



**CHARLOTTE SYMPHONY ORCHESTRA
SOCIETY, INCORPORATED**

FINANCIAL STATEMENTS AND
ACCOMPANYING INFORMATION

As of and for the Years Ended June 30, 2016 and 2015

And Report of Independent Auditor

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
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Report of Independent Auditor

To the Board of Directors
Charlotte Symphony Orchestra Society, Incorporated
Charlotte, North Carolina

We have audited the accompanying financial statements of Charlotte Symphony Orchestra Society, Incorporated (the "Society"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charlotte Symphony Orchestra Society, Incorporated as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Liquidity

We draw attention to the fact that as a result of net unrestricted losses for several years the Society has a deficit in net working capital of \$2,276,035 and \$1,710,552, and a deficit in unrestricted net assets of \$5,609,276 and \$5,394,286 as of June 30, 2016 and 2015, respectively. As discussed more fully in Note 2, the Society has taken action to reduce operating losses and to improve its cash flow and liquidity. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

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

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
March 8, 2017

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 218,964 | \$ 303,954 |
| Accounts receivable | 95,892 | 337,464 |
| Pledges receivable, net | 72,603 | 300,582 |
| Prepaid expenses and other current assets | 238,771 | 178,506 |
| Total Current Assets | <u>626,230</u> | <u>1,120,506</u> |
| Noncurrent pledges receivable, net | <u>495,700</u> | <u>924,365</u> |
| Property and Equipment: | | |
| Music library | 318,958 | 308,575 |
| Musical instruments | 242,263 | 205,963 |
| Furniture and equipment, less accumulated depreciation of \$589,554 at June 30, 2016 and \$569,724 at June 30, 2015 | <u>152,534</u> | <u>52,858</u> |
| Property and Equipment, Net | <u>713,755</u> | <u>567,396</u> |
| Restricted Assets: | | |
| Restricted cash and investments | 80,425 | 68,368 |
| Certificate of deposit | 750,000 | 750,000 |
| Endowment pledge receivable, net | 791,500 | 985,000 |
| Endowed investments | 59,657 | 65,649 |
| Beneficial interests in trusts: | | |
| Campaign for the Cultural Facilities | 4,383,714 | 4,301,580 |
| Campaign for the Cultural Facilities pledges receivable | 802,517 | 907,691 |
| Other beneficial interests in trusts | <u>3,174,829</u> | <u>832,481</u> |
| Total Restricted Assets | <u>10,042,642</u> | <u>7,910,769</u> |
| Total Assets | <u>\$ 11,878,327</u> | <u>\$ 10,523,036</u> |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,028,577 | \$ 817,259 |
| Cash receipts applicable to the coming season | 770,564 | 876,620 |
| Other deferred revenue | 1,083,124 | 1,037,179 |
| Note payable | 20,000 | - |
| Lines of credit and term loan - current portion | - | 100,000 |
| Total Current Liabilities | <u>2,902,265</u> | <u>2,831,058</u> |
| Lines of credit and term loan - noncurrent portion | <u>1,498,424</u> | <u>1,499,229</u> |
| Total Liabilities | <u>4,400,689</u> | <u>4,330,287</u> |
| Net Assets (Deficit): | | |
| Unrestricted | (5,609,276) | (5,394,286) |
| Temporarily restricted | 555,700 | 1,089,366 |
| Permanently restricted | <u>12,531,214</u> | <u>10,497,669</u> |
| Total Net Assets | <u>7,477,638</u> | <u>6,192,749</u> |
| Total Liabilities and Net Assets | <u>\$ 11,878,327</u> | <u>\$ 10,523,036</u> |

The accompanying notes are an integral part of these financial statements.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2016 AND 2015

| | Year Ended June 30, 2016 | | | | Year Ended June 30, 2015 | | | |
|---|--------------------------|------------------------|------------------------|---------------------|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues: | | | | | | | | |
| Concert revenue: | | | | | | | | |
| Season tickets | \$ 1,164,387 | \$ - | \$ - | \$ 1,164,387 | \$ 1,204,541 | \$ - | \$ - | \$ 1,204,541 |
| Single tickets | 1,438,888 | - | - | 1,438,888 | 1,408,103 | - | - | 1,408,103 |
| Other fee concerts | 481,088 | - | - | 481,088 | 437,128 | - | - | 437,128 |
| Youth Orchestras | 82,265 | - | - | 82,265 | 88,772 | - | - | 88,772 |
| Oratorio Singers | 12,897 | - | - | 12,897 | 7,669 | - | - | 7,669 |
| Sponsorships | 151,050 | - | - | 151,050 | 343,976 | - | - | 343,976 |
| Contributions: | | | | | | | | |
| Individuals and corporations | 4,263,294 | 40,000 | 1,966,000 | 6,269,294 | 4,234,393 | 269,400 | 1,015,983 | 5,519,776 |
| Arts and Science Council | 826,502 | - | - | 826,502 | 46,304 | - | - | 46,304 |
| Government sources | 82,500 | - | - | 82,500 | 82,500 | - | - | 82,500 |
| Symphony Guild | 21,297 | - | - | 21,297 | 22,085 | - | - | 22,085 |
| Allowable endowment balance for spending | 260,298 | - | - | 260,298 | 261,469 | - | - | 261,469 |
| Other revenue | 92,489 | - | - | 92,489 | 93,925 | - | - | 93,925 |
| | <u>8,876,955</u> | <u>40,000</u> | <u>1,966,000</u> | <u>10,882,955</u> | <u>8,230,865</u> | <u>269,400</u> | <u>1,015,983</u> | <u>9,516,248</u> |
| Adjustment to value of pledges receivable | - | 31,500 | 42,545 | 74,045 | - | 18,250 | (15,000) | 3,250 |
| Net assets released from restriction: | | | | | | | | |
| Arts and Science Council | - | - | - | - | 677,981 | (677,981) | - | - |
| Other | 580,166 | (605,166) | 25,000 | - | 690,321 | (690,321) | - | - |
| | <u>9,457,121</u> | <u>(533,666)</u> | <u>2,033,545</u> | <u>10,957,000</u> | <u>9,599,167</u> | <u>(1,080,652)</u> | <u>1,000,983</u> | <u>9,519,498</u> |
| Expenses: | | | | | | | | |
| Administrative: | | | | | | | | |
| Salaries and wages | 1,166,774 | - | - | 1,166,774 | 1,158,730 | - | - | 1,158,730 |
| Employee benefits and taxes | 226,827 | - | - | 226,827 | 234,302 | - | - | 234,302 |
| Other | 444,117 | - | - | 444,117 | 470,013 | - | - | 470,013 |
| | <u>\$ 1,837,718</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,837,718</u> | <u>\$ 1,863,045</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,863,045</u> |

