

CHARLESTON SYMPHONY ORCHESTRA

FINANCIAL REPORT

JUNE 30, 2016

CHARLESTON SYMPHONY ORCHESTRA

FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Charleston Symphony Orchestra
Charleston, South Carolina

We have audited the accompanying financial statements of Charleston Symphony Orchestra which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charleston Symphony Orchestra as of June 30, 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.

Other Matters – 2015 Financial Statements

The financial statements of the Charleston Symphony Orchestra for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion in a report dated September 15, 2015. The prior auditor's report included an emphasis-of-matter paragraph related to supplementary schedules of revenue and schedules of functional expense schedule which were subjected to auditing procedures.

Other Matters – Supplementary Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hubbard Davis CPAs, LLC

Mount Pleasant, South Carolina
December 8, 2016

**CHARLESTON SYMPHONY ORCHESTRA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

ASSETS	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 876,298	\$ 805,455
Unconditional promises to give - current	209,750	404,266
Prepaid expense and other assets	63,208	30,547
Total current assets	<u>1,149,256</u>	<u>1,240,268</u>
PROPERTY AND EQUIPMENT		
Non-depreciable property and equipment	318,474	316,860
Depreciable property and equipment, net	41,828	53,570
Total property and equipment, net	<u>360,302</u>	<u>370,430</u>
OTHER ASSETS		
Long-term investments	400,992	411,336
Artwork	-	5,900
Unconditional promises to give - long-term, net	276,002	68,091
Total other assets	<u>676,994</u>	<u>485,327</u>
TOTAL ASSETS	<u>\$ 2,186,552</u>	<u>\$ 2,096,025</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 66,657	\$ 118,100
Payroll related liabilities	30,961	48,010
Unearned revenue	754,644	605,018
Note payable - current portion	5,158	4,964
Deferred pension settlement - current portion	10,164	9,362
Total current liabilities	<u>867,584</u>	<u>785,454</u>
LONG-TERM LIABILITIES		
Note payable - noncurrent portion	11,976	17,109
Deferred pension settlement - noncurrent portion	334,846	345,010
Total long-term liabilities	<u>346,822</u>	<u>362,119</u>
TOTAL LIABILITIES	<u>1,214,406</u>	<u>1,147,573</u>
NET ASSETS		
Unrestricted net assets		
Board designated - for endowment	351,546	385,424
Undesignated	146,154	117,116
Total unrestricted net assets	<u>497,700</u>	<u>502,540</u>
Temporarily restricted net assets	349,246	320,712
Permanently restricted net assets	125,200	125,200
Total restricted net assets	<u>474,446</u>	<u>445,912</u>
TOTAL NET ASSETS	<u>972,146</u>	<u>948,452</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,186,552</u>	<u>\$ 2,096,025</u>

See accompanying notes and independent auditors' report

CHARLESTON SYMPHONY ORCHESTRA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Support				
Contributions	\$ 1,142,678	\$ 70,000	\$ -	\$ 1,212,678
Grants	403,468	205,000	-	608,468
Total support	1,546,146	275,000	-	1,821,146
Revenues				
Concert revenue	1,695,984	-	-	1,695,984
Investment income / (loss)	19,366	(1,466)	-	17,900
Unrealized loss on investments	(33,906)	-	-	(33,906)
Other income	98,228	-	-	98,228
Total revenues	1,779,672	(1,466)	-	1,778,206
Total support and revenues	3,325,818	273,534	-	3,599,352
Net assets released from restrictions	245,000	(245,000)	-	-
Total support and revenues, and net assets released from restrictions	3,570,818	28,534	-	3,599,352
OPERATING EXPENSES				
Program services				
Artistic costs	1,890,010	-	-	1,890,010
Production costs	801,799	-	-	801,799
Educational programs	373,904	-	-	373,904
Total program services	3,065,713	-	-	3,065,713
Supporting services				
General and administrative	209,590	-	-	209,590
Fundraising	273,717	-	-	273,717
Total supporting services	483,307	-	-	483,307
Total operating expenses	3,549,020	-	-	3,549,020
NET OPERATING REVENUES AND EXPENSES	21,798	28,534	-	50,332
NONOPERATING EXPENSES				
Deferred pension obligation	26,638	-	-	26,638
Total nonoperating expenses	26,638	-	-	26,638
CHANGE IN NET ASSETS	(4,840)	28,534	-	23,694
NET ASSETS, beginning of year	502,540	320,712	125,200	948,452
NET ASSETS, end of year	\$ 497,700	\$ 349,246	\$ 125,200	\$ 972,146

