

Tulsa Symphony Orchestra, Inc.
*Financial Statements With
Independent Auditor's Report*

For the Years Ended
June 30, 2017 and 2016

Tulsa Symphony Orchestra, Inc.
June 30, 2017

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Independent Auditor's Report

Board of Directors of
Tulsa Symphony Orchestra, Inc.

We have audited the accompanying financial statements of Tulsa Symphony Orchestra, Inc. which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expense and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

Opinion

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

Regier Carr & Monroe LLP

January 5, 2018
Tulsa, Oklahoma

Tulsa Symphony Orchestra, Inc.
Statements of Financial Position
June 30, 2017 and 2016

| | 2017 | 2016 |
|--|--------------------|--------------------|
| Assets | | |
| Cash and Cash Equivalents | \$580,819 | \$705,372 |
| Pledges Receivable, net | 173,488 | 115,190 |
| Other Receivables, net | 16,574 | 23,481 |
| Prepaid Assets | 26,237 | 20,294 |
| Beneficial Interest in Assets Held by Others | 653,798 | 439,734 |
| Investments | 377,106 | |
| Property and Equipment, net | 33,002 | 46,562 |
| Total Assets | \$1,861,024 | \$1,350,633 |
| Liabilities and Net Assets | | |
| Accounts Payable | \$19,452 | \$37,988 |
| Accrued Liabilities | 9,233 | 18,310 |
| Deferred revenue | 269,610 | 203,721 |
| <i>Total Liabilities</i> | 298,295 | 260,019 |
| <i>Net Assets:</i> | | |
| Unrestricted | 402,332 | 492,185 |
| Unrestricted-board designated | 1,030,904 | 439,234 |
| Temporarily Restricted | 129,493 | 159,195 |
| <i>Total Net Assets</i> | 1,562,729 | 1,090,614 |
| Total Liabilities and Net Assets | \$1,861,024 | \$1,350,633 |

Tulsa Symphony Orchestra, Inc.
Statements of Activities
For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------------|---------------------------|
| <i>Change in Unrestricted Net Assets</i> | | |
| Revenues & Support | | |
| Contributions | \$1,501,104 | \$1,246,308 |
| <i>Fundraising Activity</i> | | |
| Fundraising event income | 160,381 | 17,996 |
| Fundraising event expenses | (56,998) | (17,996) |
| <i>Fundraising Activity, net</i> | <u>103,383</u> | <u>0</u> |
| Program service revenue | 756,022 | 626,231 |
| Education funding-tuition & fees | | (378) |
| Other income | 60 | 9,883 |
| Investment income, net of expenses | 79,583 | (1,933) |
| Net assets released from restrictions | 226,517 | 116,731 |
| Total Revenues & Support | <u>2,666,669</u> | <u>1,996,842</u> |
| Expenses | | |
| Program expenses | 1,770,479 | 1,727,602 |
| Management & administrative expenses | 206,967 | 223,937 |
| Fundraising expenses | 187,406 | 185,040 |
| <i>Total Expenses</i> | <u>2,164,852</u> | <u>2,136,579</u> |
| <i>Change in Unrestricted Net Assets</i> | <u>501,817</u> | <u>(139,737)</u> |
| <i>Change in Temporarily Restricted Net Assets</i> | | |
| Contributions | 166,096 | 231,984 |
| Net assets released from restrictions | (226,517) | (116,731) |
| <i>Fundraising Activity</i> | | |
| Fundraising event income | 79,640 | |
| Fundraising event expenses | (48,921) | |
| <i>Fundraising Activity, net</i> | <u>30,719</u> | <u>0</u> |
| <i>Change in Temporarily Restricted Net Assets</i> | <u>(29,702)</u> | <u>115,253</u> |
| <i>Change in Net Assets</i> | 472,115 | (24,484) |
| Net Assets at Beginning of Year | 1,090,614 | 1,115,098 |
| Net Assets at End of Year | <u>\$1,562,729</u> | <u>\$1,090,614</u> |

Tulsa Symphony Orchestra, Inc.
Statements of Functional Expense
For the Years Ended June 30, 2017 and 2016

