



Report of Independent Auditors and
Combined Financial Statements with
Additional Information for
**San Diego Symphony Orchestra
Association and San Diego
Symphony Foundation**
June 30, 2017 and 2016

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
COMBINED FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities – 2017	4
Statement of Activities – 2016	5
Statements of Cash Flows	6
Notes to Combined Financial Statements	7-24
ADDITIONAL INFORMATION	
Combining Statement of Financial Position	3
Combining Statement of Activities	25

REPORT OF INDEPENDENT AUDITORS

To the Boards of Directors
San Diego Symphony Orchestra Association and
San Diego Symphony Foundation

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of San Diego Symphony Orchestra Association and San Diego Symphony Foundation, which comprise the combined statements of financial position as of June 30, 2017 and 2016, the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

MOSS ADAMS_{LLP}***Opinion***

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

Report on Additional Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 3 and 25 is presented for purposes of additional analysis of the combined financial statements rather than to present the combined financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Moss Adams LLP

San Diego, California
November 30, 2017

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	June 30, 2017				June 30, 2016
	SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION	SAN DIEGO SYMPHONY FOUNDATION	ELIMINATIONS	COMBINED	COMBINED
ASSETS					
Cash and cash equivalents	\$ 1,713,505	\$ 15,533	\$ -	\$ 1,729,038	\$ 2,345,716
Accounts receivable	105,821	500,000	(500,000)	105,821	220,665
Unconditional promises to give, net of allowance	6,327,342	2,070,626	-	8,397,968	8,672,546
Prepaid season expenses and other assets	1,438,481	-	-	1,438,481	782,179
Instrument loan	41,523	-	-	41,523	46,611
Fixed assets, net of accumulated depreciation	33,023,518	-	-	33,023,518	27,234,648
Music library	97,301	-	-	97,301	97,301
Investments	-	1,400,213	-	1,400,213	1,236,861
Beneficial interests in assets held at community foundations	992,356	48,440,432	-	49,432,788	46,697,542
Total assets	<u>\$ 43,739,847</u>	<u>\$ 52,426,804</u>	<u>\$ (500,000)</u>	<u>\$ 95,666,651</u>	<u>\$ 87,334,069</u>
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	\$ 2,104,129	\$ -	\$ (500,000)	\$ 1,604,129	\$ 2,143,790
Deferred revenue	3,231,146	-	-	3,231,146	2,994,424
Note payable to donor and related party	525,000	-	-	525,000	-
Line of credit	2,000,000	-	-	2,000,000	1,000,000
Pension liability	4,308,200	-	-	4,308,200	4,561,547
Total liabilities	<u>12,168,475</u>	<u>-</u>	<u>(500,000)</u>	<u>11,668,475</u>	<u>10,699,761</u>
Commitments and Contingencies (Notes 7 and 14)					
Net Assets					
Unrestricted					
Accumulated expenses in excess of revenue	\$ (11,285,764)	\$ (3,324,111)	-	(14,609,875)	\$ (15,965,264)
Designated for fixed assets	33,023,518	-	-	33,023,518	27,234,648
Unrestricted net assets	21,737,754	(3,324,111)	-	18,413,643	11,269,384
Temporarily restricted	7,398,889	-	-	7,398,889	7,712,823
Permanently restricted	2,434,729	55,750,915	-	58,185,644	57,652,101
Total net assets	<u>31,571,372</u>	<u>52,426,804</u>	<u>-</u>	<u>83,998,176</u>	<u>76,634,308</u>
Total liabilities and net assets	<u>\$ 43,739,847</u>	<u>\$ 52,426,804</u>	<u>\$ (500,000)</u>	<u>\$ 95,666,651</u>	<u>\$ 87,334,069</u>

See accompanying notes.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	Designated for Operations	Unrestricted Designated for Property and Equipment	Total	Temporarily Restricted	Permanently Restricted	Total
REVENUE FROM OPERATIONS						
Concert ticket revenues	\$ 6,415,534	\$ -	\$ 6,415,534	\$ -	\$ -	\$ 6,415,534
Contract performance revenues – Opera	1,298,671	-	1,298,671	-	-	1,298,671
Contract performance revenues	336,625	-	336,625	-	-	336,625
Concession, gift shop, and other revenues	245,502	-	245,502	-	-	245,502
Total revenue from operations	8,296,332	-	8,296,332	-	-	8,296,332
EXPENSES FROM OPERATIONS						
Concerts	16,328,375	1,380,035	17,708,410	-	-	17,708,410
General and administrative	2,700,089	680,026	3,380,115	-	-	3,380,115
Promotion and box office	2,903,698	-	2,903,698	-	-	2,903,698
Facility	917,799	-	917,799	-	-	917,799
Education and outreach	210,586	-	210,586	-	-	210,586
Total expenses from operations	23,060,547	2,060,061	25,120,608	-	-	25,120,608
Excess of expenses over revenue from operations	(14,764,215)	(2,060,061)	(16,824,276)	-	-	(16,824,276)
SUPPORT AND OTHER REVENUE						
Contributions	8,338,155	7,848,931	16,187,086	1,542,926	533,543	18,263,555
Government grants	676,819	-	676,819	-	-	676,819
Special event revenue	972,997	-	972,997	-	-	972,997
Special event expense	(464,706)	-	(464,706)	-	-	(464,706)
Rental income	211,717	-	211,717	-	-	211,717
Endowment payout	2,971,000	-	2,971,000	-	-	2,971,000
Interest income	3,863	-	3,863	-	-	3,863
Outreach income	1,982	-	1,982	-	-	1,982
Gain on sale of stock	4,707	-	4,707	-	-	4,707
Net assets released from restrictions	1,856,860	-	1,856,860	(1,856,860)	-	-
Total support and other revenue	14,573,394	7,848,931	22,422,325	(313,934)	533,543	22,641,934
Less development expenses	1,346,838	-	1,346,838	-	-	1,346,838
Net support and other revenue	13,226,556	7,848,931	21,075,487	(313,934)	533,543	21,295,096
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(1,537,659)	5,788,870	4,251,211	(313,934)	533,543	4,470,820
Other comprehensive pension income (expenses)	253,347	-	253,347	-	-	253,347
Endowment gain (loss) net of endowment payout	2,639,701	-	2,639,701	-	-	2,639,701
CHANGE IN NET ASSETS	1,355,389	5,788,870	7,144,259	(313,934)	533,543	7,363,868
NET ASSETS						
Beginning of year	(15,965,264)	27,234,648	11,269,384	7,712,823	57,652,101	76,634,308
End of year	\$ (14,609,875)	\$ 33,023,518	\$ 18,413,643	\$ 7,398,889	\$ 58,185,644	\$ 83,998,176