See accompanying notes and independent auditors' report

CHARLESTON SYMPHONY ORCHESTRA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUES				
Support				
Contributions	\$ 1,234,990	\$ 50,000	\$ 200	\$ 1,285,190
Grants	<u>540,909</u>	<u>175,000</u>	<u>-</u>	<u>715,909</u>
Total support	<u>1,775,899</u>	<u>225,000</u>	<u>200</u>	<u>2,001,099</u>
Revenues				
Concert revenue	970,544	-	-	970,544
Investment income	60,118	712	-	60,830
Unrealized loss on investments	(48,662)	-	-	(48,662)
Other income	<u>46,905</u>	<u>-</u>	<u>-</u>	<u>46,905</u>
Total revenues	<u>1,028,905</u>	<u>712</u>	<u>-</u>	<u>1,029,617</u>
Total support and revenues	<u>2,804,804</u>	<u>225,712</u>	<u>200</u>	<u>3,030,716</u>
Net assets released from restrictions	<u>322,500</u>	<u>(322,500)</u>	<u>-</u>	<u>-</u>
Total support and revenues, and net assets released from restrictions	<u>3,127,304</u>	<u>(96,788)</u>	<u>200</u>	<u>3,030,716</u>
OPERATING EXPENSES				
Program services				
Artistic costs	1,490,713	-	-	1,490,713
Production costs	597,216	-	-	597,216
Educational programs	<u>293,532</u>	<u>-</u>	<u>-</u>	<u>293,532</u>
Total program services	<u>2,381,461</u>	<u>-</u>	<u>-</u>	<u>2,381,461</u>
Supporting services				
General and administrative	281,714	-	-	281,714
Fundraising	<u>279,950</u>	<u>-</u>	<u>-</u>	<u>279,950</u>
Total supporting services	<u>561,664</u>	<u>-</u>	<u>-</u>	<u>561,664</u>
Total operating expenses	<u>2,943,125</u>	<u>-</u>	<u>-</u>	<u>2,943,125</u>
NET OPERATING REVENUES AND EXPENSES	184,179	(96,788)	200	87,591
NONOPERATING EXPENSES				
Deferred pension obligation	<u>33,079</u>	<u>-</u>	<u>-</u>	<u>33,079</u>
Total nonoperating expenses	<u>33,079</u>	<u>-</u>	<u>-</u>	<u>33,079</u>
CHANGE IN NET ASSETS	151,100	(96,788)	200	54,512
NET ASSETS, beginning of year	<u>351,440</u>	<u>417,500</u>	<u>125,000</u>	<u>893,940</u>
NET ASSETS, end of year	<u>\$ 502,540</u>	<u>\$ 320,712</u>	<u>\$ 125,200</u>	<u>\$ 948,452</u>

See accompanying notes and independent auditors' report

**CHARLESTON SYMPHONY ORCHESTRA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from concert revenue and other earned revenue	\$ 1,943,838	\$ 1,084,429
Cash received from contributors for other than long-term purposes	1,810,362	1,846,236
Cash paid to employees and vendors	(3,689,083)	(2,893,422)
Investment income received	17,900	60,543
Net cash provided (used) by operating activities	<u>83,017</u>	<u>97,786</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(1,409)	(98,696)
Proceeds from sale of equipment	-	5,000
Proceeds from sale of artwork	6,000	-
Investment in music library	(1,615)	(1,055)
Sale of investments	14,789	3,979
Purchase of investments	(25,000)	(89,991)
Net cash provided (used) in investing activities	<u>(7,235)</u>	<u>(180,763)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received restricted for endowment and musical instruments	-	115,240
Principal payments on note payable	(4,939)	(3,927)
Principal payments on capital lease obligations	-	(1,182)
Net cash provided (used) in financing activities	<u>(4,939)</u>	<u>110,131</u>
Net increase in cash and cash equivalents	70,843	27,154
Cash and cash equivalents as of beginning of year	<u>805,455</u>	<u>778,301</u>
Cash and cash equivalents as of end of year	<u>\$ 876,298</u>	<u>\$ 805,455</u>