The accompanying notes are an integral part of these financial statements.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENTS OF ACTIVITIES (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

| | Year Ended June 30, 2016 | | | | Year Ended June 30, 2015 | | | |
|---|--------------------------|------------------------|------------------------|---------------------|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Expenses (Continued): | | | | | | | | |
| Musical and project: | | | | | | | | |
| Salaries, wages and travel | \$ 3,780,529 | \$ - | \$ - | \$ 3,780,529 | \$ 3,616,067 | \$ - | \$ - | \$ 3,616,067 |
| Employee benefits and taxes | 1,446,530 | - | - | 1,446,530 | 1,362,369 | - | - | 1,362,369 |
| Guest artists | 815,200 | - | - | 815,200 | 726,410 | - | - | 726,410 |
| Properties and production | 799,888 | - | - | 799,888 | 707,012 | - | - | 707,012 |
| Education | 67,826 | - | - | 67,826 | 53,695 | - | - | 53,695 |
| Other project expenses | 26,915 | - | - | 26,915 | 63,878 | - | - | 63,878 |
| | <u>6,936,888</u> | <u>-</u> | <u>-</u> | <u>6,936,888</u> | <u>6,529,431</u> | <u>-</u> | <u>-</u> | <u>6,529,431</u> |
| Fundraising and development: | | | | | | | | |
| Promotion and subscription campaigns | | | | | | | | |
| | 867,199 | - | - | 867,199 | 936,257 | - | - | 936,257 |
| Education | 2,368 | - | - | 2,368 | 11,530 | - | - | 11,530 |
| Annual Fund drive | 143,430 | - | - | 143,430 | 165,787 | - | - | 165,787 |
| | <u>1,012,997</u> | <u>-</u> | <u>-</u> | <u>1,012,997</u> | <u>1,113,574</u> | <u>-</u> | <u>-</u> | <u>1,113,574</u> |
| Total Expenses | <u>9,787,603</u> | <u>-</u> | <u>-</u> | <u>9,787,603</u> | <u>9,506,050</u> | <u>-</u> | <u>-</u> | <u>9,506,050</u> |
| Change in net assets before other changes | | | | | | | | |
| | (330,482) | (533,666) | 2,033,545 | 1,169,397 | 93,117 | (1,080,652) | 1,000,983 | 13,448 |
| Other Changes: | | | | | | | | |
| Investment return (loss) | (2,579) | - | - | (2,579) | 593 | - | - | 593 |
| Change in beneficial interests in trusts | 378,369 | - | - | 378,369 | 75,746 | - | - | 75,746 |
| Release of allowable endowment balance for spending | <u>(260,298)</u> | <u>-</u> | <u>-</u> | <u>(260,298)</u> | <u>(261,469)</u> | <u>-</u> | <u>-</u> | <u>(261,469)</u> |
| Change in net assets | (214,990) | (533,666) | 2,033,545 | 1,284,889 | (92,013) | (1,080,652) | 1,000,983 | (171,682) |
| Net Assets (Deficit): | | | | | | | | |
| Beginning of year | <u>(5,394,286)</u> | <u>1,089,366</u> | <u>10,497,669</u> | <u>6,192,749</u> | <u>(5,302,273)</u> | <u>2,170,018</u> | <u>9,496,686</u> | <u>6,364,431</u> |
| End of year | <u>\$ (5,609,276)</u> | <u>\$ 555,700</u> | <u>\$ 12,531,214</u> | <u>\$ 7,477,638</u> | <u>\$ (5,394,286)</u> | <u>\$ 1,089,366</u> | <u>\$ 10,497,669</u> | <u>\$ 6,192,749</u> |

The accompanying notes are an integral part of these financial statements.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,284,889 | \$ (171,682) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 19,820 | 14,559 |
| Realized and unrealized (gains) losses on endowed investments | 2,398 | (822) |
| Change in beneficial interests in trusts | (378,373) | 17,950 |
| Change in discounts on pledges receivable | (4,000) | 15,000 |
| Provision for uncollectible pledges | (19,000) | (13,250) |
| Donated property and equipment | (20,000) | - |
| Contributions for endowment | (1,966,000) | (15,983) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 241,572 | (148,094) |
| Pledges receivable | 978,318 | (22,540) |
| Prepaid expenses and other current assets | (60,265) | (26,235) |
| Accounts payable and accrued liabilities | 211,318 | (19,938) |
| Cash receipts applicable to the coming season | (106,056) | (18,654) |
| Other deferred revenue | 45,945 | 862,814 |
| Net cash from operating activities | <u>230,566</u> | <u>473,125</u> |
| Cash flows from investing activities: | | |
| Sales (purchases) of restricted cash and investments, net | (12,057) | 112,246 |
| Sales (purchases) of endowed investments | (2,046,109) | 3,830 |
| Purchases of property and equipment, net of sales | (142,585) | (35,540) |
| Net cash from investing activities | <u>(2,200,751)</u> | <u>80,536</u> |
| Cash flows from financing activities: | | |
| Proceeds from lines of credit and notes payable | 1,000,000 | 1,250,000 |
| Repayment on lines of credit and notes payable | (1,080,805) | (1,550,000) |
| Contributions for endowment | 1,966,000 | 15,983 |
| Net cash from financing activities | <u>1,885,195</u> | <u>(284,017)</u> |
| Increase (decrease) in cash and cash equivalents | (84,990) | 269,644 |
| Cash and cash equivalents, beginning of year | <u>303,954</u> | <u>34,310</u> |
| Cash and cash equivalents, end of year | <u>\$ 218,964</u> | <u>\$ 303,954</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 69,316</u> | <u>\$ 70,050</u> |

