CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION

ANNUAL FINANCIAL REPORT

YEAR ENDED MAY 31, 2017

JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Chattanooga Symphony and Opera Association

We have audited the accompanying financial statements of Chattanooga Symphony and Opera Association, which comprise the Statement of Financial Position as of May 31, 2017, and the related Statements of Activities and Cash Flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Chattanooga Symphony and Opera Association as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
August 11, 2017

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Statement of Financial Position
May 31, 2017

ASSETS	
Investments - unrestricted	$ 188,607
Investments - board designated as endowment	523,391
Investments - temporarily restricted	181,921
Investments - permanently restricted endowment	1,567,947
Pledges receivable - net	241,770
Pledges receivable - net - board designated	195,000
Prepaid expenses	27,953
Furniture, equipment, and music - net	6,618
TOTAL ASSETS	$ 2,933,207
LIABILITIES AND NET ASSETS	
Liabilities	
Bank overdraft	$ 11,144
Accounts payable and accrued expenses	68,345
Unearned revenue	251,328
Line-of-credit	224,113
Total Liabilities	554,930
Net Assets	
Unrestricted	
Operations	(220,635)
Board designated endowment	718,391
Youth Orchestra	130,653
Temporarily restricted net assets	
Gherkin Fund	67,785
Opera Fund	3,009
Bernhardt Fund	111,127
Permanently restricted net assets	1,567,947
Total Net Assets	2,378,277
TOTAL LIABILITIES AND NET ASSETS	$ 2,933,207

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

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Statement of Activities
Year Ended May 31, 2017

	Unrestricted			
	Operations	Fund Functioning as Endowment	Youth Orchestra	Total
REVENUE AND OTHER SUPPORT				
Admissions	$ 863,263	$ -	$ 14,701	$ 877,964
Concert fees	77,100	-	1,300	78,400
ArtsBuild allocation	193,000	-	7,000	200,000
Individual and corporate contributions	633,154	246,449	-	879,603
Fund-raising and special projects	114,897	-	13,047	127,944
Youth orchestra tuition	-	-	54,853	54,853
Grants	67,600	-	-	67,600
Foundation contributions	60,400	-	-	60,400
Program advertising	38,234	-	-	38,234
Other income	2,369	-	-	2,369
Investment return designated for operations:				
CSO ArtsBuild investment return	132,429	-	-	132,429
Investment return	17,363	231,377	-	248,740
Net assets released from restrictions	176,000	(140,000)	-	36,000
Total revenue and other support	2,375,809	337,826	90,901	2,804,536
EXPENSES				
Production	1,770,387	-	83,889	1,854,276
Marketing	248,404	-	-	248,404
Box office	74,750	-	-	74,750
Education	20,273	-	-	20,273
Fund-raising	113,604	-	-	113,604
Administrative	313,347	-	-	313,347
Total expenses	2,540,765	-	83,889	2,624,654
Change in net assets	(164,956)	337,826	7,012	179,882
Net assets - beginning	(55,679)	380,565	123,641	448,527
Net assets - end	$ (220,635)	$ 718,391	$ 130,653	$ 628,409

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

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Statement of Activities (Continued)
Year Ended May 31, 2017

Temporarily Restricted					
Gherkin	Opera	Bernhardt	Total	Permanently Restricted	Total
$ -	$ -	$ -	$ -	$ -	$ 877,964
-	-	-	-	-	78,400
-	-	-	-	-	200,000
-	-	-	-	28,403	908,006
-	-	-	-	-	127,944
-	-	-	-	-	54,853
-	-	-	-	-	67,600
-	-	-	-	-	60,400
-	-	-	-	-	38,234
-	-	-	-	-	2,369
-	-	-	-	-	132,429
-	-	-	-	-	248,740
-	(20,000)	(16,000)	(36,000)	-	-
-	(20,000)	(16,000)	(36,000)	28,403	2,796,939
-	-	-	-	-	1,854,276
-	-	-	-	-	248,404
-	-	-	-	-	74,750
-	-	-	-	-	20,273
-	-	-	-	-	113,604
-	-	-	-	-	313,347
-	-	-	-	-	2,624,654
-	(20,000)	(16,000)	(36,000)	28,403	172,285
67,785	23,009	127,127	217,921	1,539,544	2,205,992
$ 67,785	$ 3,009	$ 111,127	$ 181,921	$ 1,567,947	$ 2,378,277

