

**Symphony Society of San Antonio**

Financial Statements  
and Supplementary Information

August 31, 2012 and 2011

# Symphony Society of San Antonio

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Independent Auditors' Report

To the Board of Directors  
Symphony Society of San Antonio  
San Antonio, Texas

We have audited the accompanying statements of financial position of the Symphony Society of San Antonio (the "Symphony") as of August 31, 2012 and 2011, and the related statements of activities and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Symphony's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Symphony's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Symphony as of August 31, 2012 and 2011, and the changes in its net assets (deficit) and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Symphony will continue as a going concern. As discussed in Note 16 to the financial statements, the Symphony is currently undergoing cash flow problems. This raises substantial doubt about the Symphony's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Padgett Stratemann & Co LLP*

Certified Public Accountants  
November 20, 2012

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# Symphony Society of San Antonio

## Statements of Financial Position

August 31, 2012 and 2011

### Assets

<b>Current Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 774,308	\$ 809,115
Accounts receivable:		
Pledges – net of allowance for uncollectible pledges of \$4,432 (\$4,282 in 2011)	609,322	533,105
Other receivables	44,985	33,886
Prepaid expenses	<u>155,367</u>	<u>147,156</u>
Total current assets	<u>1,583,982</u>	<u>1,523,262</u>
<b>Furniture and Equipment – net</b>	<u>49,508</u>	<u>76,975</u>
<b>Other Assets</b>		
Investments held in trust	1,805,252	1,765,921
Beneficial interest in charitable lead annuity unitrust	169,677	182,102
Pledges receivable – net of discount of \$1,886 (\$17,390 in 2011)	<u>23,114</u>	<u>213,110</u>
Total other assets	<u>1,998,043</u>	<u>2,161,133</u>
	<u>\$ 3,631,533</u>	<u>\$ 3,761,370</u>

*Notes to financial statements form an integral part of these statements.*

## Liabilities and Net Assets

<b>Current Liabilities</b>	<b>2012</b>	<b>2011</b>
Accounts payable	\$ 30,068	\$ 21,569
Accrued expenses	73,374	117,870
Unearned revenue	1,158,253	1,011,067
Lines of credit	541,979	21,660
Current portion of long-term debt	<u>250,000</u>	<u>250,000</u>
Total current liabilities	<u>2,053,674</u>	<u>1,422,166</u>
<b>Net Assets</b>		
Unrestricted net assets (deficit)	(825,268)	(623,358)
Temporarily restricted net assets	1,087,623	1,647,058
Permanently restricted net assets	<u>1,315,504</u>	<u>1,315,504</u>
Total net assets	<u>1,577,859</u>	<u>2,339,204</u>
Total liabilities and net assets	<u>\$ 3,631,533</u>	<u>\$ 3,761,370</u>

## Symphony Society of San Antonio

### Statement of Activities and Changes in Net Assets (Deficit)

Year Ended August 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, support, and other changes:				
Performance income	\$ 2,118,682	\$ -	\$ -	\$ 2,118,682
Other income	118,646	4,300	-	122,946
Grants and contributions:				
Corporations and corporate foundations	386,745	2,000	-	388,745
Individuals	1,032,145	51,808	-	1,083,953
Governments	609,488	-	-	609,488
Foundations	946,438	93,834	-	1,040,272
Other organizations	168,586	3,653	-	172,239
In-kind	193,002	-	-	193,002
Investment income	5,579	101,784	-	107,363
Net asset released – restrictions satisfied	816,814	(816,814)	-	-
	<b>6,396,125</b>	<b>(559,435)</b>	-	<b>5,836,690</b>
Expenses:				
Performance arts	4,861,638	-	-	4,861,638
General and administrative	860,143	-	-	860,143
Marketing and sales	677,211	-	-	677,211
Development	199,043	-	-	199,043
	<b>6,598,035</b>	-	-	<b>6,598,035</b>
Change in net assets	<b>(201,910)</b>	<b>(559,435)</b>	-	<b>(761,345)</b>
Net assets (deficit) at beginning of year	<b>(623,358)</b>	<b>1,647,058</b>	<b>1,315,504</b>	<b>2,339,204</b>
Net assets (deficit) at end of year	<b>\$ (825,268)</b>	<b>\$ 1,087,623</b>	<b>\$ 1,315,504</b>	<b>\$ 1,577,859</b>