See accompanying notes and independent auditors' report

**CHARLESTON SYMPHONY ORCHESTRA
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Change in net assets	\$ 23,694	\$ 54,512
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	14,931	15,935
Bad debt expense	508	198
Unrealized loss (gain) on investments	33,906	52,359
Change in discount for long-term pledges	(2,611)	2,126
Contributions restricted for long-term purposes	(25,000)	(90,240)
Contribution of musical instrument	-	(51,529)
Gain on sale of asset	(100)	(4,783)
Decrease (increase) in current assets:		
Unconditional promises to give	(10,784)	7,920
Prepaid expenses and other assets	(32,661)	45,396
Increase (decrease) in operating liabilities:		
Accounts payable	(51,443)	8,926
Payroll related liabilities	(17,049)	(14,241)
Unearned revenue	149,626	54,189
Accrued interest on deferred pension obligation	-	17,018
Net cash provided (used) by operating activities	\$ 83,017	\$ 97,786

Supplemental Disclosures:

Noncash investing and financing activities:

Vehicle financed with note payable	\$ -	\$ 26,000
Interest paid	\$ 29,222	\$ 7,727
Taxes paid	\$ -	\$ -

See accompanying notes and independent auditors' report

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Charleston Symphony Orchestra (the Orchestra) is proud to have a long history of artistic excellence, and in 2016 it celebrates its 80th anniversary. The Symphony is a regional orchestra with twenty-four full-time, nationally auditioned, salaried musicians. The artistic endeavors are led by the Symphony's Music Director, Ken Lam. Twelve full-time staff members provide professional support for the organization's operations, with oversight from its board of directors. The organization has two main areas of activity that make up its mission; performing and promoting classical and popular music, and using music as a vehicle to enhance the education of students in the tri-county area.

Mission

The mission of the Charleston Symphony Orchestra is to inspire and engage our community through exceptional musical performances and educational programs.

We will educate, challenge, and inspire students through musical experiences.

Vision

To be a world-class orchestra for a world-class city.

Program

The Symphony has three main series of performances; Masterworks, Pops, and Chamber Music. The educational work is divided into two main components; Young People's Concerts, which occur at the Gaillard Center, and In-School "services" in which the musicians visit more than 80 schools in the tri-county area to remove the barrier of transportation and cost to ensure as many children of the Lowcountry as possible have access and exposure to classical music.

In the fall of 2015, the Orchestra welcomed its new Music Director, Ken Lam, and moved into Charleston's new state-of-the-art performance hall, the Gaillard Center. The Orchestra has created a unique and sustainable business model with six years of modest operating surpluses, and is proud to foster a collaborative working environment amongst board, staff, and musicians. The Orchestra is recognized for its success within the national performing arts community, and is benefiting from a broad base of enthusiastic support from all segments of the Charleston and surrounding communities. The Orchestra depends on philanthropic support for approximately fifty percent of its operating budget and is particularly grateful for this support.

Basis of Accounting

The financial statements of the Orchestra have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in accordance with FASB Accounting Standards Codification (ASC) 958-205 and subsections. The Orchestra is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Orchestra is required to present Statements of Cash Flows.

Unrestricted Net Assets

Net assets without donor imposed restrictions and currently available for program and supporting services.

Temporarily Restricted Net Assets

Net assets subject to donor imposed stipulations that may or will be met by actions of the Orchestra and/or the passage of time.

Permanently Restricted Net Assets

Net assets restricted by donors to be maintained permanently by the Orchestra. During year-end June 30, 2014, the Orchestra received and established an endowment restricted for education initiatives.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, the Orchestra considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. This includes cash in banks and certificates of deposit.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Orchestra uses the allowance method to account for uncollectible promises to give. The allowance is based on management's estimate of the collectability of the promises and historical experience.

Promises to give to be collected in future periods are recorded at fair value by estimating the present value of future cash flows. A discount rate of .99% was used for 2016 and discount rates of .88% to 1.62% were used in 2015.

CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments

The Orchestra investments consist of and are pooled in global equities, global fixed income and cash, real assets, and other diversifying strategies. The Orchestra accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the statements of financial position. Fair value of marketable equity and debt securities is based on quoted market prices.

Alternative investments are stated at the fair value of their underlying assets and allocated to the net asset funds in proportion to the fund's ownership percentage. The realized and unrealized gains or losses on investments are reflected in the Statements of Activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Financial Position.