The accompanying notes are an integral part of these financial statements.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Summary of significant accounting policies

Organization and Nature of Activities - The Charlotte Symphony Orchestra Society, Incorporated (the "Society") was founded in 1932 for the purpose of performing a broad range of orchestral music, including appropriate genres of American traditional and popular music, to engage, educate and enrich audiences of all ages.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Financial Accounting Standards Board ("FASB") has established the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets are both undesignated and designated in nature. Undesignated, unrestricted net assets are those currently available for use in the day-to-day operation of the Society and those resources invested in furniture and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of the Society. Such amounts would be reflected as unrestricted, designated net assets.

Temporarily restricted net assets are contributions and endowment investment earnings subject to donor-imposed stipulations or law that may or will be met, either by specific actions of the Society and/or the passage of time. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same report period in which the contribution is received, the contribution is reported as unrestricted.

Permanently restricted net assets are those subject to donor-imposed stipulations that they be maintained permanently by the Society. Generally, the donors of these assets permit the Society to appropriate for expenditure a percentage of the fair value of the assets.

Contributions - Contributions, including unconditional promises to give ("pledges receivable"), are recognized as revenues in the period made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Grants and other contributions of cash and other assets are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted revenue.

Endowment contributions are recorded as increases in permanently restricted net assets. Earnings on endowment investments are recorded as temporarily restricted net assets until the earnings are appropriated for expenditure or until certain purpose-related restrictions are met. As the earnings are appropriated for expenditure or after purpose-related restrictions are met, the earnings are released into unrestricted net assets.

The Society records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A number of unpaid volunteers, who serve in the capacity of Board members, have made significant contributions of their time in the furtherance of the Society's purpose. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

Contributions (Continued) - During the years ended June 30, 2016 and 2015, the Society received \$97,500 and \$74,500, respectively, of contributed assets and services that met the requirements above and are reported under unrestricted contributions in the accompanying statements of activities.

From time to time, the Society may be named as a beneficiary in certain wills, trusts, and/or estates. Generally, these agreements are considered conditional promises to give. As such, no receivables or revenues are recognized until the underlying condition has been satisfied.

Income Taxes - The Society has received a favorable determination letter from the Internal Revenue Service with respect to its tax-exempt status under section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal and state income taxes. Management believes that the Society continues to satisfy the requirements of a tax-exempt organization and is not subject to tax. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Cash and Cash Equivalents - The Society considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the accompanying statements of cash flows exclude temporarily and permanently restricted cash and cash equivalents.

Restricted Cash and Investments - Restricted cash and investments are funds held from contributions received and/or payments on pledges receivable that are temporarily or permanently restricted as well as funds related to the Instrument Loan Program. Funds related to the Instrument Loan Program are required to be kept in a separate bank account.

Accounts Receivable - Accounts receivable are stated at cost less an allowance for doubtful accounts, if necessary. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past experience, and current economic conditions. Management has determined an allowance for doubtful accounts is not considered necessary as of June 30, 2016 and 2015.

Instrument Loans Receivable - Loans receivable are carried at unpaid principal balances, less an allowance for loan losses, if necessary. Management's determination of the allowance for loan losses is based on past loan loss experience, specific impaired loans, and current economic conditions. Management has determined an allowance for loan losses is not considered necessary as of June 30, 2016 and 2015. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. At June 30, 2016 and 2015, the Society reported instrument loans receivable of approximately \$19,000 and \$33,000, respectively, which included in accounts receivable in the statements of financial position.

Pledges Receivable, Net - Contributions that are expected to be collected in future years are recorded at fair value which is estimated using the present value of their expected cash flows, discounted using current market rate assumptions and are recorded net of an allowance for uncollectible pledges, which is based on management's evaluation of potential uncollectible pledges.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the accompanying statements of financial position at their fair value. Fair value is determined by reference to exchange or dealer-quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar investment securities. Changes in the fair value of securities are reflected as investment return (loss) in the accompanying statements of activities.

Beneficial Interests in Trusts - The Society recognizes contribution revenue from assets held by a recipient organization for the sole benefit of the Society.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 1—Summary of significant accounting policies (continued)

Furniture and Equipment, Net - Furniture and equipment are stated at cost for purchased items and at estimated fair value at the date received for donated items. Depreciation is computed on the straight-line basis for furniture and equipment using an estimated useful life, which ranges from 5 to 10 years. The music library and musical instruments owned by the Society are not depreciated, as such assets are not considered to decline in value or usefulness.

Other Deferred Revenue - Other deferred revenue consists primarily of a \$1 million receipt during fiscal year 2015 that relates to a future year grant.

Ticket and Sponsorship Revenue - Ticket and sponsorship receipts for concerts prior to the performance is deferred and recognized in the accompanying statements of activities as revenues in the period in which the concert is given. Any amounts deferred at year-end are included in cash receipts applicable to the coming season in the accompanying statements of financial position.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification - Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Note 2—Liquidity and capital resources

Due to unrestricted losses in several prior years, the Society experienced decreases in its unrestricted net assets. The losses were primarily a result of expenses rising faster than revenues. For the fiscal year ended June 30, 2016, the Society had a decrease in unrestricted net assets of \$214,990 and an increase in total net assets of \$1,284,889. The Society is projecting a balanced budget for the year ended June 30, 2017, which would prevent further deterioration of the net unrestricted net assets from the deficit as of June 30, 2016. The Society's liquidity needs are supplemented by a line of credit (see Note 9), flexibility of the timing of grants received from Arts and Science Council ("ASC"), use of advance ticket sales and over \$3 million in contributions from the Thrive Arts Stabilization Fund whose mission is to help arts groups develop independent fundraising tools and infrastructure. In addition, the Society substantially offset the cash flow impact of operating deficits since the year ended June 30, 2007 by borrowing from its endowment funds. As of June 30, 2016, a total of \$2,747,390 has been borrowed from endowment funds (see Note 7).