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
COMBINED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Designated for Operations	Unrestricted Designated for Property and Equipment	Total	Temporarily Restricted	Permanently Restricted	Total
REVENUE FROM OPERATIONS						
Concert ticket revenues	\$ 5,745,471	\$ -	\$ 5,745,471	\$ -	\$ -	\$ 5,745,471
Contract performance revenues - Opera	1,367,438	-	1,367,438	-	-	1,367,438
Contract performance revenues	460,500	-	460,500	-	-	460,500
Concession, gift shop, and other revenues	105,244	-	105,244	-	-	105,244
Total revenue from operations	<u>7,678,653</u>	<u>-</u>	<u>7,678,653</u>	<u>-</u>	<u>-</u>	<u>7,678,653</u>
EXPENSES FROM OPERATIONS						
Concerts	15,533,205	949,440	16,482,645	-	-	16,482,645
General and administrative	2,286,926	467,843	2,754,769	-	-	2,754,769
Promotion and box office	2,790,216	-	2,790,216	-	-	2,790,216
Facility	999,505	-	999,505	-	-	999,505
Education	183,983	-	183,983	-	-	183,983
Total expenses from operations	<u>21,793,835</u>	<u>1,417,283</u>	<u>23,211,118</u>	<u>-</u>	<u>-</u>	<u>23,211,118</u>
Excess of expenses over revenue from operations	<u>(14,115,182)</u>	<u>(1,417,283)</u>	<u>(15,532,465)</u>	<u>-</u>	<u>-</u>	<u>(15,532,465)</u>
SUPPORT AND OTHER REVENUE						
Contributions	9,204,229	424,520	9,628,749	5,060,474	887,820	15,577,043
Government grants	554,866	-	554,866	-	-	554,866
Special event revenue	943,278	-	943,278	-	-	943,278
Special event expense	(406,733)	-	(406,733)	-	-	(406,733)
Rental income	210,738	-	210,738	-	-	210,738
Endowment payout	2,984,000	-	2,984,000	-	-	2,984,000
Interest	1,300	-	1,300	-	-	1,300
Outreach income	750	-	750	-	-	750
Gain on sale of stock	205	-	205	-	-	205
Net assets released from restrictions	1,155,532	-	1,155,532	(1,155,532)	-	-
Total support and other revenue	<u>14,648,165</u>	<u>424,520</u>	<u>15,072,685</u>	<u>3,904,942</u>	<u>887,820</u>	<u>19,865,447</u>
Less development expenses	1,170,542	-	1,170,542	-	-	1,170,542
Net support and other revenue	<u>13,477,623</u>	<u>424,520</u>	<u>13,902,143</u>	<u>3,904,942</u>	<u>887,820</u>	<u>18,694,905</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(637,559)	(992,763)	(1,630,322)	3,904,942	887,820	3,162,440
Other comprehensive pension loss	(729,970)	-	(729,970)	-	-	(729,970)
Endowment loss, net of endowment payout	(3,717,111)	-	(3,717,111)	-	-	(3,717,111)
CHANGE IN NET ASSETS	(5,084,640)	(992,763)	(6,077,403)	3,904,942	887,820	(1,284,641)
NET ASSETS						
Beginning of year	(10,880,624)	28,227,411	17,346,787	3,807,881	56,764,281	77,918,949
End of year	\$ (15,965,264)	\$ 27,234,648	\$ 11,269,384	\$ 7,712,823	\$ 57,652,101	\$ 76,634,308