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

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Statement of Cash Flows
Year Ended May 31, 2017

Cash Flows from Operating Activities	
Increase (decrease) in net assets	$ 172,285
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation	2,210
Net realized and unrealized (gains) losses on investments	(248,739)
Change in operating assets and liabilities:	
(Increase) decrease in receivables	(111,658)
(Increase) decrease in prepaid expenses	(27,953)
Increase (decrease) in accounts payable and accrued expenses	(5,509)
Increase (decrease) in unearned revenue	(98,334)
Total adjustments	(489,983)
Net cash provided (used) by operating activities	(317,698)
Cash Flows from Non-capital Financing Activities	
Net proceeds (repayment) from line-of-credit	85,740
Cash Flows from Investing Activities	
Purchase of investments	(124,205)
Proceeds from sales of investments	255,772
Net cash provided (used) by investing activities	131,567
Net increase (decrease) in cash	(100,391)
Cash - beginning	89,247
Cash - end	$ (11,144)
Supplemental Disclosure	
Interest paid	$ 8,903

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

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Notes to Financial Statements
May 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

A. Nature of Activities

The Chattanooga Symphony and Opera Association is a non-profit entity. The Entity's mission is to provide a broad range of high-quality musical presentations and educational programs for the Chattanooga area. The Entity's main sources of revenue are from admissions fees and contributions.

B. Basis of Presentation - Net Asset Accounting

The Entity follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under FASB ASC 958-205-05-6, the Entity is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Entity is required to present a Statement of Cash Flows. At year-end, the Entity had unrestricted, temporarily restricted and permanently restricted net assets.

C. Basis of Accounting

The financial statements are presented on the accrual basis of accounting and in accordance with the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*, and Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The financial statements reflect all significant receivables, payables and other liabilities. The reserve method is used to compute the allowance for uncollectible receivables, if any.

D. Restricted and Unrestricted Support and Revenue

The Entity follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-605-25. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Revenue is considered to be available for unrestricted use unless specifically restricted by the donor or grantor.

The Entity reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Entity chooses to show contributions whose restrictions are met in the same reporting period as unrestricted support.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Entity considers all unrestricted highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Investments

Investments are stated at fair value, determined based on quoted market prices or estimated values provided by external investment managers or other sources. Any gains or losses, realized or unrealized, are included in the change of net assets in the Statement of Activities. Donated investments are reflected as contributions at their market value at date of receipt. The Entity chooses to show restricted gains and investment income whose restrictions are met in the same reporting period as unrestricted support.

G. Fair Value Measurement

The Entity adopted the provisions of ASC 820-10-50 applicable to financial assets and liabilities, as well as for other non-financial assets and liabilities that are carried at fair value on a recurring basis. Adoption of the provisions of ASC 820-10-50 did not have an impact on the measurement of the Entity's financial assets and liabilities but did result in additional disclosure contained in the footnotes herein.

H. Prepayment of Expenses

Expenses extending over more than one accounting period are allocated between accounting periods and reported as an expense of the period in which they relate.

I. Pledges Receivable

Donor promises to give are evaluated on the basis of criteria in FASB ASC 958-310-25. Those that meet the criteria are recognized as revenues or gains in the period the pledge is received and as assets (cash, receivables, etc.) or decrease of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Entity uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

J. Inventory

Supplies are expensed when they are purchased, therefore, no inventory is maintained.

K. Furniture, Equipment and Music

Furniture, equipment and music are valued at cost, if purchased, or fair value if contributed. The expenses in excess of $500 are capitalized. Minor repairs and maintenance are expensed as incurred and additions and improvements that significantly extend the life of assets are depreciated over the remaining useful lives of the related fixed asset. At the time that assets are retired or disposed of, costs and accumulated depreciation are eliminated from the related accounts and gain or loss, if any, is credited or charged to income. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Office furniture and equipment	5 - 10 years
Music and related items	4 - 10 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Donated Property and Equipment

The Entity reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Entity reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

M. Compensated Absences

Any unused vacation or sick leave expires at year-end, therefore, there is no accrual of a liability for future benefits.