Investment income is recorded net of investment expenses. Realized gains or losses on investments are determined by comparison of specific cost of acquisition to proceeds at the time of disposal. Unrealized gains or losses are calculated by comparing cost to market values at the Statement of Financial Position date. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property and Equipment

Purchased property, equipment and musical instruments are recorded at cost. Donated property and equipment are recorded at the approximate fair value at the date of donation. Expenditures for major additions and improvements, generally in excess of \$1,000, are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

The Orchestra retains some antiquity musical instruments which are not expected to decrease in value and are not depreciated. The related maintenance and repairs are charged to expense as incurred. Additionally the Orchestra maintains a musical library which consists of works of music and rights to certain collections. These items are capitalized at cost and are not depreciated as they do not lose their value over time and have an indefinite life.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Endowment Funds

For the year end June 30, 2008, South Carolina adopted the State Prudent Management of Institutional Funds Act (SPMIFA). The Board of Directors of the Orchestra has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Orchestra classifies as permanently restricted net assets (a) the original gifts donated to the permanent endowment, (b) subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Orchestra considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Orchestra
- (7) The investment policies of the Orchestra

Return Objectives and Risk Parameters

The Orchestra has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Orchestra must hold in perpetuity or for a donor-specified period.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Orchestra has a policy of appropriating for distribution each year four percent of its selected endowment fund's moving average fair value over the three years preceding the year in which the distribution is planned. In establishing this policy, the Orchestra considered the long-term expected return on its endowment. Accordingly, over the long term, the Orchestra expects the current spending policy to allow its endowment to maintain its purchasing power or grow through new gifts.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalent, money market funds, receivables and accounts payable approximate fair value because of the short maturity of those financial instruments.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

During 2015, the Orchestra received a gift of musical equipment from a donor. This musical equipment was purchased at a significant discount to fair market value by the Charleston Symphony Orchestra. Donated equipment and other noncash donations are recorded as contributions at their appraised values at the date of donation. There were no donated assets during 2016.

Donated Services

Donated services that do not require specialized skills or enhance nonfinancial assets are not recorded in the accompanying financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Orchestra's program services and its fundraising campaigns, the value of which is not recorded in the accompanying financial statements.

Revenue Recognition

In accordance with Standards FASB ASC 958-50, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Orchestra reports contributions as restricted support if they are received with donor stipulations that limit the use of the donation. 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 restriction. The Orchestra reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is the Orchestra's policy to record restricted contributions received and released in the same year as unrestricted support.

Expense Allocation

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Orchestra providing those services.

Net Operating Revenues and Expenses

The Orchestra has presented expenses and interest associated with its pension settlement obligation as nonoperating expenses on the Statements of Activities for the years ended June 30, 2016 and 2015. If these expenses had been presented functionally, \$26,638 and \$33,079 would have been included in general and administrative expenses for the years ended June 30, 2016 and 2015, respectively.

Marketing

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expense total \$274,434 and \$209,740 for the years ended June 30, 2016 and 2015, respectively.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status

The Orchestra is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law as a charitable organization whereby only unrelated business income, as defined by Section 509(a)(1) of the Code is subject to federal income tax. The Orchestra qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an association other than a private Orchestra under Section 509(a)(2).

The Orchestra currently has no taxable unrelated business income. Accordingly, no provision for income taxes has been recorded.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain amounts from the prior years have been reclassified to conform to the 2016 presentation without affecting the previously reported total net assets.

NOTE 2 - PROMISES TO GIVE

Unconditional promises to give as of June 30 consisted of the following:

	2016	2015
Beginning promise to give	\$ 479,766	\$ 487,686
Pledge commitments	535,100	111,580
Pledge payments	<u>(524,316)</u>	<u>(119,500)</u>
	490,550	479,766
Less unamortized discount	<u>(4,798)</u>	<u>(7,409)</u>
Ending promise to give balance	<u>\$ 485,752</u>	<u>\$ 472,357</u>
Amounts receivable in:		
2017	\$ 209,750	
2018	128,502	
2019	87,500	
2020	<u>60,000</u>	
	<u>\$ 485,752</u>	

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 3 - PROPERTY & EQUIPMENT

Property and equipment consist of the following as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Depreciable assets:		
Musical instruments	\$ 74,010	\$ 74,010
Equipment	56,375	54,965
Vehicles	<u>26,545</u>	<u>26,545</u>
Total depreciable property and equipment	156,930	155,520
Less: accumulated depreciation	<u>(115,102)</u>	<u>(101,950)</u>
	41,828	53,570
Non-depreciable assets:		
Music Library	176,174	174,560
Musical instruments	<u>142,300</u>	<u>142,300</u>
Total non-depreciable assets	<u>318,474</u>	<u>316,860</u>
Total property and equipment	<u>\$ 360,302</u>	<u>\$ 370,430</u>

Depreciation expense for the years ended June 30, 2016 and 2015 are \$14,931 and \$15,935.