See accompanying notes.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	\$ 7,363,868	\$ (1,284,641)
Reconciliation to net cash from operating activities:		
Depreciation	2,060,061	1,417,283
Donated asset (Note 7)	(6,500,000)	-
Decrease in allowance for uncollectible pledges	(103,548)	(190,000)
Change in value of beneficial interests in charitable remainder trusts	29,383	(35,804)
Change in discount on pledges receivable	27,177	(18,305)
Net unrealized gains on investments	(241,352)	123,416
Endowment (gain) loss net of payout and expenses	(1,829,715)	3,858,640
Gain on sale of donated stock	(4,707)	(205)
Change in pension liability	(253,347)	729,970
Permanently restricted contributions and change in value of beneficial interests in charitable remainder trusts	(533,543)	(887,820)
Temporarily restricted contributions for fixed assets	(452,703)	(3,081,401)
(Increase) decrease in operating assets		
Accounts receivable	114,844	7,464
Unconditional promises to give	136,988	(1,601,132)
Prepaid season expenses and other assets	(656,302)	196,176
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(539,661)	338,810
Deferred revenue	236,722	196,571
Net cash (used in) operating activities	<u>(1,145,835)</u>	<u>(230,978)</u>
INVESTING ACTIVITIES		
Investment of endowment assets	(905,531)	(250,000)
Proceeds from sale of investments	78,000	-
Purchase of fixed assets	(1,348,931)	(424,520)
Collections on instrument loan	5,088	19,656
Net cash (used in) investing activities	<u>(2,171,374)</u>	<u>(654,864)</u>
FINANCING ACTIVITIES		
Net borrowings/repayments on line of credit	1,000,000	500,000
Net borrowings on notes payable to donor and related party	525,000	-
Permanently restricted net assets collected	905,531	250,000
Temporarily restricted contributions for fixed assets collected	270,000	2,220,000
Net cash provided by financing activities	<u>2,700,531</u>	<u>2,970,000</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(616,678)	2,084,158
CASH AND CASH EQUIVALENTS		
Beginning of year	2,345,716	261,558
End of year	<u>\$ 1,729,038</u>	<u>\$ 2,345,716</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	<u>\$ 66,750</u>	<u>\$ 45,634</u>

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies

Nature of organizations – The San Diego Symphony Orchestra Association (“SDSO”), a California not-for-profit corporation formed for the primary purpose of presenting musical concerts for the benefit of the San Diego community, is committed to presenting the community with symphonic music, at the highest level possible, as an accessible and inspirational art form through innovative programming and a strong commitment to arts education. Musicians serve as faculty in local universities and volunteers in public schools, give private music lessons, perform in artistic productions such as the San Diego Opera, and serve as artists in churches and community programs.

SDSO receives revenue from the San Diego Opera (the “Opera”) for services it provides. Revenue from the Opera was approximately 16 percent and 18 percent of total revenue from operations on the accompanying combined statements of activities for each of the years ended June 30, 2017 and 2016, respectively.

The productions and programs of SDSO are funded through a variety of public contributions and governmental grants.

The San Diego Symphony Foundation (“SDSF”), a separate legal entity, seeks endowment funds to support the various programs of SDSO.

Method of accounting – The combined financial statements have been prepared utilizing the accrual basis of accounting and include the accounts of SDSO and SDSF, two separate legal entities with separate Boards of Directors.

SDSO receives benefits in the form of distributions from SDSF, but does not exercise control over SDSF. The financial statements of SDSO and SDSF are combined pursuant to generally accepted accounting principles in the United States of America. All material inter-organization transactions have been eliminated in the accompanying combined financial statements.

Income tax status – SDSO and SDSF are both California not-for-profit corporations that are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. SDSO and SDSF follow the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740-10, *Income Taxes*, related to accounting for uncertain tax positions. SDSO and SDSF have no unrecognized tax benefits or liabilities as of June 30, 2017 and 2016.

Financial statement presentation – SDSO and SDSF follow ASC 958, *Not-for-Profit Entities – Presentation of Financial Statements*, for presentation of their combined financial statements, which requires that net assets be classified as unrestricted, temporarily restricted, or permanently restricted based upon the following criteria:

SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND SAN DIEGO SYMPHONY FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.
- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before SDSO and SDSF may spend the funds, and accumulated endowment earnings available for appropriation under SDSO and SDSF's spending policy.
- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, usually for generating investment income to fund current operations.

Revenue recognition:

Concert and contract performance revenues – Concert revenue from ticket sales is recognized at the time of the related performance. Contract performance revenues are recognized at the time the performance occur.

Concession, gift shop, and other revenue – Revenue from concessions, gift shops and other revenue is recorded at the time goods are sold or services provided.

Special events revenue – Revenue from special events is recognized at the time the event occurs.

Contributions – Contributions are recognized as revenue when received or unconditionally pledged. Contributions subject to donor-imposed restrictions for use in a future period or for a specific purpose are reported as either temporarily or permanently restricted depending on the nature of the restrictions. When a donor restriction expires, temporarily restricted net assets are classified to unrestricted net assets and reported in the combined statements of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted contributions.

Contributions restricted by the donor for acquiring or constructing fixed assets is reported as temporarily restricted net assets. When the fixed asset is placed in service, SDSO reclassifies the temporarily restricted net assets to unrestricted net assets.

Donated services – Donated services are received from a variety of unpaid volunteers assisting in the operations of SDSO. No amounts have been recognized in the accompanying combined statements of activities because the criteria for recognition of such volunteer efforts under ASC 958-605, *Accounting for Contributions Received and Contributions Made*, have not been satisfied.

Government grants – Government grants are recognized as support when expenditures are incurred in compliance with the terms and conditions of the grants.