*Notes to financial statements form an integral part of this statement.*

## Symphony Society of San Antonio

### Statement of Activities and Changes in Net Assets (Deficit)

Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, support, and other changes:				
Performance income	\$ 2,057,474	\$ -	\$ -	\$ 2,057,474
Other income	80,243	-	-	80,243
Grants and contributions:				
Corporations and corporate foundations	495,744	441,165	-	936,909
Individuals	775,599	155,909	2,700	934,208
Governments	628,386	-	-	628,386
Foundations	681,746	245,500	-	927,246
Other organizations	118,490	-	-	118,490
In-kind	365,838	-	-	365,838
Investment income	134	197,850	-	197,984
Net asset released – restrictions satisfied	862,304	(862,304)	-	-
Total revenues, support, and other changes	6,065,958	178,120	2,700	6,246,778
Expenses:				
Performance arts	4,951,066	-	-	4,951,066
General and administrative	1,069,532	-	-	1,069,532
Marketing and sales	607,632	-	-	607,632
Development	196,040	-	-	196,040
Total expenses	6,824,270	-	-	6,824,270
Change in net assets	(758,312)	178,120	2,700	(577,492)
Net assets at beginning of year – as previously reported	134,954	1,583,928	1,312,804	3,031,686
Prior period adjustment	-	(114,990)	-	(114,990)
Net assets at beginning of year – as restated	134,954	1,468,938	1,312,804	2,916,696
Net assets (deficit) at end of year	\$ (623,358)	\$ 1,647,058	\$ 1,315,504	\$ 2,339,204

*Notes to financial statements form an integral part of this statement.*

# Symphony Society of San Antonio

## Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (761,345)	\$ (577,492)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	41,833	48,632
Net unrealized gain on fair value of investments	(77,260)	(113,835)
Net unrealized gain on split interest agreement	(8,984)	(29,558)
Bad debt expense	8,420	2,525
Discount on pledges	15,504	9,846
Changes in:		
Pledges	89,855	188,484
Other receivables	(11,099)	18,381
Prepaid expenses	(8,211)	(2,876)
Deposits	-	4,935
Accounts payable	8,499	(12,777)
Accrued expenses	(44,496)	54,237
Unearned revenue	147,186	24,609
Net cash used in operating activities	<u>(600,098)</u>	<u>(384,889)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment	(14,366)	(5,866)
Distributions from split interest agreement	24,775	20,885
Purchase of investments held in trust	(21,909)	(23,377)
Distributions from investments held in trust	56,472	47,027
Net cash provided by investing activities	<u>44,972</u>	<u>38,669</u>

Notes to financial statements form an integral part of these statements.



# Symphony Society of San Antonio

## Statements of Cash Flows

Years Ended December 31, 2012 and 2011

(Continued)

	<u>2012</u>	<u>2011</u>
<b>Cash Flows From Financing Activities</b>		
Borrowings on line of credit	1,616,132	439,763
Payments on line of credit	(1,095,813)	(418,103)
Payments on capitalized lease obligations	-	(2,690)
	<u>520,319</u>	<u>18,970</u>
Net cash provided by financing activities	<u>520,319</u>	<u>18,970</u>
Net decrease in cash and cash equivalents	(34,807)	(327,250)
Cash and cash equivalents at beginning of year	<u>809,115</u>	<u>1,136,365</u>
Cash and cash equivalents at end of year	<u>\$ 774,308</u>	<u>\$ 809,115</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 13,973</u>	<u>\$ 4,395</u>

# Symphony Society of San Antonio

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### ***Reporting Entity and Nature of Operations***

The Symphony Society of San Antonio (the “Symphony”) is a not-for-profit corporation organized to establish, maintain, and operate orchestras, theatrical acts, and concert attractions in San Antonio, Texas and surrounding areas.