NOTE 4 - INVESTMENTS

Investments consist of the three endowment funds held by the Coastal Community Foundation of South Carolina (Community Foundation). Subject to the endowment trust documents, the Orchestra receives distributions from these funds as determined by the Community Foundation and its grant making policies which is annually 4%.

Investments are stated at fair market value and consist of the following at June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>FMV</u>	<u>Cost</u>	<u>FMV</u>	<u>Cost</u>
The Charleston Symphony Orchestra Endowment Fund	\$ 351,546	\$ 333,937	\$ 385,424	\$ 329,713
The David Stahl Education through Music Endowment	<u>49,446</u>	<u>50,200</u>	<u>25,912</u>	<u>25,200</u>
	<u>\$ 400,992</u>	<u>\$ 384,137</u>	<u>\$ 411,336</u>	<u>\$ 354,913</u>

The following schedule summarizes the investment return in the Statements of Activities for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning Investment Balance	\$ 411,336	\$ 377,682
Investment income	17,900	60,540
Unrealized gains/(losses)	(33,906)	(49,065)
Investment fees	(4,549)	(3,021)
Contributions/pledge payments	25,000	25,200
Withdrawals/distributions	<u>(14,789)</u>	<u>-</u>
Ending Investment Balance	<u>\$ 400,992</u>	<u>\$ 411,336</u>

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 5 - SUMMARY OF FAIR VALUE EXPOSURE

ASC 820 defines fair value as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs:

- Level 1: Quoted prices in active markets for identical securities
- Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.)
- Level 3: Significant unobservable inputs (including the Orchestra's own assumptions in determining the fair value of investments)

The Orchestra's investments are valued at fair value under level 3 inputs at June 30, 2016 and 2015.

The Orchestra participates in an investment pool that is administered by the Community Foundation. Investment income and realized and unrealized gains and losses are allocated quarterly to the Orchestra. Only the Orchestra's share of these pooled investments is reflected in the accompanying financial statements. The pooled investment includes an allocation of investments in global equities, global fixed income and cash, real assets, and other diversifying strategies. Fair values of the pooled investment program for the Community Foundation at June 30 was as follows:

	2016	2015
The Charleston Symphony Orchestra Endowment Fund	\$ 351,546	\$ 385,424
The David Stahl Education through Music Endowment	49,446	25,912
	\$ 400,992	\$ 411,336

The inputs and methodology used for valuing the Orchestra's financial assets and liabilities are not indicators of the risks associated with those instruments.

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the periods ended June 30, 2016 and 2015:

	2016	2015
Beginning balance	\$ 411,336	\$ 377,682
Change in value	(20,555)	8,454
Contributions	25,000	25,200
Distribution to the Orchestra	(14,789)	-
	\$ 400,992	411,336

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 6 - ENDOWMENT

The Orchestra's endowments consist of three (3) individual funds established for a variety of purposes. Its endowments include permanent endowments, temporarily restricted endowments, and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Charleston Symphony Orchestra Endowment Fund

The Charleston Symphony Orchestra Endowment Fund was created by the Orchestra Board of Directors in 1995, and is considered a board designated endowment fund. This endowment appears on the audited financial statements of the Orchestra. The primary purpose of this endowment is to provide income to the Orchestra in support of its mission. The Orchestra received disbursements of \$14,789 and \$0 from this fund for the years ending June 30, 2016 and 2015, respectively.

The David Stahl Education through Music Endowment

The David Stahl Education through Music Endowment is a permanently restricted endowment fund consisting of an endowment established by the donor during the year ended June 30, 2014. This endowment appears on the audited financial statements of the Orchestra. The endowment's assets are partially funded, and partially represented through unconditional promises to give, which are collectible in future periods. The permanent restriction can be changed, if so elected, by a two-thirds vote of the Orchestra's Board of Directors. If so approved, 100% of the endowment corpus may be withdrawn as provided for by the donor. As required by accounting principles generally accepted in the United States of America, the net assets associated with the endowment are classified and reported based on the existence or absence of donor imposed restrictions.

