for uncertain tax positions is required. The Association's exempt organization information returns are subject to review through three years after the date of filing for federal and four years after the date of filing for California.

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 estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support and expenses. The use of management's estimates primarily relate to the collectability of pledges and other receivables, and depreciable lives of property, equipment and improvements. Actual results could differ from those estimates.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 2. Summary of Significant Accounting Policies, *continued*

Functional Expense Allocation

The cost of providing various programs and activities has been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. Directly identifiable expenses are charged to programs and support services. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Organization adopted ASU 2016-02 with a date of initial application of July 1, 2022, by electing the modified retrospective transition approach and using the additional (and optional) transition method provided by ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The adoption of the new standard created a restatement of the beginning balance of the Organization’s net assets due to the change in the accounting for one of the Organization’s operating leases.

As part of the transition, the Organization also elected to apply the following hindsight practical expedients:

1. Election not to reassess whether any expired or existing contracts are, or contain, leases;
2. Election not to reassess the lease classification for any expired or existing leases; and
3. Election not to reassess initial direct costs on any existing leases.

As a result of the adoption, the Organization recorded an operating lease right-of-use asset and related lease liability. As of July 1, 2022, the unamortized operating lease right-of-use asset was \$220,271, and the outstanding operating lease liability was \$245,516. This resulted in the beginning net assets being restated by a reduction to the net assets without donor restrictions in the amount of \$25,245.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 3. Liquidity and Availability of Financial Assets

The following reflects the Association's financial assets, reduced by amounts not available for general use because of contractual, donor imposed or board designated restrictions within one year of the balance sheet date, as of June 30, 2023:

Cash and cash equivalents	\$ 2,795,090
Investments	19,510,022
Other receivables	<u>66,912</u>
Total financial assets, at year end	22,372,024
Less those unavailable for general expenditures within one year, due to:	
Restricted cash and cash equivalents	(569,454)
Board designated operating reserve	(500,000)
Endowment net assets	<u>(17,508,475)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,794,095</u>

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Association has adopted an Operating Reserves policy to ensure the stability of the mission, programs, employment, and ongoing operations of the Association. The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The target minimum Operating Reserve Fund is approximately 10% of annual operating expenses, or about two months of average operating costs. The Operating Reserve Fund is recorded in the financial records as Board-Designated Operating Reserve and is funded and available in cash or cash equivalent funds. The Board Designated Operating Reserve had a balance of \$500,000 as of June 30, 2023.

Note 4. Investments

Investments stated at fair value, as of June 30, 2023 include:

	Cost	Fair Market Value
Equity securities	\$ 6,427,629	\$ 9,633,420
Mutual funds	5,600,905	5,438,139
Alternative investments	<u>3,701,755</u>	<u>4,438,463</u>
	<u>\$ 15,730,289</u>	<u>\$ 19,510,022</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 4. Investments, *continued*

Investment returns are comprised of the following for the year ended June 30, 2023:

Interest and dividends	\$ 574,401
Net realized losses	(89,700)
Net unrealized gains	1,155,367
Management fees	<u>(68,003)</u>
	<u>\$ 1,572,065</u>

As described above, the Association invests in various investment securities. Investment securities are exposed to interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the fair value of the investment balance.

Note 5. Fair Value Measurement

The following table presents the Association's financial assets that are measured at fair value on a recurring basis as of June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<i>Assets:</i>			
Equity securities	\$ 9,633,420	\$ -	\$ 9,633,420
Mutual funds	5,438,139	-	5,438,139
Ownership in split-interest agreements	-	182,725	182,725
Alternative investments	-	4,438,463	4,438,463

The value of most of the alternative investments is determined based on quotes in active markets on a monthly basis. For more illiquid securities that are not traded as actively, the value is determined by a third-party administrator on a monthly basis based on pricing inputs that are either directly or indirectly observable. The alternative investments have tiered liquidity ranges from monthly with written notice 10 days in advance, to no liquidity available with payouts of income and distributions over time.

Note 6. Pledges Receivable

Pledges receivable consist of pledges with donor restrictions in the amount of \$883,750, net of an allowance for uncollectable accounts of \$10,000 as of June 30, 2023.