#### ***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

#### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Basis of Presentation***

Under these provisions, net assets and revenue, expenses, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria.

*Unrestricted Net Assets* – Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors (the “Board”).

# Symphony Society of San Antonio

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### ***Basis of Presentation***

*Temporarily Restricted Net Assets* – Temporarily restricted net assets consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and net assets as net assets released from restrictions.

*Permanently Restricted Net Assets* – Permanently restricted net assets consist of net assets that are subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes.

#### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Symphony considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Amounts excluded are cash and investments that are restricted for endowments. These cash and investments are included with investments held in trust.

#### ***Accounts Receivable***

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

#### ***Investments***

Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the statements of financial position. Unrealized gains and losses are included in the statements of activities and changes in net assets.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### ***Depreciation and Amortization***

Property and equipment are stated at cost if purchased, or fair value if donated. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives: buildings – 10 to 50 years; machinery and equipment – 3 to 10 years; and furniture and fixtures – 5 to 10 years. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. The Symphony has adopted a capitalization policy for property and equipment of \$1,000.

#### ***Impairment of Long-Lived Assets***

The Symphony reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Symphony did not recognize an impairment loss during the years ended August 31, 2012 and 2011.

#### ***Public Support and Revenue***

Contributions are recorded at fair value when the Symphony is in possession of or receives an unconditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets. The Symphony's policy is to report restricted support that is satisfied in the year of receipt as restricted and then fully released in the same year.

Unconditional promises to give, or pledges, are recorded in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise is made and received. Pledges receivable are discounted to an estimated present value.

Contributed services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed goods are recorded at their fair value in the period received.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### ***In-Kind Contributions***

In-kind contributions consist of donated professional services and donated goods and facilities. The estimated fair value of these donations approximated \$193,000 for the year ended August 31, 2012 (\$366,000 in 2011) and is reflected in the accompanying statement of activities and changes in net assets.

#### ***Unearned Revenue and Prepaid Expenses***

Subscriptions for the program season from October 2012 through June 2013 are recorded as unearned revenue on the statement of financial position and are recognized as earned revenue when the program events are performed. Costs incurred for future performances are recorded as prepaid expenses and expensed as the events are performed. Advertising revenues and expenses are recognized in the periods in which the advertising appears in the performance programs.

Advertising for concert-related activities is classified as a program book expense under marketing expenses on the statement of functional expenses.

#### ***Advertising Costs***

Direct response advertising costs, consisting primarily of costs incurred related to subscription revenues, are capitalized and amortized over the season to which they relate. Prepaid expenses at August 31, 2012 and 2011 include deferred advertising costs of \$96,441 and \$92,913. Advertising expenses totaled \$373,794 for the year ended August 31, 2012 (\$350,835 in 2011).

#### ***Reclassification***

Certain reclassifications have been made in the prior year's financial statements to conform to the current year's presentation.

#### ***Federal Income Tax***

The Symphony is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying financial statements. The Symphony, generally, is no longer subject to income tax examinations by federal authorities for years prior to August 31, 2008.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies (continued)

#### *Subsequent Events*

The Symphony has evaluated subsequent events through November 20, 2012, the date the financial statements were available to be issued.

### 2. Pledges Receivable

Pledges receivable due in more than one year are reflected at the net present value of estimated future cash flows using a discount rate of 4% per annum. Pledges receivable are expected to be collected as follows:

	August 31,	
	<u>2012</u>	<u>2011</u>
Gross amounts due in:		
One year or less	\$ 613,754	\$ 537,387
One to five years	<u>25,000</u>	<u>230,500</u>
Total unconditional promises to give	<b>638,754</b>	767,887
Less discounts to net present value	<b>(1,886)</b>	(17,390)
Less allowance for uncollectible promises	<u>(4,432)</u>	<u>(4,282)</u>
Net unconditional promises to give	<u><b>\$ 632,436</b></u>	<u>\$ 746,215</u>