Rental income – Rental income is recognized as earned under the terms of rental agreements.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Cash and cash equivalents consist of cash, money-market funds, and other highly-liquid investments with maturities of three months or less from the date of purchase.

Investments – SDSO holds investments in publicly-traded mutual funds, which are recorded at fair value based on quoted prices in active markets, as described in Note 4.

Beneficial interests in assets held at community foundations – Beneficial interests in assets held at community foundations are recorded at fair value. The fair value of these interests held at The San Diego Foundation (“TSDF”), Jewish Community Foundation (“JCF”), and Rancho Santa Fe Foundation (“RSF”), for which quoted market prices are not available is based on values provided by SDF, JCF, and RSF. The community foundations determine the fair values based on the unit values of SDSO and SDSF's interest in the pools in which they have invested. The unit value is based on the fair value of the underlying assets in the pools. The Chief Financial and Administrative Officer, under the oversight of the SDSF Board of Directors, reviews and evaluates the values provided by the community foundations on a quarterly basis and agrees with the valuation methods used. The majority of the endowment assets are held in these accounts.

Receivables:

Accounts receivable – Accounts receivable consists primarily of amounts due for services provided through the fiscal year end. Collateral is not obtained.

Unconditional promises to give – Unconditional promises to give consists of pledges receivable and beneficial interests in charitable remainder trusts expected to be collected in future years.

The fair value of pledges receivable is determined using a discounted cash flow model. The discounts are computed using risk-free rates applicable in the year in which those promises are received. For the years ended June 30, 2017 and 2016, the discount rate used for pledges receivable is approximately 2.1 percent and 1.4 percent, respectively. Amortization of the discount is included in contributions.

SDSO is the beneficiary of several charitable remainder trusts. The charitable remainder trusts generally provide for the payment of distributions to designated beneficiaries over the term of the charitable remainder trusts (usually the designated beneficiary's lifetime). At the end of a charitable remainder trust's term, all or a portion of the remaining assets are to be distributed to SDSO. Assets held in the charitable remainder trusts are managed by donor-designated trustees and are not accessible to SDSO until the end of the charitable remainder trusts' term.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

The fair value of the beneficial interests in charitable remainder trusts is calculated annually by the Chief Financial and Administrative Officer (under the oversight of the Chair of the Finance Committee) based on a discounted cash flow model using the fair value of the assets in the trust as provided by the trustees, applicable mortality tables for the donors, and discount rates at June 30, 2017 and 2016.

<u>Asset</u>	<u>Fair Value as of June 30, 2017</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Beneficial interest in charitable remainder trusts	\$ 3,701,518	Discounted cash flow	Discount rate Mortality tables	2.46% – 2.73% 12 – 24 years

<u>Asset</u>	<u>Fair Value as of June 30, 2016</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Beneficial interest in charitable remainder trusts	\$ 4,093,547	Discounted cash flow	Discount rate Mortality tables	1.68% – 2.08% 12 – 23 years

The beneficial interests in the charitable remainder trusts are included in unconditional promises to give and in temporarily and permanently restricted net assets, as applicable, in the accompanying combined statements of financial position.

Allowance for uncollectible receivables – SDSO evaluates the need for an allowance for estimated uncollectible accounts receivable and for uncollectible unconditional promises to give. The allowance for estimated uncollectible receivables is based on past experience and on an analysis of current receivable balances. Receivables deemed uncollectible are recorded against the allowance in the year deemed uncollectible. There was no allowance for accounts receivable at June 30, 2017 and 2016. The allowance for uncollectible unconditional promises to give was approximately \$6,500 and \$110,000 at June 30, 2017 and 2016, respectively.

Prepaid season expenses and deferred revenue – Prepaid season expenses include costs incurred as of June 30 for performances scheduled in the subsequent fiscal year. Expenses are recognized as the performances occur. Deferred revenue includes advance ticket sales and sponsorships for the next season’s events. The ticket sales and sponsorships are recognized as revenue as performances occur.

Fixed assets – Fixed assets are recorded at cost or, if donated, at estimated fair value at date of gift. All additions with a cost of \$1,000 or more are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 30 years.

Impairment of long-lived assets – SDSO and SDSF evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

Music library – SDSO capitalizes all music library purchases. Music collections are not depreciated as they are held in perpetuity to promote and preserve the musical compositions.

Advertising expense – Advertising costs are expensed in the year the related productions are performed. Advertising costs relating to future performances are deferred and included in prepaid expenses in the combined statements of financial position until the production is presented. Advertising expense for the years ended June 30, 2017 and 2016 was approximately \$840,000 and \$763,000, respectively. Advertising is recorded as a component of promotion and box office expenses.

Functional allocation of expenses – The costs of SDSO and SDSF’s activities have been presented on a functional basis in the combined statements of activities. Accordingly, certain costs have been allocated among the concerts and supporting services benefited.

The information below summarizes all expenses functionally for the years ended June 30, 2017 and 2016, including the functional allocation of facilities costs and the change in accrued minimum pension liability:

	2017	2016
Concerts	\$ 17,321,552	\$ 17,371,123
General and administrative	4,431,425	3,595,766
Promotion and box office	2,903,698	2,790,216
Development expense	1,346,838	1,170,542
Education	210,586	183,983
Total	\$ 26,214,099	\$ 25,111,630

Use of estimates – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – Subsequent events are events or transactions that occur after the combined statement of financial position date, but before the combined financial statements are available to be issued. SDSO and SDSF recognize in the combined financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the combined statement of financial position, including the estimates inherent in the process of preparing the combined financial statements. SDSO and SDSF’s combined financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the combined statement of financial position, but arose after the combined statement of financial position date and before the combined financial statements are available to be issued.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 1 – Nature of Organizations and Summary of Significant Accounting Policies (continued)

SDSO and SDSF have completed an evaluation of subsequent events through November 30, 2017, which is the date the combined financial statements were available to be issued. See subsequent event in Note 2.