N. Unearned Revenues

Unearned revenues consist of advance ticket sales and sponsorships received prior to year-end for the following year.

O. Valuation of Donated Services

The Entity depends upon the services donated by its board members to carry out many of its internal operations. The Entity follows the recommendations of FASB ASC 958-605-25-16 in reporting contributed services. Contributions of services are recognized as revenue and expenses if the services received create or enhance non-financial assets, require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other contributed services that do not meet the above criteria are not recognized. The services donated do not meet the criteria, which would require recognition of their value in the financial statements.

The Entity elected not to follow a portion of FASB ASC 958-605-25-16. In accordance with ASC 958-605-25-16, the Entity should recognize a contribution and expense for the same amount for the value of the use of the building it occupies. Since the contribution and expense would be the same, total support and expenses would both increase by the same amount with no effect on net assets.

P. Functional Expense

The cost of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Q. Description of Program and Supporting Services

Production

Dedicated to the production of performances and its related expenses, i.e., conductors, musicians, technical staff, guest artists, youth orchestra.

Marketing

Dedicated to the advertising of performances through newspapers, radio, mailings, brochures, etc.

Box office

Dedicated to the printing of tickets and payment processing for performances.

Education

Dedicated to music education.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Description of Program and Supporting Services (Continued)

Fund-raising
Provides the structure necessary to encourage and secure financial support from individuals, foundations and corporations.

Administrative
Includes the functions necessary to ensure an adequate working environment; provide coordination and articulation of the Entity's programs; and manage the functioning of the Board of Directors and financial and budgetary responsibilities.

R. Advertising
Advertising costs are expensed as incurred.

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

T. Uncertain Tax Position
The Entity accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefits are estimated based on the cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Entity include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax. Based on its evaluation, the Entity has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Entity's evaluation was performed for the tax years ended May 31, 2014 through May 31, 2017, for Federal income tax, the years that remain subject to examination by major jurisdictions as of May 31, 2017.

U. Non-profit Entity
The Entity is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code.

V. Events Occurring after Reporting Date
The Entity has evaluated events and transactions that occurred between May 31, 2017, and August 11, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH AND CASH CREDIT RISK

At May 31, 2017, the carrying amount of cash was $(11,144), and the bank balance was $94,852. The entire bank balance is covered by federal depository insurance.

Petty cash	$ 398
Checking accounts	(11,542)
Total	$ (11,144)

NOTE 3 - INVESTMENTS

Investments at May 31, 2017, are subject to market risks and are stated at fair value as follows:

	Cost	Fair Value	Net Unrealized Appreciation (Loss)
Exchange traded fund	*	$ 1,822,697	$ -
Fixed income	*	265,023	$ -
Common stock	*	199,705	$ -
Cash and money funds	*	101,915	$ -
Intermediate-term bond	*	10,260	$ -
World large stock	*	12,565	$ -
Large growth	*	16,922	$ -
Large blend	*	12,026	$ -
Large value	*	20,753	$ -
Total investments		$ 2,461,866	

*Cost information not available.

Investments are shown on the Statement of Financial Position as follows:

Investments - unrestricted	$ 188,607
Investments - board designated as endowment	523,391
Investments - temporarily restricted	181,921
Investments - permanently restricted endowment	1,567,947
Total investments	$2,461,866

The components of investment return are as follows:

Interest and dividends on investments	$ 80,042
Realized gain (loss), net	9,950
Unrealized gain (loss), net	178,945
Fees	(20,197)
Investment return	$ 248,740

NOTE 4 - FAIR VALUE MEASUREMENT

ASC 820-10-50 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the assets or liability or, in the absence of a principal market the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Fund has the ability to access.
2) Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
3) Level 3 are unobservable inputs for the assets or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the assets or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Entity's own data.)

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of May 31, 2017.

Assets	Level 1	Level 2	Level 3	Total
Investments	$ 2,461,866	$ -	$ -	$ 2,461,866

NOTE 5 - PLEDGES RECEIVABLE - NET

Pledges receivable as of May 31, 2017, consist of the following:

Pledges due in less than one year	$ 27,800
Pledges due during year ended May 31, 2018	105,000
Pledges due during year ended May 31, 2019	105,000
Pledges due during year ended May 31, 2020	75,000
Total receivables	312,800
Less: allowance for doubtful accounts	(44,030)
Less: discount of pledges	(27,000)
Total pledges receivable - net	$ 241,770

Pledges receivable due in less than one year are $27,800 and $285,000 is due in one to five years. The Entity has recorded a 5% discount each year on long-term receivables which is amortized over the remaining pledge life and is reported as a contribution in the Statement of Activities.