| 2017 | Management | | | Total |
|------------------------|--------------------|------------------|------------------|--------------------|
| | Program | & Administrative | Fundraising | |
| Salaries/Wages | \$971,168 | \$114,464 | \$121,591 | \$1,207,223 |
| Employee benefits | 628 | 1,727 | | 2,355 |
| Payroll taxes | 109,279 | 8,362 | 19,097 | 136,738 |
| Advertsing & promotion | 135,791 | | | 135,791 |
| Travel exp | 118,835 | 6,444 | | 125,279 |
| PAC rental | 84,701 | | | 84,701 |
| Production-other | 259,188 | | | 259,188 |
| Professional services | | 17,310 | | 17,310 |
| Office | | 16,119 | | 16,119 |
| IT | | 5,278 | | 5,278 |
| Occupancy | 35,878 | 4,220 | 2,112 | 42,210 |
| Depreciation | 11,627 | 1,368 | 683 | 13,678 |
| Insurance | 5,694 | 1,005 | | 6,699 |
| Printing | | 5,938 | | 5,938 |
| Equip rental | | 3,325 | | 3,325 |
| Misc | 37,690 | 21,407 | 43,923 | 103,020 |
| Total Expenses | \$1,770,479 | \$206,967 | \$187,406 | \$2,164,852 |

| 2016 | Management | | | Total |
|------------------------|--------------------|------------------|------------------|--------------------|
| | Program | & Administrative | Fundraising | |
| Salaries/Wages | \$943,973 | \$121,792 | \$116,687 | \$1,182,452 |
| Employee benefits | 614 | 5,913 | | 6,527 |
| Payroll taxes | 107,523 | 9,459 | 18,996 | 135,978 |
| Advertsing & promotion | 203,900 | | | 203,900 |
| Travel exp | 100,659 | 14,395 | | 115,054 |
| PAC rental | 85,043 | | | 85,043 |
| Production-other | 129,581 | | | 129,581 |
| Bad debt | 51,662 | | | 51,662 |
| Professional services | | 15,849 | | 15,849 |
| Office | | 19,232 | | 19,232 |
| IT | | 4,451 | | 4,451 |
| Occupancy | 33,119 | 3,896 | 1,948 | 38,963 |
| Depreciation | 26,078 | 3,068 | 1,534 | 30,680 |
| Insurance | 5,511 | 973 | | 6,484 |
| Printing | | 6,014 | | 6,014 |
| Equip rental | | 6,049 | | 6,049 |
| Misc | 39,939 | 12,846 | 45,875 | 98,660 |
| Total Expenses | \$1,727,602 | \$223,937 | \$185,040 | \$2,136,579 |

Tulsa Symphony Orchestra, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

| Cash Flows from Operating Activities | 2017 | 2016 |
|---|------------------|------------------|
| Change in net assets | \$472,115 | (\$24,484) |
| <i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i> | | |
| Depreciation expense | 13,678 | 30,680 |
| Realized/Unrealized gain on investments | (71,112) | 5,534 |
| Decrease (Increase) in pledges receivable | (58,298) | 2,500 |
| (Increase) decrease in other receivables | 6,907 | 41,513 |
| Increase in prepaid expenses | (5,943) | 1,030 |
| Increase (decrease) in accounts payable & accruals | (27,613) | 21,594 |
| Increase (decrease) in deferred revenue | 65,889 | 1,820 |
| Net Cash Provided (Used) By Operating Activities | 395,623 | 80,187 |
| Cash Flows from Investing Activities | | |
| Purchase of investments | (559,472) | (156,128) |
| Proceeds from sale of investments | 8,992 | 2,379 |
| Distribution from Beneficial Interest in Assets held by Others | 30,422 | 8,320 |
| Purchase of property and equipment | (118) | (1,954) |
| Net Cash Provided (Used) By Investing Activities | (520,176) | (147,383) |
| <i>Net Change in Cash and Cash Equivalents</i> | (124,553) | (67,196) |
| Cash and Cash Equivalents, Beginning of Year | 705,372 | 772,568 |
| Cash and Cash Equivalents, End of Year | \$580,819 | \$705,372 |

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Summary of Significant Accounting Policies

Nature of Operations

Tulsa Symphony Orchestra, Inc. (the “Organization”) is a not-for-profit organization which provides a full symphony orchestra to the citizens of Tulsa, Oklahoma and the surrounding region. The Organization plays a vital, innovative, and educational role in the development of musical arts in the community. The Organization was incorporated under the laws of the State of Oklahoma in 2005.

Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor imposed restrictions that are met in the same period as the contributions are accounted for as unrestricted contributions.

Permanently Restricted Net Asset – Net assets continuously subject to donor-imposed stipulations.

Use of Estimates

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

Contributions

Contributions are recorded when a donor makes a promise to give to the Organization that is in substance, unconditional. Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Cash and Cash Equivalents

The Organization considers all unrestricted checking and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Pledges Receivable

Pledges receivable as of June 30, 2017 and 2016 are unconditional promises to give. Pledges receivable to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. Amortization of discounts is recorded as additional contribution revenue. Pledges receivable as of June 30, 2017 and 2016 are discounted at 4.0%. The unamortized discount on pledges is \$5,056 and \$2,310 as of June 30, 2017 and 2016.