### 3. Investments Held in Trust

The Symphony receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets, called "investments held in trust," are invested and administered by a trustee and distributions are made to the Symphony during the term of the agreement. The investments held in trust are stated at fair value, which is determined based on market quotes. Investments held in trust are classified as long-term based upon the existence of donor-imposed restrictions and represent permanently restricted endowment funds. The endowment funds vary in designated purpose and distribution rights and restrictions. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as contribution revenue and investment income, respectively.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 3. Investments Held in Trust (continued)

A comparison of the aggregate cost and fair value of the investments held in trust at August 31, 2012 and 2011 is as follows:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 210,109	\$ 210,109	\$ 225,129	\$ 225,129
Mutual funds	844,042	818,678	806,483	951,929
Equities	372,057	345,690	359,847	234,855
Real estate and specialty assets	117,912	108,180	115,225	104,116
Fixed income securities	261,132	250,795	259,237	248,626
	<u>\$ 1,805,252</u>	<u>\$ 1,733,452</u>	<u>\$ 1,765,921</u>	<u>\$ 1,764,655</u>

Gain on investments held in trust for the year ended August 31, 2012 totaled \$173,645 (\$168,206 in 2011), which includes net unrealized gains of \$70,534 (\$113,835 in 2011).

### 4. Fair Value Measurements and Disclosures

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 4. Fair Value Measurements and Disclosures (continued)

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following table represents assets measured at fair value on a recurring basis as reported on the statement of financial position as of August 31, 2012 and 2011 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at August 31, 2012	Level 1	Level 2	Level 3
Assets:				
Investments held in trust	\$ 1,805,252	\$ 1,426,209	\$ 379,043	\$ -
Beneficial interest in charitable lead annuity unitrust	<u>169,677</u>	<u>169,677</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,974,929</u>	<u>\$ 1,595,886</u>	<u>\$ 379,043</u>	<u>\$ -</u>
	Total Fair Value Measurement at August 31, 2011	Level 1	Level 2	Level 3
Assets:				
Investments held in trust	\$ 1,765,921	\$ 1,391,458	\$ 374,463	\$ -
Beneficial interest in charitable lead annuity unitrust	<u>182,102</u>	<u>72,730</u>	<u>109,372</u>	<u>-</u>
	<u>\$ 1,948,023</u>	<u>\$ 1,464,188</u>	<u>\$ 483,835</u>	<u>\$ -</u>

Investment securities available for sale are classified within Level 2 of the valuation hierarchy, with the exception of certain Treasury bonds and certain equity investment securities that are classified within Level 1. The Symphony obtains fair value measurements for investment securities from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions, and other such data.



# Symphony Society of San Antonio

## Notes to Financial Statements

### 4. Fair Value Measurements and Disclosures (continued)

The fair value of the Symphony's cash and cash equivalents, trade accounts receivable and payable, and short-term pledges receivable approximates the carrying amounts of such instruments due to their short maturity. The fair value of the debt approximates the carrying amount because the rate and terms currently available to the Symphony approximate the rate and terms on the existing debt.

### 5. Concentration of Credit Risk

The Symphony maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation for a minimum of \$250,000. The Symphony has not experienced any losses in such accounts.

### 6. Beneficial Interest in Charitable Lead Annuity Trust and Unitrust

The Symphony is the beneficiary of the income from one charitable lead trust that it does not administer. The balance of the receivable in this trust represents the net present value using investment returns consistent with the composition of the asset portfolios held in the trusts and a discount rate of 3%. The estimation of the net present value of these receivables is subjective and requires significant judgment. Due to uncertainties inherent in the estimation process, it is possible that future events in either the near- or long-term could materially affect the amounts reported in the statements of financial position. Contribution revenue for these trusts is recognized at the date the agreement is established. The lead trust will be terminated during 2020.