Recently adopted accounting pronouncement – The June 30, 2017 financial statements reflect adoption of FASB Accounting Standards Update (“ASU”) No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. The adoption of this update does not have a material effect on the financial statements. ASU 2014-15 defines management’s responsibility to evaluate whether there is a substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures.

Note 2 Significant Transactions with Related Parties

SDSO relies heavily on contributions from a single donor. For the years ended June 30, 2017 and 2016, one donor who is a related party (chairperson for SDSF’s Board of Directors), accounted for approximately 73 percent and 57 percent of total unrestricted contributions, respectively, on the accompanying combined statements of activities.

During the year ended June 30, 2017, SDSO received an advance from the same donor. As of June 30, 2017, \$525,000 is due on this advance. In August 2017, SDSO entered in a formal loan agreement with this donor that included this advance. Under this loan agreement, SDSO was advanced \$4,000,000 (including the \$525,000) which is payable in equal installments of \$1,000,000 in February 2019, August 2020, February 2022 and August 2023. Interest of 1.95 percent annually is payable quarterly. The loan proceeds were to pay in full the line of credit balance (Note 13) and remaining funds can be used for operational needs.

See Note 13 for guarantee of line of credit by the same donor.

Transactions with SDF and JCF – SDSF invests the majority of its permanently restricted endowment assets along with the undistributed investment income with SDF and JCF. The majority of these funds were contributed by the donor mentioned above. The Board of Directors of SDSF includes members affiliated with both SDF and JCF.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 3 – Concentration of Credit Risk

Financial instruments that potentially subject SDSO and SDSF to credit risk consist primarily of cash, receivables, and investments.

Cash and cash equivalents – SDSO and SDSF maintain their cash and cash equivalents in bank accounts which, at times, may exceed federally-insured deposit limits. SDSO and SDSF have not experienced any losses in such accounts.

Receivables – Unconditional promises to give, including beneficial interests in charitable remainder trusts, are exposed to various credit and market risks such as interest rate risk and investment risks. Unconditional promises to give are subject to credit risk. Charitable remainder trust valuations are based on donor life expectancies and the fair value of the underlying assets in the trusts. Changes in the near-term are not expected to materially affect the amounts reported in the combined financial statements.

Investments – Investments are held in publicly-traded mutual funds and pooled investment funds, which are exposed to various risks such as 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 amounts reported in the combined financial statements.

Note 4 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used for measuring fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 4 – Fair Value Measurements (continued)

The following fair value hierarchy table presents information about each major class of SDSO and SDSF's financial assets measured at fair value on a recurring basis as of June 30, 2017 and 2016:

	2017			Total
	Level 1	Level 2	Level 3	
Beneficial interests in assets held at community foundations	\$ -	\$ -	\$ 49,432,788	\$ 49,432,788
Mutual funds – domestic and international equity securities	1,400,213	-	-	1,400,213
Total investments	<u>\$ 1,400,213</u>	<u>\$ -</u>	<u>\$ 49,432,788</u>	<u>\$ 50,833,001</u>
Beneficial interests in charitable remainder trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,701,518</u>	<u>\$ 3,701,518</u>
	2016			
	Level 1	Level 2	Level 3	Total
Beneficial interests in assets held at community foundations	\$ -	\$ -	\$ 46,697,542	\$ 46,697,542
Mutual funds – domestic and international equity securities	1,236,861	-	-	1,236,861
Total investments	<u>\$ 1,236,861</u>	<u>\$ -</u>	<u>\$ 46,697,542</u>	<u>\$ 47,934,403</u>
Beneficial interests in charitable remainder trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,093,547</u>	<u>\$ 4,093,547</u>

Beneficial interest in assets held at community foundations are held under custodial agreements with SDF, JCF, and RSF who manage the assets, which are primarily invested in publicly-traded fixed-income, equity, multi-strategy, and real estate funds. SDSF did not grant variance power to SDF, JCF, and RSF over the investments. Distributions can be made at any time from the funds but only with written authorization from SDSF. There are no commitments to make future investments and there are no restrictions on the redemption of funds invested at SDF, JCF, and RSF as of June 30, 2017 and 2016.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 4 – Fair Value Measurements (continued)

The following table discloses the summary of changes in the fair value of SDSO and SDSF’s Level 3 assets during the years ended June 30, 2017 and 2016:

	Beneficial Interests in Assets Held at Community Foundations	Beneficial Interests in Charitable Remainder Trusts	Total
Balance, July 1, 2015	\$ 50,306,182	\$ 3,429,922	\$ 53,736,104
Contributions	250,000	-	250,000
Investment return	(730,960)	-	(730,960)
Distributions	(2,945,709)	-	(2,945,709)
Fees and other expenses	(181,971)	-	(181,971)
Change in value of beneficial interest in charitable remainder trusts	-	663,625	663,625
Balance, June 30, 2016	46,697,542	4,093,547	50,791,089
Contributions	905,531	-	905,531
Investment return	5,440,952	-	5,440,952
Distributions	(3,431,915)	-	(3,431,915)
Fees and other expenses	(179,322)	-	(179,322)
Change in value of beneficial interest in charitable remainder trusts	-	(392,029)	(392,029)
Balance, June 30, 2017	<u>\$ 49,432,788</u>	<u>\$ 3,701,518</u>	<u>\$ 53,134,306</u>

Investment return is included in the combined statements of activities as endowment payout and endowment loss, net of endowment payout. The change in value for the beneficial interests in the charitable remainder trusts is included in the contributions line item in the combined statements of activities.