Symphony Orchestra Permanent Endowment Fund

The Symphony Orchestra Permanent Endowment Fund was established in 2002. This fund is excluded from the financial statements of the Orchestra as a result of the Community Foundation's variance power over the funds. The primary purpose of this fund is to provide income to the Orchestra in support of its mission. The Orchestra received disbursements in the amounts of \$27,000 and \$26,670 in years ending June 30, 2016 and 2015 respectively. The disbursement amounts were 4% of the fund's average market value over the previous twenty quarters at March 31, 2016 and 2015 respectively. The original donor who established the fund, and the Community Foundation, intend for this fund to be available to receive additional property from the Orchestra and other donors; the Community Foundation determines annual distributions. The balance of the fund at June 30, 2016 and 2015 was \$689,918 and \$754,187, respectively.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 6 - ENDOWMENT - Continued

The following are the endowment net asset composition by type of fund as of June 30:

		2016			
<u>Endowment Description</u>	<u>Purpose</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
The David Stahl Education through Music Endowment	Operating	\$ -	\$ (754)	\$ 125,200	\$ 124,446
The Charleston Symphony Orchestra Endowment Fund	Operating	351,546	-	-	351,546
		<u>\$ 351,546</u>	<u>\$ (754)</u>	<u>\$ 125,200</u>	<u>\$ 475,992</u>

		2015			
<u>Endowment Description</u>	<u>Purpose</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
The David Stahl Education through Music Endowment	Operating	\$ -	\$ 712	\$ 125,200	\$ 125,912
The Charleston Symphony Orchestra Endowment Fund	Operating	385,424	-	-	385,424
		<u>\$ 385,424</u>	<u>\$ 712</u>	<u>\$ 125,200</u>	<u>\$ 511,336</u>

Change in endowment net assets for the years ended June 30:

		2016			
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year		\$ 385,424	\$ 712	\$ 125,200	\$ 511,336
Investment income (loss)		16,280	(1,466)	-	14,814
Management fees		(3,643)	-	-	(3,643)
Realized and unrealized gains (losses)		(31,726)	-	-	(31,726)
Contributions		-	-	-	-
Distributions		(14,789)	-	-	(14,789)
Endowment net assets, end of year		<u>\$ 351,546</u>	<u>\$ (754)</u>	<u>\$ 125,200</u>	<u>\$ 475,992</u>

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 6 - ENDOWMENT - Continued

Change in endowment net assets for the years ended June 30:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
beginning of year	\$ 377,682	\$ -	\$ 125,000	\$ 502,682
Investment income	57,564	712	-	58,276
Management fees	(3,790)	-	-	(3,790)
Realized and unrealized gains (losses)	(46,032)	-	-	(46,032)
Contributions	-	-	200	200
Distributions	-	-	-	-
Endowment net assets,				
end of year	\$ 385,424	\$ 712	\$ 125,200	\$ 511,336

Permanently restricted net assets include the endowment fund assets; to be held indefinitely. The income from the assets may be used to support the Orchestra's activities, subject to donor-imposed restrictions. The Orchestra's policy for determining the portion of endowment earnings permitted to be included in operations is controlled by the trustees of the funds, generally 4% of a three year moving average of the trust's market value; these funds are distributed from the trustee to the Orchestra. The Community Foundation disbursed \$14,789 from the Board designated endowment to support general operations for the fiscal year ending June 30 2016. This distribution was recognized in contributions. There were no such disbursements for the fiscal year ending June 30, 2015.

The investment income related to the permanently restricted funds has been accounted for within temporarily restricted investment earnings on the Statements of Activities. Contributions to the permanently restricted corpus were \$0 and \$200 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

The Orchestra has temporarily restricted net assets available for the following purposes and time restrictions as of June 30, 2016 and 2015:

	2016	2015
Restricted for time	\$ 60,000	\$ 50,000
Restricted for marketing and program communication	100,000	175,000
Restricted for National Young Artist Competition	-	35,000
Restricted for education and outreach	190,000	60,000
Endowment earnings - restricted for education	(754)	712
	\$ 349,246	\$ 320,712