The Society has developed a business plan to continue to increase unrestricted net assets. In September, 2014, the musicians and management agreed to a three-year extension of the union contract which provides the Society with costs savings the first two years (see Note 13). Management is continuing to expand revenue generating activities as well as explore ways to reduce other expenses where possible. The Society has engaged consultants to help optimize revenue from its performances and improve patron engagement in order to improve both earned and contributed income. The Society has budgeted for an increase in future contributions from corporate sponsorships and foundations. The Society also has future plans to initiate an endowment campaign to enhance its endowment income available for withdrawal. During the year ended June 30, 2016, the Society received a \$1.95 million endowment gift from one donor.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 3—Pledges receivable, net

Pledges receivable represent donors' promises to pay contributions to the Society. Pledges receivable without a purpose designation from the donor are recorded in the accompanying statements of financial positions as pledges receivable and are summarized as follows as of June 30:

| | 2016 | 2015 |
|--|------------------|-------------------|
| Receivable in less than one year | \$ 82,103 | \$ 310,082 |
| Less: allowance for uncollectible accounts | (9,500) | (9,500) |
| Pledges receivable, net | <u>\$ 72,603</u> | <u>\$ 300,582</u> |

The Society also receives pledges for support of future performances and other temporarily restricted purposes. Receivables related to these pledges, which are recorded in the accompanying statements of financial position as noncurrent pledges receivable are summarized as follows as of June 30:

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Receivable in less than one year | \$ 136,700 | \$ 458,165 |
| Receivable in one to five years | 406,500 | 518,200 |
| Receivable after five years | - | 27,000 |
| Total restricted pledges receivable | <u>543,200</u> | <u>1,003,365</u> |
| Less: allowance for uncollectible accounts | (41,500) | (60,500) |
| Less: discount to present value | (6,000) | (18,500) |
| Restricted pledges receivable, net | <u>\$ 495,700</u> | <u>\$ 924,365</u> |

Endowment pledges receivable are summarized as follows as of June 30:

| | 2016 | 2015 |
|------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 200,000 | \$ 200,000 |
| Receivable in one to five years | 600,000 | 800,000 |
| Total endowment pledges receivable | 800,000 | 1,000,000 |
| Less: discount to present value | (8,500) | (15,000) |
| Endowment pledges receivable, net | <u>\$ 791,500</u> | <u>\$ 985,000</u> |

The fair value of pledges receivable are recorded at their present value of expected future cash flows using an average credit adjusted risk free discount rate of 0.71% for year ended June 30, 2016. The fair value option was chosen to measure the fair value of pledges receivable in order to mitigate volatility in reported changes in net asset. Management periodically reviews pledges receivable and assesses their collectability and records an allowance for potentially uncollectible amounts. Included in pledges receivable above are balances due from members of the Board of Directors and Board of Trustees of approximately \$735 and \$157,000 as of June 30, 2016 and 2015, respectively.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 4—Endowed Investments

At June 30, 2016 and 2015, the Society had endowed investments of \$59,657 and \$65,549, respectively.

The Society's investments are exposed to various risks such as interest rates, market, liquidity, and credit risks. Due to the current and potential future volatility in the financial markets, it is possible that changes in the investment values and liquidity could occur in the near term and could materially affect the reported investment values in the accompanying statements of financial position.

Investment return is comprised of the following for the years ended June 30:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|---------------|
| Realized and unrealized gains on endowed investments | \$ (2,398) | \$ 822 |
| Administrative and investment fees | (181) | (229) |
| Total investment return | <u>\$ (2,579)</u> | <u>\$ 593</u> |

The investments are held at Foundation for the Carolinas ("FFTC"). In addition to the above investments, the Society's investment funds consist of beneficial interests, which are held primarily by the Greater Charlotte Cultural Trust ("GCCT"), a supporting foundation of FFTC. These funds are also managed by FFTC.

These endowment investments and beneficial interests in trusts at FFTC are maintained with various broker-dealers, invested in pooled funds of primarily common stock equities, bonds and fixed income investments, which are subject to fluctuations in market values and expose the Society to a certain degree of interest and credit risk.

Investments include fund managers that invest in private investment funds as part of the asset allocation, as an alternative investment strategy with the purpose of increasing the diversity of the holdings and being consistent with the overall investment objectives. The private investment funds are not traded on an exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities.

The private investment funds may invest in other private investment funds, equity or debt securities, which may or may not have readily available fair values, and foreign exchange or commodity forward contracts. Management of FFTC relies on various factors to estimate the fair value of these investments and believes its processes and procedures for valuing investments are effective and that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and accordingly, investment values and performance can be affected. The effect of these changes could be material to the accompanying financial statements.

Note 5—Beneficial interest in the Campaign for Cultural Facilities

In January 2004, ASC's Board of Directors adopted The Cultural Facilities Master Plan (the "Plan"), the result of a study completed on facility needs for the cultural organizations in the Charlotte community. The Plan recommended the construction or improvement of several cultural facilities, with capital funding to come from the local government. ASC, in conjunction with GCCT, completed the Cultural Organizations Endowment Agreement related to the Campaign for Cultural Facilities. The Agreement outlined the campaign to fund facility endowments to support the operation of the new or remodeled facilities as well as other endowment and capital needs in the cultural community. The Society is a party to this agreement and is budgeted to be allocated \$7 million of the approximately \$83 million raised. If actual campaign collections are less than the total raised, the Society will receive a prorated share of its budgeted allocation. In accordance with the agreement, the funds will be used to create an endowment, with the earnings to be distributed annually to fund operating costs of the new facilities.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 5—Beneficial interest in the Campaign for Cultural Facilities (continued)

Although the Society has no control over the disbursement of these funds, the Society is a named beneficiary of a portion of these funds. Accordingly, a beneficial interest of \$4,383,714 and \$4,301,580 as of June 30, 2016 and 2015, respectively, has been included in the Society’s assets representing the Society’s interest in funds raised to date. Because the amounts held at GCCT are being accounted for as an endowment for the benefit of the Society, the Society has accounted for these assets in a manner similar to the endowment funds (See Note 7).