Note 5 – Instrument Loans

At times, loans are made available to musicians wishing to upgrade their instruments. Loans are collateralized by the instruments, with interest rates ranging from 0 to 4 percent, and are generally to be repaid over 1 to 30 years.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 6 – Unconditional Promises to Give

Unconditional promises to give are due as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,916,403	\$ 1,611,751
Two to five years	2,674,286	2,865,000
More than five years	6,065,803	5,967,099
	<u>10,656,492</u>	<u>10,443,850</u>
Less allowance for uncollectible pledges	(6,452)	(110,000)
Less discount to net present value	(2,252,072)	(1,661,304)
	<u>\$ 8,397,968</u>	<u>\$ 8,672,546</u>

Note 7 – Fixed Assets

Fixed assets are comprised of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,370,000	\$ 2,370,000
Building and improvements	32,837,446	32,837,446
Musical instruments	7,174,898	680,058
Computers and software	736,362	722,790
Furniture and equipment	635,488	635,445
Fixed assets in progress	2,265,792	930,477
	<u>46,019,986</u>	<u>38,176,216</u>
Less accumulated depreciation	(12,996,468)	(10,941,568)
Total	<u>\$ 33,023,518</u>	<u>\$ 27,234,648</u>

During the year ended June 30, 2017 SDSO received a Stradivarius violin with a fair value of \$6,500,000.

Note 8 – Deferred Revenue

Deferred revenue relates to the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Relating to future performances	\$ 3,227,146	\$ 2,988,129
Relating to special events and sponsorships	4,000	6,295
	<u>\$ 3,231,146</u>	<u>\$ 2,994,424</u>

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 9 – Employee Benefit Plans and Subsequent Event

Defined benefit plan – SDSO has a defined benefit plan that covers its musicians (the “Plan”). The Plan is noncontributory and benefits are based on employees’ years of service.

	<u>2017</u>	<u>2016</u>
Obligations and Funded Status		
Change in projected benefit obligations:		
Benefit obligation at beginning of year	\$ 13,807,509	\$ 12,899,192
Service cost	219,295	200,516
Interest cost	506,423	504,926
Actuarial loss	253,237	754,953
Benefits disbursed	<u>(605,792)</u>	<u>(552,078)</u>
Benefit obligation at end of year	<u>\$ 14,180,672</u>	<u>\$ 13,807,509</u>
Change in Plan assets:		
Fair value of Plan assets at beginning of year	\$ 9,245,962	\$ 9,067,615
Actual gain on Plan assets	577,485	98,346
Employer contributions	654,817	632,079
Benefits disbursed from Plan assets (including expense charges)	<u>(605,792)</u>	<u>(552,078)</u>
Fair value of Plan assets at end of year	<u>\$ 9,872,472</u>	<u>\$ 9,245,962</u>
Funded status	<u>\$ (4,308,200)</u>	<u>\$ (4,561,547)</u>

Contributions to the Plan by SDSO for the year ended June 30, 2018 are estimated to approximate the contributions made by SDSO for the year ended June 30, 2017.

Amounts recognized in the combined statements of financial position as of June 30, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Pension liability	<u>\$ (4,308,200)</u>	<u>\$ (4,561,547)</u>
Amounts included in unrestricted net assets related to pension adjustments	<u>\$ (5,709,022)</u>	<u>\$ (6,045,680)</u>

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 9 – Employee Benefit Plans and Subsequent Event (continued)

Net periodic pension cost as determined by ASC 715, *Compensation – Retirement Benefits Defined Benefit Plans – Pension*, included the following components at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 219,295	\$ 200,516
Interest cost	506,423	504,926
Actual return on Plan assets	(629,258)	(731,361)
Amortization of loss	<u>641,668</u>	<u>544,950</u>
Net periodic pension expense	<u>\$ 738,128</u>	<u>\$ 519,031</u>

The amount of net actuarial loss included in unrestricted net assets at June 30, 2017 that is expected to be recognized in net periodic pension (income) loss during the year ended June 30, 2018 is \$568,000.

The actuarial assumptions used for determining benefit obligations and pension expenses are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate – net periodic pension cost	3.8%	4.0%
Discount rate – benefit obligations	3.8%	3.8%
Expected long-term rate of return on assets	6.8%	7.8%
Rate of compensation increase	n/a	n/a

The long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the Plan, historical Plan return data, Plan expenses, and the potential to outperform market index returns. The rate of compensation increase is not relevant to the calculations because benefits paid upon retirement are based upon years of service multiplied by a flat rate per month which, once earned, are not subject to annual increases.