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Summary of Significant Accounting Policies (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

The Organization reports all investments for which a quoted market price is available at fair value based upon information obtained from published sources. Investments in time deposits are recorded at cost plus accrued interest.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Additions and improvements that extend the useful lives of the assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred. The Organization follows the practice of capitalizing all expenditures greater than \$1,500 with an estimated useful life of more than one year.

The Organization records impairment to its property and equipment when it becomes probable that the carrying value of assets will not be fully recovered over the estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values determined by the Organization based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions, and other information. No impairments were recorded in 2017 and 2016.

The Organization depreciates property and equipment using the straight-line method over estimated useful lives ranging from 3 to 7 years for computers, software, office furniture and equipment.

Revenue Recognition

Revenues from performances, whether through advance ticket sales or performance fees are recognized when the concert is performed. Funds received for future performances are recorded as deferred revenues in the accompanying statement of financial position.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for state or federal income taxes is necessary.

The Organization is not classified as a private foundation under Section 509(a) of the Internal Revenue Code. It is the Organization's policy that penalties and interest assessed by income taxing authorities, if any, are included in operating expenses. There were no penalties or interest assessed by taxing authorities during the years ended June 30, 2017 and 2016. The Organization annually evaluates its various tax positions and assesses the likelihood of these positions being upheld by examination with relevant tax authorities.

Advertising

The Organization expenses advertising costs when they are executed and incurred. Advertising costs were \$135,791 and \$203,900 in June 30, 2017 and 2016, respectively.

Sales Taxes

The Organization collects sales tax from ticket sales and remits these amounts to the State taxing authority. The Organization's policy is to net the related expense against the program revenue. Sales tax collected in the years ended June 30, 2017 and 2016 was \$34,386 and \$25,610, respectively.

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Summary of Significant Accounting Policies (continued)

Concentrations and Credit Risk

The Organization maintains bank accounts at high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash exceeds the FDIC limits at times. Credit risk is mitigated by investing amounts in excess of the FDIC limit in money market funds invested wholly in United States Treasuries. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Organization's investments do not represent significant concentrations of market risk in as much as their investment portfolio is adequately diversified among issuers.

Concentration of Risk

The Organization operates exclusively in the Tulsa, Oklahoma region. In the event of a severe economic decline, the Organization's operations could be materially impacted.

Investments & Fair Value Measurements

Investment securities are exposed to various risks such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term may materially affect the amounts reported in the financial statements.

The codification of accounting principles generally accepted in the United States of America defines fair value, establishes a consistent framework for measuring fair value and establishes a fair value hierarchy based on the availability of inputs used to measure fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted priced for similar securities)
- Level 3 – significant unobservable inputs (including the Organization's own assumptions in determining the value of the investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The inputs used by the Organization as of December 31, 2017 and 2016, were Level 2 inputs.

Financial Statement Presentation

Certain items in the 2016 financial statements have been reclassified to the current year presentation.

Subsequent Events

The Organization has evaluated events subsequent to the balance sheet date (June 30, 2017) through January 5, 2018, the date the financial statements were available to be issued.

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Beneficial Interest in Assets Held By Others

The Organization has established an agency reserve fund with the Tulsa Community Foundation (the Foundation), an Oklahoma not-for-profit corporation and community foundation. The mutual intent of the Organization and the Foundation is to create a permanent endowment fund for the benefit of the Organization. The objective of the investment management and distribution policies is to provide for sufficient fund growth after distribution and investment expense in order to preserve the inflation-adjusted value of the investment portfolio. The Foundation holds and administers the endowment fund (including subsequent contributions and future earnings) for the benefit of the Organization.

The Agency Fund Agreement provides that the Board of Trustees of the Foundation shall have the power to modify any restriction or condition on distributions from the Fund for any specific charitable purposes or to specific organizations, if in the sole judgment of the Board of Trustees the restriction or condition becomes, in effect, necessary, incapable of fulfillment or inconsistent with the charitable needs served by the Foundation. The Foundation may grant the request if it concludes, upon independent review, that such distribution is neither unreasonable nor inconsistent with the charitable purposes of the Foundation and the Organization; however, the Foundation shall have the ultimate authority over and control of all property in the Fund and all distributions from the Fund.

As the Foundation has agreed to transfer the assets and the return of these assets back to the Organization, the investments are required to be treated as an asset on the financial statements of the Organization. Under the Foundation's endowment management policies, dividends and interest earned and capital gains are retained in the endowment fund.