As part of the Campaign for Cultural Facilities, the Society has endowed pledges receivable of \$802,517 and \$907,691 as of June 30, 2016 and 2015, respectively, that are presented as Campaign for the Cultural Facilities pledges receivable in the statements of financial position.

Note 6—Fair value measurement of assets and liabilities

In accordance with guidance on fair value measurements for financial instruments measured at fair value, fair value is defined as the price that the Society would receive to sell an asset or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The fair value guidance establishes a three-tier hierarchy based on the lowest level of input that is significant to the valuation.

The inputs are summarized in the three broad levels listed below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets.

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. Inputs include quoted prices for similar assets and liabilities in active markets, inputs that are derived from investment manager reporting or corroborated by an independent advisor, and inputs obtained from comparison with benchmarks for similar assets for substantially the full term on the financial investments.

Level 3: Prices or valuations that require using significant unobservable inputs.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------------------------|----------------|----------------|----------------|
| <u>June 30, 2016</u> | | | |
| Endowed investments | \$ - | \$ - | \$ 59,657 |
| Beneficial interests in trusts | \$ - | \$ - | \$ 8,361,060 |
| Pledges receivable, net | \$ - | \$ - | \$ 1,359,803 |
| | | | |
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>June 30, 2015</u> | | | |
| Endowed investments | \$ - | \$ - | \$ 65,649 |
| Beneficial interests in trusts | \$ - | \$ - | \$ 6,041,752 |
| Pledges receivable, net | \$ - | \$ - | \$ 2,209,947 |

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6—Fair value measurement of assets and liabilities (continued)

The endowed investments and beneficial interest in trust are held in pooled investments at FFTC and are considered by the Society to be a Level 3 asset because it represents a receivable to be paid from various pooled investments managed by FFTC. The Society has no ownership interest in those underlying investments. Management of FFTC uses inputs that require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The following is an approximate allocation of the underlying investments that comprise the interest in pooled investments held at FFTC as of June 30, 2016 and 2015:

| | <u>June 30, 2016</u> | | <u>June 30, 2015</u> | |
|---------|----------------------|-------------------|----------------------|-------------------|
| | <u>Endowment</u> | <u>Beneficial</u> | <u>Endowment</u> | <u>Beneficial</u> |
| | <u>Investments</u> | <u>Interests</u> | <u>Investments</u> | <u>Interests</u> |
| | | <u>in Trusts</u> | | <u>in Trusts</u> |
| Level 1 | 57% | 44% | 50% | 57% |
| Level 2 | 17% | 10% | 14% | 20% |
| Level 3 | 26% | 46% | 36% | 23% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 6—Fair value measurement of assets and liabilities (continued)

For the assets measured at fair value on a recurring basis using Level 3 valuations during the period, the following table provides a reconciliation of beginning and ending balances for the years ended June 30, 2016 and 2015:

| | <u>Pledges Receivable</u> | <u>Endowment Investments</u> | <u>Beneficial Interests in Trusts</u> |
|--|-------------------------------|----------------------------------|---|
| Balance, June 30, 2014 | \$ 2,040,957 | \$ 68,657 | \$ 6,207,902 |
| Cash collected for investment | - | - | 15,983 |
| Investment return: | | | |
| Investment income, net of expenses | - | 1,082 | - |
| Realized and unrealized gains | - | (559) | - |
| | - | 523 | - |
| Withdrawals | | (3,531) | (257,879) |
| Change in beneficial interests in trusts | - | - | 75,746 |
| Change in pledges receivable, net | 168,990 | - | - |
| Balance, June 30, 2015 | 2,209,947 | 65,649 | 6,041,752 |
| Cash collected for investment | - | - | 2,196,049 |
| Investment return: | | | |
| Realized and unrealized losses | - | (2,398) | - |
| Administrative and investment fees | - | (181) | - |
| | - | (2,579) | - |
| Withdrawals | - | (3,413) | (255,110) |
| Change in beneficial interests in trusts | - | - | 378,369 |
| Change in pledges receivable, net | (850,144) | - | - |
| Balance, June 30, 2016 | <u>\$ 1,359,803</u> | <u>\$ 59,657</u> | <u>\$ 8,361,060</u> |

Note 7—Endowment funds

The Society's endowment consists of eight individual funds established for a variety of purposes that are primarily invested at FFTC. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment net asset composition by type of fund as of June 30, 2016 and 2015 are listed below:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|-----------------------|-----------------------------------|-----------------------------------|----------------------|
| June 30, 2016: | | | | |
| Donor-restricted endowment funds | <u>\$ (2,471,358)</u> | <u>\$ -</u> | <u>\$ 12,501,863</u> | <u>\$ 10,030,505</u> |
| June 30, 2015: | | | | |
| Donor-restricted endowment funds | <u>\$ (2,588,625)</u> | <u>\$ -</u> | <u>\$ 10,497,669</u> | <u>\$ 7,909,044</u> |

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 7—Endowment funds (continued)

Included in the endowment net asset composition by type of fund above is endowment pledges receivable, net, which total \$791,500 and \$985,000 as of June 30, 2016 and 2015, respectively.

The Board of Directors of the Society has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring, absent explicit donor stipulations to the contrary, that the following amounts included in the endowment be classified as permanently restricted: (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 be classified as permanently restricted. 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 Society in a manner consistent with the standard of prudence prescribed by UPMIFA or spent in accordance with the purpose restrictions established by the donor.