Investment policy and plan assets – The investment objective for the assets of the Plan portfolio is to generate a total rate of return, including income and capital appreciation, sufficient to enhance the ability of the Plan to meet its obligations to Plan participants and their beneficiaries when due, without taking unnecessary risk of long-term capital decline.

Investment policies and strategies governing the assets of the Plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of an external investment manager and the maintenance of a portfolio diversified by asset class, investment approach, and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 9 – Employee Benefit Plans and Subsequent Event (continued)

Cash flows – The following benefit payments that reflect expected future service, as appropriate, are expected to be paid as follows:

Years ending June 30,		
2018	\$	828,000
2019		834,000
2020		821,000
2021		852,000
2022		856,000
Thereafter		<u>4,371,000</u>
Total	\$	<u><u>8,562,000</u></u>

Defined contribution plans – SDSO contributes to a health and welfare fund and a pension fund for its stagehands at the rate of 14 percent of eligible compensation for each fund. Total contributions for the years ended June 30, 2017 and 2016 were approximately \$229,000 and \$210,000, respectively.

Union employees are covered by industry pension plans under which SDSO contributes monthly to the unions based on payroll for each eligible employee. All of SDSO’s musicians are members of a union with a contract that expires in June 30, 2021. All of SDSO’s stagehands are members of a union with a contract that expired on June 30, 2017. A new contract that expires on June 30, 2022 was signed in July 2017.

SDSO has a 401(k) plan for employees not covered by a collective bargaining agreement (the “401(k) Plan”). Employees become eligible in January or July following one year of employment. The 401(k) Plan provides for employer contributions of 5 percent of eligible compensation. All contributions are 100 percent vested at the time of enrollment. For the years ended June 30, 2017 and 2016, SDSO’s contribution to the 401(k) Plan was approximately \$165,000 and \$158,000, respectively.

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Time restrictions:		
Events in future fiscal year	\$ 3,309,575	\$ 3,191,293
Charitable remainder trusts	228,538	248,709
Restricted purpose or program:		
Bayside Performance Park	3,534,104	3,081,401
Capital campaign	191,672	177,920
Special programs	<u>135,000</u>	<u>1,013,500</u>
Total	<u><u>\$ 7,398,889</u></u>	<u><u>\$ 7,712,823</u></u>

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 11 – Net Assets Released from Restrictions

Net assets were released from donor restrictions upon the satisfaction of donor restrictions as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Time restrictions:		
Events in future fiscal year	\$ 725,000	\$ 225,000
Restricted purpose or program:		
Special programs	117,160	645,532
Capital campaign	1,014,700	285,000
Total	\$ 1,856,860	\$ 1,155,532

Note 12 – Rental Income

In October 1985, SDSO entered into a “Construction, Operating, and Easement Agreement” with Charlton-Raynd (now Symphony Tower Office). Under the terms of the agreement, Symphony Tower Office’s management was granted an easement to construct an office complex over SDSO’ land and existing structure. In exchange for the rights, SDSO receives \$0.02 per month for each square foot of space actually leased in the office complex tower, subject to annual cost of living increases. Income under this agreement for the years ended June 30, 2017 and 2016 was approximately \$212,000 and \$211,000, respectively, and is included in rental income in the accompanying combined statements of activities.

Note 13 – Commitments and Contingencies

Grants and contracts – SDSO has grants and contracts with various organizations and government agencies that are subject to audit. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined. Management believes that any liability which may result from these audits is not material. Some of these grants and contracts may be terminated or reduced with written notice to SDSO.

Contracts with guest artists – SDSO has non-cancelable agreements with various guest artists for performances scheduled during the 2016/2017 fiscal year. At June 30, 2017, total future commitments under non-cancelable agreements approximate \$2,396,000.

Line of credit – SDSO had a \$2,000,000 line of credit available with a bank which expired on August 31, 2016. In September 2016, the line of credit was renewed and the maturity date was extended to August 31, 2018. The interest rate on the line of credit is the higher of 4.0 percent, or prime plus 0.5 percent (4.75 percent at June 30, 2017). The line of credit is secured by all inventory, chattel paper, accounts, equipment, and general intangibles of SDSO and is guaranteed up to \$2,000,000 by a donor. As of June 30, 2017 and 2016, \$2,000,000 and \$1,000,000, respectively, were outstanding on the line of credit.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 13 – Commitments and Contingencies (continued)

SDSO was in compliance with the line of credit agreement's minimum tangible net worth requirement of \$33,500,000 as of June 30, 2017.

Letter of credit – SDSO has a \$25,000 standby letter of credit with a bank as required by the San Diego Port District in connection with its temporary use and occupancy permit.

Legal matters – At times, SDSO and SDSF are parties to certain claims and legal actions arising in the normal course of business. At June 30, 2017, management believes that all known claims or legal actions will not have a significant impact on the combined financial statements.

Note 14 – Endowments

The respective Boards of Directors of SDSO and SDSF have each interpreted the California Prudent Management of Institutional Funds Act (“CPMIFA”) 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, SDSO and SDSF classify as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organizations in a manner consistent with the standard of prudence prescribed by CPMIFA. In accordance with CPMIFA, the organizations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of SDSO and SDSF and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of SDSO and SDSF
- g. The investment policies of SDSO and SDSF

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 14 – Endowments (continued)

SDSO and SDSF have each 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. Under this policy, as approved by SDSO and SDSF's respective Boards of Directors, the endowment assets are invested in a manner that is intended to obtain a maximum investment return commensurate with reasonable risk. SDSO and SDSF expect their endowment funds, over time, to provide an average rate of return that exceeds inflation by 5 percent annually. Actual returns in any given year may vary from this amount.