### 7. Furniture and Equipment

Furniture and equipment consist of the following:

	August 31,	
	2012	2011
Furniture and fixtures	\$ <u>313,753</u>	\$ <u>299,387</u>
	313,753	299,387
Less accumulated depreciation and amortization	<u>(264,245)</u>	<u>(222,412)</u>
Net property and equipment	\$ <u><u>49,508</u></u>	\$ <u><u>76,975</u></u>

Depreciation expense for the years ended August 31, 2012 and 2011 totaled \$41,833 and \$48,632, respectively.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 8. Note Payable

On May 15, 2009, the Kronkosky Music Fund (the "Fund") advanced the Symphony \$250,000 to provide cash flow for 2009 operations. In accordance with a signed agreement between the Symphony and the Fund, the advance is payable to the Fund based on revenues in excess of \$5,100,000 recorded for the fiscal year ending August 31, 2010, plus any revenues in excess of \$5,100,000 (adjusted by the Consumer Price Index for all Urban Consumers) recorded for each fiscal year after August 31, 2010. The January 2009 index of 207.035 will be the starting point. Payments are due on excess revenues until the balance is paid in full.

Revenues were in excess of the defined threshold of \$5,100,000 during the fiscal years ended August 31, 2012 and 2011; however, the advance has not been called by the Fund as of the date of this report. Since the repayment terms for the advance are contingent upon Symphony negotiations with the Fund, the entire \$250,000 of the advance has been classified as a current liability.

### 9. Line of Credit

The Symphony has a \$600,000 line of credit available (\$500,000 in 2011) with a bank at prime rate plus 1.75%, which expires in July 2013. The line is secured by substantially all accounts of the Symphony. At August 31, 2012 there was \$426,979 in credit outstanding (\$21,660 in 2011).

During 2012, the Symphony acquired a \$115,000 line of credit with a bank at prime rate plus 1.25%, which expires in December 2012. The line is personally guaranteed by the Chairman of the Board. At August 31, 2012 there was \$115,000 in credit outstanding.

### 10. Temporarily Restricted Net Assets

Temporarily restricted net assets at August 31, 2012 are comprised of the following:

	August 31,	
	2012	2011
Restricted for future operations	\$ 428,398	\$ 1,040,951
Donor restricted endowment fund	489,548	424,005
Beneficial interest in charitable lead annuity unitrust	169,677	182,102
	<u>\$ 1,087,623</u>	<u>\$ 1,647,058</u>

# Symphony Society of San Antonio

## Notes to Financial Statements

### 11. Permanently Restricted Net Assets

Permanently restricted net assets consist of various endowment funds held in trust. The endowment funds vary in designated purpose, distribution rights, and restrictions. Permanently restricted net assets as of August 31, 2012 and 2011 totaled \$1,315,504.

### 12. Endowment

The Symphony's endowment consists of approximately five individual, donor-restricted funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

#### *Interpretation of Relevant Law*

The Board of the Symphony has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result, the Symphony classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Symphony in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Symphony 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 Symphony 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 Symphony
- (7) The investment policies of the Symphony

# Symphony Society of San Antonio

## Notes to Financial Statements

### 12. Endowment (continued)

#### *Interpretation of Relevant Law (continued)*

The endowment net asset composition by type of fund is comprised of the following:

	August 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 489,548	\$ 1,315,504	\$ 1,805,052
	August 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 424,005	\$ 1,315,504	\$ 1,739,509

The Symphony had the following changes in endowment net assets:

	Year Ended August 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ -	\$ 424,005	\$ 1,315,504	\$ 1,739,509
Investment return:				
Investment income	-	19,125	-	19,125
Net appreciation	-	102,703	-	102,703
Amounts appropriated for expenditures	-	(56,472)	-	(56,472)
Other changes	-	187	-	187
Endowment net assets at end of year	\$ -	\$ 489,548	\$ 1,315,504	\$ 1,805,052

# Symphony Society of San Antonio

## Notes to Financial Statements

### 12. Endowment (continued)

#### *Interpretation of Relevant Law (continued)*

	Year Ended August 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ (3,881)	\$ 309,595	\$ 1,312,804	\$ 1,618,518
Investment return:				
Investment income	-	19,709	-	19,709
Net appreciation	3,881	141,729	-	145,610
Contributions to perpetual endowments	-	-	2,700	2,700
Amounts appropriated for expenditures	-	(47,028)	-	(47,028)
Endowment net assets at end of year	\$ -	\$ 424,005	\$ 1,315,504	\$ 1,739,509