In accordance with UPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the Society 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 Society
7. The investment policies of the Society

FFTC administers the majority of these endowed funds. The Board of Directors governing the trusts and the Society have adopted investment and spending policies for endowment assets that attempt to provide for a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that provide an average annual real rate of return, net of fees, equal to or greater than spending, administrative fees, and inflation (Consumer Price Index). Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, FFTC and the Society 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). Accordingly, FFTC has adopted an investment allocation for long term growth which includes a target asset allocation of 60% for global equities, 15% for global fixed income, 10% for real assets and 15% for diversified strategies.

FFTC has a policy of appropriating for distribution each year 5.0% of the endowment funds' average fair value using the prior 3 years' value at the calendar year-end proceeding the fiscal year in which the distribution is planned. FFTC evaluates the spending policy on an annual basis for prudence. In establishing the spending policy, the expected return on the endowment was taken into consideration. Accordingly, the spending policy is expected to allow the endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 7—Endowment funds (continued)

Changes in endowment net assets, which include cash restricted for endowment, investments and Campaign for Cultural Facilities pledge receivable, for the years ended June 30, 2016 and 2015 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|-----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, July 1, 2014 | \$ (2,403,425) | \$ - | \$ 9,496,686 | \$ 7,093,261 |
| Investment return: | | | | - |
| Investment income, net of expenses | 1,082 | - | - | 1,082 |
| Realized and unrealized loss | (559) | - | - | (559) |
| Total investment loss | 523 | - | - | 523 |
| Contributions | - | - | 15,983 | 15,983 |
| Change in endowment pledges | - | - | 985,000 | 985,000 |
| Change in beneficial interests in trusts | 75,746 | - | - | 75,746 |
| Release of allowable balance for spending | (261,469) | - | - | (261,469) |
| Endowment net assets, June 30, 2015 | <u>\$ (2,588,625)</u> | <u>\$ -</u> | <u>\$ 10,497,669</u> | <u>\$ 7,909,044</u> |
| | | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets, July 1, 2015 | \$ (2,588,625) | \$ - | \$ 10,497,669 | \$ 7,909,044 |
| Investment return: | | | | |
| Realized and unrealized losses | (2,398) | - | - | (2,398) |
| Administrative and investment fees | (181) | - | - | (181) |
| Total investment return | (2,579) | - | - | (2,579) |
| Contributions | - | - | 2,266,823 | 2,266,823 |
| Change in endowment pledges | - | - | (262,629) | (262,629) |
| Change in beneficial interests in trusts | 378,369 | - | - | 378,369 |
| Release of allowable balance for spending | (258,523) | - | - | (258,523) |
| Endowment net assets, June 30, 2016 | <u>\$ (2,471,358)</u> | <u>\$ -</u> | <u>\$ 12,501,863</u> | <u>\$ 10,030,505</u> |

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 7—Endowment funds (continued)

As of June 30, 2016, the Society has withdrawn \$2,747,390 of cumulative earnings in excess of the Society's annual spending policy. At June 30, 2016 and 2015, endowment assets were not sufficient to cover endowment corpus. The amount by which fair value was below corpus was \$2,471,358 and \$2,588,625 at June 30, 2016 and 2015, respectively. This resulted primarily from withdrawals that were approved by GCCT and when such withdrawals occur, the amounts are considered borrowed from the endowment by the Society and GCCT. These amounts are considered reductions in unrestricted net assets since they have been used for operations. Subsequent gains and loan repayments that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Note 8—Financial support

Grants and contributions represented approximately 59% and 53% of the Society's unrestricted revenue for the years ended June 30, 2016 and 2015, respectively. Certain grants are normally awarded on an annual basis, but continuation is dependent upon future annual determinations by the grantors.

Note 9—Lines of credit and term loan

As of June 30, 2016, the Society had a \$1,400,000 line of credit with a financial institution at an interest rate of prime (3.25% as of June 30, 2016) on the first \$750,000 and prime plus 2% (5.25% as of June 30, 2016) on the remaining balance. The available line of credit under the agreement changed during the year. The available line of credit was \$1,400,000 for the period August 1, 2015 through October 14, 2015, increased to \$1,800,000 for the period October 15, 2015 through February 15, 2016, and decreased to \$1,400,000 for the period February 16, 2016 through July 31, 2016. The line is secured by \$750,000 of endowment funds held in a certificate of deposit. The line of credit has a balance of \$1,400,000 as of June 30, 2016 and 2015, respectively.

In July 2016, the line of credit was amended to provide for availability of \$1,950,000 subject to borrowing limits of \$1,600,000 for the period August 1, 2016 through October 14, 2016, \$1,950,000 for the period from October 15, 2016 through March 31, 2017 and \$1,600,000 for the period from April 1, 2017 through July 31, 2017, the expiration date. The interest rate on the amended line of credit is at prime on the first \$750,000 of borrowings and prime plus 2.25% on the remaining balance.

The Society also has a \$400,000 unsecured line of credit with a financial institution at an interest rate of prime. Effective October 10, 2013, the agreement was amended so that the line of credit became a term loan and the Society may no longer borrow under this note. Principal payments of \$25,000 are due quarterly on July 31, October 31, January 31, and April 30. All unpaid principal and all accrued unpaid interest was paid in June 2016.

Total interest expense was approximately \$69,000 and \$86,000 during the years ended June 30, 2016 and 2015, respectively, and is included in other administrative expenses in the accompanying statements of activities.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 10—Note Payable

In November 2014, the Society borrowed \$125,000 from an employee under a promissory note. The note was repaid in full in February 2015. In June 2016, the Society borrowed \$20,000 from a related party under a promissory note. The note was repaid in full in July 2016.