The Interests at June 30, 2017 and 2016 are as follows:

| 2017 | | | | Total at | |
|--|----------------|------------------|----------------|-------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Fair Value | Cost |
| <i>Investments held & managed by</i> | | | | | |
| <i>Tulsa Community Foundation</i> | | | | | |
| Cash & Cash Equivalents | \$0 | \$21,517 | \$0 | \$21,517 | \$21,517 |
| Equity Funds | | 407,936 | | 407,936 | 359,646 |
| Fixed Income | | 185,068 | | 185,068 | 185,325 |
| Mutual Funds | | 39,277 | | 39,277 | 3,682 |
| | \$0 | \$653,798 | \$0 | \$653,798 | \$570,170 |

| 2016 | | | | Total at | |
|--|----------------|------------------|----------------|-------------------|------------------|
| | Level 1 | Level 2 | Level 3 | Fair Value | Cost |
| <i>Investments held & managed by</i> | | | | | |
| <i>Tulsa Community Foundation</i> | | | | | |
| Cash & Cash Equivalents | \$0 | \$8,538 | \$0 | \$8,538 | \$8,538 |
| Equity Funds | | 265,822 | | 265,822 | 270,554 |
| Fixed Income | | 138,079 | | 138,079 | 135,644 |
| Mutual Funds | | 21,289 | | 21,289 | 21,044 |
| Other | | 6,006 | | 6,006 | 5,345 |
| | \$0 | \$439,734 | \$0 | \$439,734 | \$441,125 |

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Property and Equipment

Property and equipment at June 30, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|------------------------------------|-----------------|-----------------|
| Equipment | \$172,320 | \$172,320 |
| Furniture & Fixtures | 21,430 | 21,311 |
| Accumulated Depreciation | (160,748) | (147,069) |
| Property and Equipment, net | \$33,002 | \$46,562 |

Pledges Receivable

Pledges receivable consist of the following at June 30, 2017 and 2016:

| | 2017 | 2016 |
|---------------------------------|-------------------|-------------------|
| Due within one year | \$ 137,044 | \$ 77,500 |
| Due in 1-5 years | 41,500 | 40,000 |
| Discount | (5,056) | (2,310) |
| Total Pledges Receivable | \$ 173,488 | \$ 115,190 |

Investments & Fair Value Measurements

Assets measured on a recurring basis at June 30, 2017 are as follows:

| | Level 1 | Level 2 | Level 3 | Total at Fair Value | Cost |
|--|------------------|----------------|----------------|--------------------------------|------------------|
| <i>Investments held & managed by</i> | | | | | |
| <i>Trust Company of Oklahoma</i> | | | | | |
| Cash & Cash Equivalents | \$4,160 | \$0 | \$0 | \$4,160 | \$4,160 |
| Equity Funds | 131,711 | | | 131,711 | 124,018 |
| Fixed Income | 241,235 | | | 241,235 | 237,946 |
| | \$377,106 | \$0 | \$0 | \$377,106 | \$366,124 |

There were no assets measured at fair value at June 30, 2016.

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Temporarily Restricted Net Assets

The Organization receives contributions from donors stipulating their donations be utilized for specific expenses. A summary of the assets subject to restrictions at June 30, 2017 and 2016 follows:

| | 2017 | 2016 |
|----------------------|------------------|------------------|
| Future operations | \$2,925 | \$30,530 |
| Education programs | 71,050 | 43,158 |
| Development director | 55,518 | 85,507 |
| | \$129,493 | \$159,195 |

Endowment

At June 30, 2017 and 2016, Endowment assets consisted of the following:

| | Board Designated Unrestricted |
|----------------------------|--|
| June 30, 2017 | |
| Tulsa Community Foundation | \$653,798 |
| Trust Company of Oklahoma | 377,106 |
| | \$1,030,904 |
| June 30, 2016 | |
| Tulsa Community Foundation | \$439,734 |
| | \$439,734 |

The changes and composition of Endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

| | Unrestricted Board Designated |
|----------------------------------|--|
| June 30, 2017 | |
| Beginning of year | \$439,734 |
| Contributions | 266,800 |
| Interest/Dividends | 12,500 |
| Unrealized/Realized gains/losses | 71,112 |
| Investment expenses | (4,029) |
| Distributions | (30,422) |
| Transfer | 275,209 |
| End of Year | \$1,030,904 |
| June 30, 2016 | |
| Beginning of year | \$299,839 |
| Contributions | 150,500 |
| Interest/Dividends | 5,893 |
| Unrealized/Realized gains/losses | (6,034) |
| Investment expenses | (2,144) |
| Distributions | (8,320) |
| End of Year | \$439,734 |

Tulsa Symphony Orchestra, Inc.
Notes to Financial Statements

Leases

The Organization leases office space and parking under a five-year lease that requires monthly payments of \$2,515. Rent expense recognized during the years ended June 30, 2017 and 2016 was \$39,185 and \$34,027, respectively. Future minimum lease payments under this lease are as follows:

| <u>Fiscal Year ended</u> | |
|--------------------------|-----------------|
| June 30, 2018 | \$22,635 |
| | <u>\$22,635</u> |