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 8 - NOTE PAYABLE

On August 25, 2014, the Orchestra entered into a loan with NBSC Bank for a vehicle. The loan was for \$26,000 and carries a 4.25% fixed interest rate. The note matures on September 5, 2017. Principal and interest payment of \$483 are due on a monthly basis, with a balloon payment of \$11,072 due on September 5, 2017. Future principal payments on the loan are as follows as of June 30, 2016:

2017	\$ 5,158
2018	<u>11,976</u>
	<u>\$ 17,134</u>

NOTE 9 - DEFERRED REVENUE

The Orchestra received \$754,644 and \$605,018, respectively, on advance ticket sales and advertising revenue for the upcoming concert season, as of June 30, 2016 and 2015. As each production is presented, the portion of the advance sales collection and advertising revenue that pertains to that production will be recognized as revenue. In the event any of the scheduled productions for the upcoming season are not presented, the ticket holder may either obtain a refund of the ticket price or contribute the ticket refund to the Orchestra. The Orchestra has retained in its cash balances, at June 30, 2016 and 2015, amounts in excess of these advanced ticket sales and advertising revenue.

NOTE 10 - RETIREMENT PLAN

On July 25, 2015, and again on July 29, 2016, the Board of Trustees of the American Federation of Musicians and Employers' Pension Fund ("AFM-EPF") notified all participants and beneficiaries of the Plan, that the funding status of the Plan is considered in critical status for the Plan years beginning April 1, 2014 and 2015, respectively.

In October 2013, the musicians of the Orchestra voted to decertify the Union, Local 502. This caused the unfunded portion of the Plan allocated to the Orchestra to become due. Management and the Board of Directors worked with Orchestra counsel, actuaries and representatives of the AFM-EPF to reach a settlement. On November 13, 2014 a settlement was reached. This agreement calls for a \$720,000 settlement to be paid to the AFM-EPF in quarterly installments of principal and interest of \$9,000 over a 20 year period, less \$46,939 in payments already made to this amount at June 30, 2014. This settlement was discounted at the Plan's stated discount rate of 7.5%. This discounted deferred pension obligation expense incurred by the Orchestra associated with this settlement totaled \$379,696 for the year ended June 30, 2014. This was the full and final settlement of this deferred pension plan obligation which included a fixed amortization schedule.

Future principal payment obligations under this agreement at June 30, 2016 are as follows:

2017	\$ 10,164
2018	10,956
2019	11,809
2020	12,665
2021	13,715
Thereafter	<u>285,701</u>
	<u>\$ 345,010</u>

Imputed interest under this agreement totaled \$26,638 and \$33,079 for the years ended June 30, 2016 and 2015, respectively.

**CHARLESTON SYMPHONY ORCHESTRA
NOTES OF THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

NOTE 11 - CONCENTRATIONS

Concentration of Revenue Source

The Orchestra received approximately 50% and 66%, respectively, of its revenue from donor and grantor contributions for the years ended June 30, 2016 and 2015. The Orchestra is economically dependent on significant unrestricted revenues being generated from donor contributions.

Concentration of Credit Risk

Financial instruments that potentially subject the Orchestra to concentrations of credit risk consist of cash in banks; investments managed by brokerage firms and promise to give. The Orchestra places its cash and investments with reputable financial institutions and limits the amount of credit exposure for cash to any one financial institution. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 and cash in investment accounts is insured by the brokers insurance. As of June 30, 2016 and 2015, the Orchestra had uninsured cash of \$172,006 and \$454,309, respectively.

On September 3, 2015, the Orchestra began participating in the Certificate of Deposit Account Registry Services (CDARS). The service allows the Orchestra to allocate funds into certificates of deposit in increments, which ensures the funds are eligible for full FDIC coverage.

NOTE 12 - AFFILIATED ORGANIZATIONS

The Charleston Symphony Orchestra League, Inc. (a separate 501(c)(3) organization) is a group of volunteers whose purpose is to support the Charleston Symphony Orchestra through music education programs, audience development, and providing financial assistance through fundraising projects. During the years ended June 30, 2016 and 2015, and the League contributed \$170,200 and \$161,675, respectively, to the Orchestra.

The Charleston Symphony Orchestra Chorus (a separate 501(c)(3) organization) is a group of auditioned, volunteer singers whose purpose is to promote enjoyment and appreciation of choral music in the Lowcountry of South Carolina. The Charleston Symphony Orchestra Chorus provides choral components for the Orchestra throughout the year.