Note 11—Temporarily and permanently restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|-------------------|---------------------|
| Time restricted pledges receivable | \$ 495,700 | \$ 824,366 |
| Restricted for future years | 40,000 | 220,000 |
| Instrument loan | 20,000 | 45,000 |
| | <u>\$ 555,700</u> | <u>\$ 1,089,366</u> |

Permanently restricted net assets relate to the following funds at June 30:

| | <u>2016</u> | <u>2015</u> |
|----------------------|----------------------|----------------------|
| Instrument loan fund | \$ 29,351 | \$ - |
| Endowment funds | 12,501,863 | 10,497,669 |
| | <u>\$ 12,531,214</u> | <u>\$ 10,497,669</u> |

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. During the years ended June 30, 2016 and 2015, the Society expended funds from temporarily restricted net assets for the Sally Meanor Music Library Fund, sponsorships, payments on pledges, and other purposes.

Note 12—Benefit plans

The Society has established a qualified defined contribution plan for administrative employees. Under this plan, the Society had contributed 5-6% of total participating payroll. Contributions to the plan were suspended on April 1, 2009; therefore, no contributions were made to the plan during the years ended June 30, 2016 and 2015.

The Society also participates in a multi-employer defined benefit plan administered by a national trust, known as the American Federation of Musicians and Employers' Pension Fund, which covers all union musician employees of the Society. The plan is also designed to conform to the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Contributions to the plan are based upon a percentage of the participant's salary, as determined by the terms of the Collective Bargaining Agreement between the Society and American Federation of Musicians, Local No. 342. Participants do not contribute to the plan. Total contributions made to the plan were \$241,274 and \$230,729 for the years ended June 30, 2016 and 2015, respectively.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 12—Benefit plans (continued)

The risks of participating in a multi-employer plan differ from single-employer plans. The potential risks include but are not limited to, the use of the Society's contributions to provide benefits to employees of other participating employers, the Society becoming obligated for other participating employers' unfunded obligations, and, upon the Society's withdrawal from the plan, the Society being required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The plan in which the Society participated during the year ended June 30, 2016 is summarized in the table below. The zone status included in the table is based on information that the Society received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded.

| <u>Pension Fund</u> | <u>EIN/ Pension Plan Number</u> | <u>PPA Zone Status (2)</u> | <u>FIP/RP Status (3)</u> | <u>2016 Contributions</u> | <u>Contributions Greater than 5% of Total Plan Contributions (1)</u> | <u>Expiration Date of CBA</u> |
|---|---|------------------------------------|------------------------------|-------------------------------|--|-----------------------------------|
| American Federation of Musicians and Employers' Pension Plan | 51-6120204 | Red | Yes | \$ 241,274 | No | August 2017 |

(1) This information was obtained from the respective plans' Form 5500 for the most current available filing. These dates may not correspond with the Society's calendar year contributions. The above noted percentage of total plan contributions column is based upon disclosures contained in the plans' Form 5500 filing ("Forms"). Those Forms, among other things, disclose the names of the individual participating employers whose annual contributions account for more than 5% of the aggregate annual amount contributed by all participating employers for a plan year.

(2) This zone status represents the most recent available information which is for the plan year ended March 31, 2016.

(3) On April 15, 2010, the Board of Trustees of the Plan adopted a Rehabilitation Plan ("RP"). Effective for contributions earned on or after April 1, 2011 and thereafter, the RP required additional employer contributions to the Plan. The duration of the RP is currently indefinite. The Society amended their Collective Bargaining Agreement, effective February 27, 2014, in accordance with the RP.

Note 13—Commitments

The Society leased office and storage space and a kiosk under operating lease agreements which were terminated in September 2015. In August 2015, the Society entered a new office lease which expires in October 2020. The leases provide for scheduled annual increases in future minimum annual rental payments, with monthly payments ranging from \$11,712 to \$13,189.

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 13—Commitments (continued)

Future minimum rental payments under this operating lease as of June 30, 2016 are as follows:

Year ending:

| | |
|---------------|-------------------|
| June 30, 2017 | \$ 143,386 |
| June 30, 2018 | 147,702 |
| June 30, 2019 | 152,160 |
| June 30, 2020 | 156,731 |
| June 30, 2021 | 105,510 |
| | <u>\$ 705,489</u> |

Rent expense amounted to \$115,784 and \$126,260 during the years ended June 30, 2016 and 2015, respectively.

The Society has an agreement for a contract for musician services with the American Federation of Musicians, Local No. 342 that expires August 31, 2017.

Note 14—Concentrations

The Society places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Society from time to time may have amounts on deposit in excess of the insured limits.

The Society has recognized unconditional promises to give from donors in future years. Ultimately, realization of these amounts is influenced by economic conditions of the areas in which these donors reside, as well as other events/conditions which may affect the donors' intention or ability to give.

Note 15—Subsequent events

The Society has evaluated subsequent events through March 8, 2017, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

ACCOMPANYING INFORMATION

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENTS OF FINANCIAL POSITION BY FUND