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets consist of the following:

	August 31,	
	2012	2011
<b>Permanently Restricted Net Assets</b>		
The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA	<b>\$ <u>1,315,504</u></b>	<b>\$ <u>1,315,504</u></b>
<b>Temporarily Restricted Net Assets</b>		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
With purpose restrictions	<b>\$ <u>489,548</u></b>	<b>\$ <u>424,005</u></b>

#### ***Funds With Deficiencies***

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Symphony to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of August 31, 2012 or 2011.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 12. Endowment (continued)

#### ***Return Objectives and Risk Parameters***

The Symphony 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 Symphony must hold in perpetuity or for a donor-specified period, as well as Board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to grow the endowment funds and fund the annual withdrawal for operations, while assuming a moderate level of investment risk. The Symphony expects its endowment funds to provide an average rate of return in excess of the average rate of inflation over a reasonable period of time. Actual returns in any given year may vary from this amount.

#### ***Strategies Employed for Achieving Objectives***

To satisfy its long-term rate-of-return objectives, the Symphony 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 Symphony targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Symphony's policy of annual appropriation for distribution is driven by the donor instrument if specific guidelines are provided. For the general endowment, the Symphony determines the amount of appropriation based on market performance and organizational cash flow needs, while also considering the long-term expected return on its endowment. Accordingly, over the long term, the Symphony expects the current spending policy to allow its endowment to grow in excess of the average rate of inflation. This is consistent with the Symphony's objective of maintaining the purchasing power of the endowment assets held in perpetuity or for a specified term, as well providing additional real growth through new gifts and investment returns.

### 13. Employee Retirement Plan

In June, 2012, the Symphony started a 403b retirement plan (the "Plan") for non-union staff. The Symphony will match up to 4.6325% of the participant's annual salary per calendar year. The Plan is on a three year vesting schedule after one year of service. The Symphony recognized an expense of \$2,058 related to the Plan for the year ended August 31, 2012.

# Symphony Society of San Antonio

## Notes to Financial Statements

### 13. Employee Retirement Plan (continued)

The Symphony recognized an expense of \$98,997 and \$105,687, respectively, for the years ended August 31, 2012 and 2011, for pension contributions to the American Federation of Musicians' and Employees' Pension Fund on behalf of orchestra members. This annual retirement contribution under the defined contribution pension plan is specified in the collective bargaining agreement adopted by both Symphony management and Local 23 of the American Federation of Musicians.

### 14. Leases

Future minimum lease payments under noncancellable operating leases as of August 31, 2012 were as follows:

Year ending August 31,	
2013	\$ 51,939
2014	10,502
2015	1,375
2016	129
	<u>\$ 63,945</u>

Lease expense for the year ended August 31, 2012 totaled \$49,725 (\$54,385 in 2011).

### 15. Collective Bargaining Agreements

The Symphony and the American Federation of Musicians have a multi-year collective bargaining agreement (the "Agreement") that became effective September 1, 2012. The commitments under the Agreement are as follows:

<u>Season</u>	<u>Guaranteed Minimum Weeks</u>	<u>Commitment</u>
2012-2013	27	\$ 2,330,144
2013-2014	28	2,440,705
2014-2015	29	2,553,014

# Symphony Society of San Antonio

## Notes to Financial Statements

### 16. Going Concern

There is substantial doubt about whether the Symphony can continue to operate as a going concern due to cash flow problems, significant losses over the past several years, significant unrestricted net assets (deficit), as well as negative working capital. As a result, current operations have been supplemented with fiscal year 2013 prepaid subscription funds and a new line of credit was acquired (Note 9).