Pledges receivable as of June 30, 2023 are expected to be collected as follows in the years ending June 30:

	2024	\$ 768,750
	2025	<u>115,000</u>
		883,750
Less: allowance		<u>(10,000)</u>
		<u>\$ 873,750</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 7. Split-interest Agreements

Split-interest agreements consist of a pooled income investment and a remainder trust receivable in the amount of \$41,789 and \$140,936, respectively, as of June 30, 2023.

The pooled income fund was originally established by the Association and is currently managed by an outside trustee. Donor contributions to the pooled income fund are irrevocable. Donors are assigned a specific number of units based on the proportion of their contribution's fair market value to the total fair market value of the fund. Donors receive the dividends and interest earned on those units. The contributed assets are invested in the fund until the donor's death, at which time the assets revert to the Association.

Pooled Income Investments

The recorded amount of the pooled income fund reflects the fair value of the pooled income investments, net of the present value of the estimated future payments based upon the donors' life expectancies. Pooled income investments consist primarily of fixed income funds.

Remainder Trust Receivable

The receivable consists of a remainder trust administered by an outside trustee who makes distributions totaling 7% of the fair market value of the trust to two beneficiaries. Upon the death of the last of the two income beneficiaries, the remaining funds will pass to the Association. The receivable is measured at the present value of the future distributions that the Association expects to receive.

Note 8. Equipment and Improvements

Equipment and improvements consist of the following as of June 30, 2023:

Equipment and improvements	\$ 326,137
Accumulated depreciation	(307,172)
	<u>\$ 18,965</u>

Depreciation for the year ended June 30, 2023 totaled \$6,122.

Note 9. Leasehold Interest

A Joint Facilities Use Agreement (the "Agreement") was entered into between the Association and Sonoma State University (the "University") in April 2000. Per the Agreement, upon completion of the Donald and Maureen Green Music Center, the University will provide the Association with a minimum 25-year rent free lease of the concert hall facility in exchange for a collaborative fundraising effort towards its construction. In accordance with the Agreement, the Association assisted the University raising over \$20 million and fulfilled its fundraising commitments for the construction project.

The amount reported as leasehold interest represents the estimated present value of the future benefit and will be amortized annually over the life of the lease. The Association started its first performing season at the Green Music Center in September 2012. Annual amortization of the leasehold interest is \$48,000 per year through the year ending June 30, 2037.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 10. Deferred Revenue

The deferred revenue originates from sales of tickets and other program activities received in a current year that are attributable to future activities beyond the current year-end. Deferred revenue consists of the following as of June 30, 2023:

Deferred revenue from:	
Core ticket sales	\$ 807,749
Education and tuition	129,451
Program advertising and other	25,730
Other ticket sales	<u>16,800</u>
	<u>\$ 979,730</u>

Note 11. Leases

The Association has a non-cancelable operating lease agreement for office space in Santa Rosa, California. The lease expires in September 2024. There was no stated interest rate in the lease agreement so the Association used the risk-free rate as of the date of lease commencement in October 2018 of 2.90% as the discount rate in calculating the operating lease right-of-use asset and related operating lease liability.

The Association has other operating lease agreements that do not meet the requirements of ASU 2016-02, and therefore are not included in the operating lease right-of-use asset or operating lease liability accounts on the Statement of Financial Position. The rent expense and cash flows associated with these leases are included below.

Total lease costs incurred by this lease and type of payment for the year ended June 30, 2023 consist of the following:

Operating lease cost:	
Amortization of lease asset	\$ 97,898
Rent expense	29,752
Interest on lease liability	<u>5,738</u>
	<u>\$ 133,388</u>

Operating cash flows from operating leases for the year ended June 30, 2023 totaled \$140,696.

As of June 30, 2023, the undiscounted future lease payment over the lease term for the operating leases along with a reconciliation of the undiscounted cash flows to operating lease liabilities are as follows:

	2024	\$ 114,272
	2025	<u>28,778</u>
		143,050
Less: present value discount		<u>(2,740)</u>
Lease liability		<u>\$ 140,310</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 12. Special Events

Income from special events represents ticket sales net of direct costs. Contributions received during special events are included in contributions revenue on the Statement of Activities and Changes in Net Assets. Such contributions totaled \$347,347 for the year ended June 30, 2023.