JUNE 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Elimination</u> | <u>Total</u> |
|--|----------------------------|-----------------------------------|-----------------------------------|------------------------------|-----------------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 178,964 | \$ 40,000 | \$ - | \$ - | \$ 218,964 |
| Accounts receivable | 76,949 | - | 18,943 | - | 95,892 |
| Pledges receivable, net | 72,603 | - | - | - | 72,603 |
| Prepaid expenses and other current assets | <u>238,771</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>238,771</u> |
| Total Current Assets | <u>567,287</u> | <u>40,000</u> | <u>18,943</u> | <u>-</u> | <u>626,230</u> |
| Noncurrent pledges receivable, net | <u>-</u> | <u>495,700</u> | <u>-</u> | <u>-</u> | <u>495,700</u> |
| Property and Equipment, Net | <u>693,755</u> | <u>20,000</u> | <u>-</u> | <u>-</u> | <u>713,755</u> |
| Restricted assets | | | | | |
| Restricted cash and investments | - | - | 80,425 | - | 80,425 |
| Receivable from operations | - | - | 2,747,390 | (2,747,390) | - |
| Certificate of deposit | - | - | 750,000 | - | 750,000 |
| Endowment receivable | - | - | 791,500 | - | 791,500 |
| Endowed investments | 32,588 | - | 27,069 | - | 59,657 |
| Beneficial interests in trusts | | | | | |
| Campaign for the Cultural Facilities | 109,338 | - | 4,274,376 | - | 4,383,714 |
| Campaign for the Cultural Facilities pledges receivable | - | - | 802,517 | - | 802,517 |
| Other beneficial interests in trusts | <u>135,835</u> | <u>-</u> | <u>3,038,994</u> | <u>-</u> | <u>3,174,829</u> |
| Total Restricted Assets | <u>277,761</u> | <u>-</u> | <u>12,512,271</u> | <u>(2,747,390)</u> | <u>10,042,642</u> |
| Total Assets | <u>\$ 1,538,803</u> | <u>\$ 555,700</u> | <u>\$ 12,531,214</u> | <u>\$ (2,747,390)</u> | <u>\$ 11,878,327</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 1,028,577 | \$ - | \$ - | \$ - | \$ 1,028,577 |
| Cash receipts applicable to the coming season | 770,564 | - | - | - | 770,564 |
| Other deferred revenue | 1,083,124 | - | - | - | 1,083,124 |
| Note payable | 20,000 | - | - | - | 20,000 |
| Lines of credit and term loan - current portion | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Current Liabilities | <u>2,902,265</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,902,265</u> |
| Lines of credit and term loan- noncurrent portion | 1,498,424 | - | - | - | 1,498,424 |
| Loan from endowed funds | <u>2,747,390</u> | <u>-</u> | <u>-</u> | <u>(2,747,390)</u> | <u>-</u> |
| Total Liabilities | <u>7,148,079</u> | <u>-</u> | <u>-</u> | <u>(2,747,390)</u> | <u>4,400,689</u> |
| Net Assets (Deficit): | | | | | |
| Unrestricted | (5,609,276) | - | - | - | (5,609,276) |
| Temporarily restricted | - | 555,700 | - | - | 555,700 |
| Permanently restricted | <u>-</u> | <u>-</u> | <u>12,531,214</u> | <u>-</u> | <u>12,531,214</u> |
| Total Net Assets | <u>(5,609,276)</u> | <u>555,700</u> | <u>12,531,214</u> | <u>-</u> | <u>7,477,638</u> |
| Total Liabilities and Net Assets | <u>\$ 1,538,803</u> | <u>\$ 555,700</u> | <u>\$ 12,531,214</u> | <u>\$ (2,747,390)</u> | <u>\$ 11,878,327</u> |

CHARLOTTE SYMPHONY ORCHESTRA SOCIETY, INCORPORATED
STATEMENT OF FINANCIAL POSITION BY FUND (CONTINUED)

JUNE 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Elimination</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-----------------------|----------------------|
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 171,896 | \$ 132,058 | \$ - | \$ - | \$ 303,954 |
| Accounts receivable | 304,521 | 32,943 | - | - | 337,464 |
| Pledges receivable, net | 300,582 | - | - | - | 300,582 |
| Prepaid expenses and other current assets | 178,506 | - | - | - | 178,506 |
| Total Current Assets | <u>955,505</u> | <u>165,001</u> | <u>-</u> | <u>-</u> | <u>1,120,506</u> |
| Noncurrent pledges receivable, net | - | 924,365 | - | - | 924,365 |
| Property and Equipment, Net | 567,396 | - | - | - | 567,396 |
| Restricted assets | | | | | |
| Restricted cash and investments | - | - | 68,368 | - | 68,368 |
| Receivable from operations | - | - | 2,747,390 | (2,747,390) | - |
| Certificate of deposit | - | - | 750,000 | - | 750,000 |
| Endowment receivable | - | - | 985,000 | - | 985,000 |
| Endowed investments | 38,580 | - | 27,069 | - | 65,649 |
| Beneficial interests in trusts | | | | | |
| Campaign for the Cultural Facilities | 163,423 | - | 4,138,157 | - | 4,301,580 |
| Campaign for the Cultural Facilities pledges receivable | - | - | 907,691 | - | 907,691 |
| Other beneficial interests in trusts | (41,513) | - | 873,994 | - | 832,481 |
| Total Restricted Assets | <u>160,490</u> | <u>-</u> | <u>10,497,669</u> | <u>(2,747,390)</u> | <u>7,910,769</u> |
| Total Assets | <u>\$ 1,683,391</u> | <u>\$ 1,089,366</u> | <u>\$ 10,497,669</u> | <u>\$ (2,747,390)</u> | <u>\$ 10,523,036</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 817,259 | \$ - | \$ - | \$ - | \$ 817,259 |
| Cash receipts applicable to the coming season | 876,620 | - | - | - | 876,620 |
| Other deferred revenue | 1,037,179 | - | - | - | 1,037,179 |
| Note payable | - | - | - | - | - |
| Lines of credit and term loan - current portion | 100,000 | - | - | - | 100,000 |
| Total Current Liabilities | <u>2,831,058</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,831,058</u> |
| Lines of credit and term loan - noncurrent portion | 1,499,229 | - | - | - | 1,499,229 |
| Loan from endowed funds | 2,747,390 | - | - | (2,747,390) | - |
| Total Liabilities | <u>7,077,677</u> | <u>-</u> | <u>-</u> | <u>(2,747,390)</u> | <u>4,330,287</u> |
| Net Assets (Deficit): | | | | | |
| Unrestricted | (5,394,286) | - | - | - | (5,394,286) |
| Temporarily restricted | - | 1,089,366 | - | - | 1,089,366 |
| Permanently restricted | - | - | 10,497,669 | - | 10,497,669 |
| Total Net Assets | <u>(5,394,286)</u> | <u>1,089,366</u> | <u>10,497,669</u> | <u>-</u> | <u>6,192,749</u> |
| Total Liabilities and Net Assets | <u>\$ 1,683,391</u> | <u>\$ 1,089,366</u> | <u>\$ 10,497,669</u> | <u>\$ (2,747,390)</u> | <u>\$ 10,523,036</u> |