Management plans to mitigate the effects of these conditions by doing the following:

- Renew the existing line of credit agreements with a local bank to supplement cash flow needs
- Continue to fund current operations with future season ticket sales
- Negotiate with debtor to delay repayment or to change the cash advance into a gift that would not require repayment (Note 8)
- Aggressively pursue large corporate and individual donations and promises to give over several years
- Continue to postpone noncritical expenses until needed



## Supplementary Information

Independent Auditors' Report on Supplementary Information

To the Board of Directors  
Symphony Society of San Antonio  
San Antonio, Texas

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary data, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such data has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

*Padgett Stratemann & Co LLP*

Certified Public Accountants  
November 20, 2012

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# Symphony Society of San Antonio

## Statement of Functional Expenses

Year Ended August 31, 2012

	<u>Performance Arts</u>	<u>General and Administration</u>	<u>Marketing and Sales</u>	<u>Development</u>	<u>Total</u>
Salaries	\$ 2,571,093	\$ 317,466	\$ 170,193	\$ 123,486	\$ 3,182,238
Benefits	450,525	22,676	20,058	14,731	507,990
Payroll related taxes	<u>284,086</u>	<u>25,964</u>	<u>16,885</u>	<u>12,448</u>	<u>339,383</u>
Total salaries and benefits	3,305,704	366,106	207,136	150,665	4,029,611
Substitute and extra musician	260,707	-	-	-	260,707
Concert and production	460,515	-	12,629	-	473,144
Guest artist fees and related	521,784	-	-	-	521,784
Instrument and music	64,856	-	-	-	64,856
Education	10,824	1,389	-	-	12,213
Advertising	-	-	349,813	23,981	373,794
Legal and professional fees	9,482	92,086	40,748	8,000	150,316
Rent, utilities, and maintenance	91,966	95,215	-	-	187,181
Transportation and travel	14,813	44	1,012	-	15,869
Credit card processing fees	-	-	58,528	-	58,528
Bank service charges	-	16,848	-	-	16,848
Depreciation expense	-	41,833	-	-	41,833
Bad debt expense	-	7,520	-	900	8,420
Licenses, dues, taxes, and insurance	111,820	28,590	-	-	140,410
Other	<u>9,167</u>	<u>210,512</u>	<u>7,345</u>	<u>15,497</u>	<u>242,521</u>
Total expenses	<u>\$ 4,861,638</u>	<u>\$ 860,143</u>	<u>\$ 677,211</u>	<u>\$ 199,043</u>	<u>\$ 6,598,035</u>

See independent auditors' report on supplementary information.

# Symphony Society of San Antonio

## Statement of Functional Expenses

Year Ended August 31, 2011

	<u>Performance Arts</u>	<u>General and Administration</u>	<u>Marketing and Sales</u>	<u>Development</u>	<u>Total</u>
Salaries	\$ 2,831,999	\$ 264,200	\$ 143,967	\$ 145,264	\$ 3,385,430
Benefits	433,530	18,694	20,710	7,812	480,746
Payroll related taxes	<u>303,761</u>	<u>25,065</u>	<u>17,747</u>	<u>13,927</u>	<u>360,500</u>
Total salaries and benefits	3,569,290	307,959	182,424	167,003	4,226,676
Substitute and extra musician	219,462	-	-	-	219,462
Concert and production	415,675	-	6,479	-	422,154
Guest artist fees and related	447,137	-	-	-	447,137
Instrument and music	61,482	-	-	-	61,482
Education	38,035	1,211	-	-	39,246
Advertising	-	799	326,204	23,832	350,835
Legal and professional fees	-	159,702	35,444	-	195,146
Rent, utilities, and maintenance	84,198	96,054	-	-	180,252
Transportation and travel	13,501	660	1,630	136	15,927
Credit card processing fees	-	-	52,713	-	52,713
Bank service charges	-	8,905	-	-	8,905
Depreciation expense	-	48,632	-	-	48,632
Bad debt expense	-	-	-	2,525	2,525
Licenses, dues, taxes, and insurance	102,286	25,000	-	150	127,436
Other	<u>-</u>	<u>420,610</u>	<u>2,738</u>	<u>2,394</u>	<u>425,742</u>
Total expenses	<u>\$ 4,951,066</u>	<u>\$ 1,069,532</u>	<u>\$ 607,632</u>	<u>\$ 196,040</u>	<u>\$ 6,824,270</u>

See independent auditors' report on supplementary information.