Income from special events consist of the following for the year ended June 30, 2023:

Special event ticket sales	\$ 66,950
Less: direct costs to special events	<u>(29,331)</u>
Special events income, net	<u>\$ 37,619</u>

Note 13. Net Assets

Net Assets without Donor Restrictions

All general operating revenues and expenses related to the program activities of the Association are included in the change in unrestricted net assets. From time to time unrestricted donations received are designated by the Association's board as board designated funds. The board designated funds consist of funds with no donor or legal restrictions but, through board resolutions, have been set aside for specific purposes.

Board designated funds consist of the following as of June 30, 2023:

Operational reserve	\$ 500,000
Board designated as endowment funds	<u>5,645,445</u>
	<u>\$ 6,145,445</u>

Net Assets with Temporary Donor Restrictions

Net assets with donor restrictions are restricted for specific purposes or until specific events occur. Net assets are released from restrictions when expenses are incurred or specific events occur. Net assets released from time restrictions amounted to \$556,760 for the year ended June 30, 2023. Net assets released from program restrictions amounted to \$715,600 for the year ended June 30, 2023.

The following schedule summarizes net assets with temporary donor restrictions as of June 30, 2023:

Time restrictions	\$ 1,296,439
Program restrictions	1,011,490
Endowment funds	<u>988,435</u>
	<u>\$ 3,296,364</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 13. Net Assets, *continued*

Net Assets with Temporary Donor Restrictions, *continued*

Net assets with temporary donor restrictions are included on the Statement of Financial Position at June 30, 2023 as follows:

Investments	\$ 988,435
Restricted cash and cash equivalents	569,454
Pledges receivable	883,750
Leasehold interest	672,000
Split-interest agreements	<u>182,725</u>
	<u>\$ 3,296,364</u>

Net Assets with Permanent Donor Restrictions

Net assets with permanent donor restrictions consist of endowment funds permanently restricted by donors. Permanently restricted net assets amounted to \$6,522,850 as of June 30, 2023, represented by investments.

Note 14. Endowment Funds

Endowment funds were established to improve the financial stability of the Association. The endowment funds held by the Association include both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The composition of the Association's endowment funds as of June 30, 2023 is presented as the following:

Endowment funds without donor restrictions, undesignated	\$ 4,351,745
Endowment funds without donor restrictions, board designated	5,645,445
Endowment funds with temporary donor restrictions	988,435
Endowment funds with permanent donor restrictions	<u>6,522,850</u>
	<u>\$ 17,508,475</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 14. Endowment Funds, *continued*

The activities of the Association's endowment funds as of June 30, 2023 are presented as follows:

	Without Donor Restrictions	With Temporary Restrictions	With Permanent Restrictions	Total Endowment Funds
Beginning balance	\$ 9,138,938	\$ 815,915	\$ 6,491,818	\$ 16,446,671
Contributions	145,950	-	31,032	176,982
Interest and dividends, net of fees	349,073	49,524	-	398,597
Net realized and unrealized gains	863,943	202,996	-	1,066,939
General and administrative expenses	(5,085)	-	-	(5,085)
Development and fundraising expenses	(6,232)	-	-	(6,232)
Transfers to operating funds	(489,397)	(80,000)	-	(569,397)
Ending balance	<u>\$ 9,997,190</u>	<u>\$ 988,435</u>	<u>\$ 6,522,850</u>	<u>\$ 17,508,475</u>

Note 15. Operating Funds

The Association's operating funds are used to account for its general operations. The operating funds consist of funds without donor restrictions and funds with temporary donor restrictions. The composition of the Association's operating funds as of June 30, 2023 is presented as the following:

Operating funds without donor restrictions, undesignated	\$ 2,830,373
Operating funds without donor restrictions, board designated	500,000
Operating funds with temporary donor restrictions	<u>2,307,929</u>
	<u>\$ 5,638,302</u>

The activities of the Association's operating funds as of June 30, 2023 are presented as follows:

	Without Donor Restrictions	With Temporary Restrictions	Total Operating Funds
Revenues, gains and other support	\$ 3,333,050	\$ 1,209,117	\$ 4,542,167
Net assets released from restrictions	1,272,360	(1,272,360)	-
Endowment fund draws	569,397	-	569,397
Operating expenses	(4,887,771)	-	(4,887,771)
Changes in net assets	287,036	(63,243)	223,793
Beginning balance	<u>3,043,337</u>	<u>2,371,172</u>	<u>5,414,509</u>
Ending balance	<u>\$ 3,330,373</u>	<u>\$ 2,307,929</u>	<u>\$ 5,638,302</u>

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 16. Santa Rosa Symphony League Transaction

The Association received contributions from Santa Rosa Symphony League (SRS League), a not-for-profit organization. The amounts of pledge and cash contributions received during the year ended June 30, 2023 are as follows:

Pledges receivable from SRS League at the beginning of the year	\$ 20,000
Current year pledges	30,000
Pledges fulfilled during current year	<u>(30,000)</u>
Pledges receivable from SRS League at the end of the year	<u>\$ 20,000</u>

Note 17. Board Contributions

The Association receives contributions from board members. The amounts of pledges and cash contributions received during the year ended June 30, 2023 are as follows:

Pledges receivable from board members at the beginning of the year	\$ 345,500
Current year pledges	579,140
Pledges fulfilled during current year	<u>(519,665)</u>
Pledges receivable from board members at the end of the year	<u>\$ 404,975</u>

Note 18. Concentration

At various times during the year ended June 30, 2023, the Association had deposit amounts with a financial institution in excess of the \$250,000 Federal Deposit Insurance Corporation ("FDIC") insurance limit. The Association had approximately \$236,000 on deposit in excess of the FDIC insured amount at June 30, 2023.

The Association also held money market funds at a financial institution, at times, in excess of the \$250,000 Securities Investor Protection Corporation ("SIPC") insurance limit for cash. The Association had approximately \$2,072,000 on deposit in excess of the SIPC insured cash limit at June 30, 2023.

Note 19. Retirement Plan

The Association provides a 401(k) plan for employees meeting certain eligibility requirements. Employees at least 21 years of age are eligible to participate one year from the date of hire (with a minimum of 1,000 hours worked). The employer matching contribution is equal to 50% of each participant's deferral of annual wages up to 10%. Therefore, the maximum employer contribution is limited to 5% of each participant's eligible wages. The Association's contributions to the 401(k) plan for the year ended June 30, 2023 was \$28,816.

Santa Rosa Symphony Association

Notes to Financial Statements For the Year Ended June 30, 2023

Note 20. Union Contracts

Substantially all of the Association's non-administrative employees are covered by collective bargaining agreements. The agreement with skilled technicians guarantees pay rates, minimum calls, and other conditions. The agreement with the musicians guarantees a minimum number of services (rehearsals and performances) to tenured and probationary musicians. Musicians who are offered fewer than the minimum number of services will be fully compensated. The Association does not anticipate utilization of less than the minimum requirements. The agreement with the skilled technicians is effective through June 30, 2024.

Note 21. Unrelated Business Activities

The Association generates unrelated business income from the sales of advertisements printed on concert programs and tickets. The Association incurred a net operating loss related to such activities and, accordingly, no provision for income taxes was recorded. As of June 30, 2023, the Association carries an accumulated net operating loss in the amount of \$197,000, which generated a deferred tax asset of approximately \$41,000. However, due to the uncertainty of the future realization of any of such deferred tax assets, a valuation allowance has been recorded against the income tax benefit to reduce the deferred tax asset balance to zero.

Losses from unrelated business activities resulted from the following for the year ended June 30, 2023:

Advertising income	\$ 61,270
Related expenses	<u>(87,633)</u>
Net loss from unrelated business activities	<u>\$ (26,363)</u>

Note 22. Subsequent Events

The Association evaluated subsequent events from July 1, 2023 through April 11, 2024 the date which the financial statements were available to be issued, and determined there are no material subsequent events that required recognition or additional disclosure in these financial statements.