To satisfy their long-term rate-of-return objectives, SDSO and SDSF rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). SDSO and SDSF target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve their long-term return objectives within prudent risk constraints.

SDSO and SDSF have a policy of appropriating for distribution each year 3 to 6 percent (as approved by the Board of Directors of SDSF) of the endowment fund's average fair value of the investments for a rolling 12-quarter period. In establishing this policy, SDSO and SDSF considered the long-term expected return on their endowments. This is consistent with SDSO and SDSF's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Under the current spending policy, approximately 6 percent of the average fair value of the investments for a rolling 12-quarter period has been appropriated to support current operations in 2017; this amount is reflected as endowment payout in the combined statements of activities.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires SDSO and SDSF to retain as a fund of perpetual duration. Total deficiencies in endowment funds as of June 30, 2017 and 2016 are reflected below under unrestricted endowment net assets.

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS**

Note 14 – Endowments (continued)

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ (926,240)	\$ -	\$ 56,764,281	\$ 55,838,041
Investment return:				
Investment (loss)	(3,717,111)	-	-	(3,717,111)
Contributions	-	-	887,820	887,820
Endowment net assets, June 30, 2016	<u>\$ (4,643,351)</u>	<u>\$ -</u>	<u>\$ 57,652,101</u>	<u>\$ 53,008,750</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ (4,643,351)	\$ -	\$ 57,652,101	\$ 53,008,750
Investment return:				
Investment income	2,639,701	-	-	2,639,701
Contributions	-	-	533,543	533,543
Endowment net assets, June 30, 2017	<u>\$ (2,003,650)</u>	<u>\$ -</u>	<u>\$ 58,185,644</u>	<u>\$ 56,181,994</u>

Endowment income (loss), net of endowment payout, consisted of the following transactions during the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment return	\$ 5,610,701	\$ (733,111)
Endowment payout	<u>(2,971,000)</u>	<u>(2,984,000)</u>
Endowment income (loss), net of endowment payout	<u>\$ 2,639,701</u>	<u>\$ (3,717,111)</u>

SDSO and SDSF's endowments were established for a variety of purposes. Their endowments include only donor-restricted endowment funds. As required by generally accepted accounting principles in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

ADDITIONAL INFORMATION

**SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION AND
SAN DIEGO SYMPHONY FOUNDATION
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

	SAN DIEGO SYMPHONY ORCHESTRA ASSOCIATION	SAN DIEGO SYMPHONY FOUNDATION	ELIMINATIONS	COMBINED
REVENUE FROM OPERATIONS				
Concert ticket revenues	\$ 6,415,534	\$ -	\$ -	\$ 6,415,534
Contract performance revenues – Opera	1,298,671	-	-	1,298,671
Contract performance revenues	336,625	-	-	336,625
Concession, gift shop, and other revenues	245,502	-	-	245,502
Total revenue from operations	<u>8,296,332</u>	<u>-</u>	<u>-</u>	<u>8,296,332</u>
EXPENSES FROM OPERATIONS				
Concerts	17,708,410	-	-	17,708,410
General and administrative	3,206,506	3,144,609	(2,971,000)	3,380,115
Promotion and box office	2,903,698	-	-	2,903,698
Facility	917,799	-	-	917,799
Education and outreach	210,586	-	-	210,586
Total expenses from operations	<u>24,946,999</u>	<u>3,144,609</u>	<u>(2,971,000)</u>	<u>25,120,608</u>
Excess of expenses over revenue from operations	<u>(16,650,667)</u>	<u>(3,144,609)</u>	<u>2,971,000</u>	<u>(16,824,276)</u>
SUPPORT AND OTHER REVENUE				
Contributions	17,578,998	684,557	-	18,263,555
Government grants	676,819	-	-	676,819
Special event revenue	972,997	-	-	972,997
Special event expense	(464,706)	-	-	(464,706)
Rental income	211,717	-	-	211,717
Endowment payout	2,971,000	-	-	2,971,000
Interest income	3,863	-	-	3,863
Outreach income	1,982	-	-	1,982
Gain on sale of stock	4,707	-	-	4,707
Net assets released from restrictions	-	-	-	-
Total support and other revenue	<u>21,957,377</u>	<u>684,557</u>	<u>-</u>	<u>22,641,934</u>
Less development expenses	1,346,838	-	-	1,346,838
Net support and other revenue	<u>20,610,539</u>	<u>684,557</u>	<u>-</u>	<u>21,295,096</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	3,959,872	(2,460,052)	2,971,000	4,470,820
Other comprehensive pension expenses	253,347	-	-	253,347
Endowment gain/(loss) net of endowment payout	38,915	5,571,786	(2,971,000)	2,639,701
CHANGE IN NET ASSETS	4,252,134	3,111,734	-	7,363,868
NET ASSETS				
Beginning of year	27,319,238	49,315,070	-	76,634,308
End of year	<u>\$ 31,571,372</u>	<u>\$ 52,426,804</u>	<u>\$ -</u>	<u>\$ 83,998,176</u>