The Charleston Symphony Youth Orchestra (a separate 501(c)(3) organization) provides serious young musicians the opportunity to perform the same music as the world's finest professional orchestras, playing in amazing venues such as the Gaillard Center. The professional musicians of the Charleston Symphony Orchestra provide regular instruction to these students.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Orchestra received \$152,793 and \$160,263 in contributions, pledge payments, and ticket sales from members of its Board of Directors for the years ended June 30, 2016 and 2015, respectively. The outstanding balance of promises to give from its Board Members at June 30, 2016 and 2015, was \$40,650 and \$16,250, respectively.

NOTE 14 - SUBSEQUENT EVENTS

In accordance with ASC 855, the Orchestra evaluated subsequent events at June 30, 2016 through December 8, 2016, the date these financial statements were available to be issued and has concluded no significant subsequent events meet the criteria of professional accounting standards to be recognized or disclosed in the financial statements

SUPPLEMENTARY INFORMATION

CHARLESTON SYMPHONY ORCHESTRA
SCHEDULES OF REVENUES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Funds Raised		
Support		
Contributions	\$ 1,212,678	\$ 1,285,190
Grants	608,468	715,909
Total funds raised	<u>1,821,146</u>	<u>2,001,099</u>
Earned Revenue		
Concert revenue		
Season ticket sales		
Masterworks	667,871	391,733
Pops	151,217	117,283
Chamber orchestra	-	60,672
Single ticket sales		
Masterworks	181,036	110,534
Pops	151,202	76,569
Chamber orchestra	-	29,994
Special events	205,894	61,746
Chamber music	18,389	34,303
Education		
Young People's concerts	21,917	2,220
National Young Artist Competition	2,210	8,415
Ticket service free	-	15,565
Sold services	296,248	61,510
Total concert revenue	<u>1,695,984</u>	<u>970,544</u>
Investment return / (loss)	(16,006)	12,168
Special project income		
Coffee Table Book	1,066	-
Competition application fee	3,850	-
Program advertising	29,488	-
Other income	63,824	46,905
Total earned revenue	<u>82,222</u>	<u>59,073</u>
TOTAL REVENUE	<u>\$ 3,599,352</u>	<u>\$ 3,030,716</u>

**CHARLESTON SYMPHONY ORCHESTRA
SCHEDULES OF FUNTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

Program Expenses	<u>2016</u>	<u>2015</u>
Artistic Costs		
Contract	\$ 841,605	\$ 728,097
Non-contract	550,576	310,840
Artistic staff	267,053	261,905
Guest artists and conductors	190,781	151,751
Occupancy and related costs	39,995	38,120
Total artistic costs	<u>1,890,010</u>	<u>1,490,713</u>
Production Costs		
Salaries and benefits	167,428	142,911
Hall rental	86,945	34,120
Stage crews	44,229	35,989
Box office	57,503	34,549
Music rental	47,633	36,104
Indirect production	61,276	37,137
Licensing	16,026	16,491
Marketing	274,434	209,740
Occupancy and related costs	15,998	15,285
Miscellaneous	30,327	34,890
Total production costs	<u>801,799</u>	<u>597,216</u>
Education Costs		
Salaries and benefits	267,009	209,241
Artistic and production expense	70,742	66,871
Miscellaneous education expense	28,115	17,420
Occupancy and related costs	7,999	-
Indirect expense	39	-
Total education costs	<u>373,904</u>	<u>293,532</u>
Total Program Services	<u>3,065,713</u>	<u>2,381,461</u>
Supporting Services Expenses		
General and Administrative Expenses		
Salaries and benefits	106,497	104,937
Professional services	30,885	98,905
Office supplies and postage	16,011	19,245
Insurance	22,640	23,544
Occupancy and related costs	7,999	7,159
Interest and bank fees	11,948	1,070
Miscellaneous	13,610	26,854
Total general and administrative expenses	<u>209,590</u>	<u>281,714</u>
Fundraising Expenses		
Salaries and benefits	205,023	204,091
Donor stewardship and development	44,764	56,208
Office supplies and postage	8,940	7,347
Occupancy and related costs	7,998	7,226
Miscellaneous	6,992	5,078
Total fundraising	<u>273,717</u>	<u>279,950</u>
Total Supporting Services	<u>483,307</u>	<u>561,664</u>
TOTAL OPERATING EXPENSES	<u>\$ 3,549,020</u>	<u>\$ 2,943,125</u>