NOTE 6 - PLEDGES RECEIVABLE - NET - BOARD DESIGNATED

Board designated pledges receivable as of May 31, 2017, consist of the following:

Pledges due during year ended May 31, 2018	$ 260,000
Less: allowance for doubtful accounts	(52,000)
Less: discount of pledges	(13,000)
Total pledges receivable - net - board designated	$ 195,000

Board designated pledges receivable due in one year are $260,000. The Entity has recorded a 5% discount on this receivable which is amortized over the pledge life and is reported as a contribution in the Statement of Activities.

NOTE 7 - FURNITURE, EQUIPMENT AND MUSIC - NET

A summary of furniture, equipment and music at May 31, 2017, is as follows:

Office furniture and equipment	$ 83,296
Music and related items	62,267
	145,563
Less: accumulated depreciation	(138,945)
Total	$ 6,618

Depreciation expense as of May 31, 2017, amounted to $2,210.

The Entity leases office space under a lease agreement, which is renewable annually. Current year lease expense totaled $32,983.

NOTE 8 - LINE-OF-CREDIT

The Entity has a line-of-credit agreement with SunTrust Bank. As of May 31, 2017, there were borrowings under the line-of-credit totaling $224,113. Amounts outstanding under the line-of-credit bear interest at the prime rate and such interest is required to be paid monthly. The line-of-credit is due upon demand. Current year interest expenses totaled $8,903.

NOTE 9 - RESTRICTIONS/LIMITATION ON NET ASSETS

Permanently restricted net assets as of May 31, 2017, consist of the following endowment funds:

Endowment	$1,350,000
Fletcher Bright Fund for Strings	175,000
John L. and Norman B. Anderson Fund in support of the Assistant Flute/Piccolo Chair	42,947
Total	$1,567,947

NOTE 9 - RESTRICTIONS/LIMITATION ON NET ASSETS (Continued)

Temporarily restricted net assets as of May 31, 2017, consist of the following:

Gherkin Fund	$ 67,785
Opera Fund	3,009
Bernhardt Fund	111,127
Total	$ 181,921

The board has chosen to place a limitation on the following unrestricted net assets:

Fund functioning as endowment	$ 718,391

Youth orchestra net assets of $130,653 are considered to be unrestricted but shown separately for financial reporting purposes.

NOTE 10 - INSURANCE

It is the policy of the Entity to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, workers' compensation, and directors and officers. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 11 - PENSION PLANS

The Entity has an employer defined contribution plan and an employee directed contribution plan, both administered by TIAA CREF. Full-time employees are eligible for the employer defined contribution plan and the Entity contributes 4% of eligible employee's salaries. The Entity does not match employee's contributions in either plan. Pension plan expenses totaled $50,476 for the current year.

NOTE 12 - ENDOWMENT

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

The Entity's disclosure of its interpretation of the law or laws that underlie the Entity's net asset classification of donor-restricted endowment funds follows.

NOTE 12 - ENDOWMENT (Continued)

Interpretation of Relevant Law

The Board of Directors of the Entity has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Entity 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Entity considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

The Entity 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 organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Entity 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 Entity targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

NOTE 12 - ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

Funds held for endowment purposes are monitored and directed by the Investment Committee of the Board. The Board has adopted a policy of contributing a percentage of the endowment funds to the operating budget. This percentage is currently 5% of the total average calendar year-end portfolio value of the endowment funds for the prior three calendar years. Any amount over 5% during any calendar year must be approved by two-thirds of the Board prior to any funds being committed or disbursed. Reasonable efforts to control risk shall be made and should be evaluated regularly to ensure that the risk assumed is commensurate with the given instrument style and objectives. The investment goal is to meet or exceed one of the following:

1) the rate of inflation by 5% or
2) the return of a balanced market index comprised of 60% Russell 3,000, 30% Lehman Brothers Government/Corporate bond index and 10% Treasury Bills by 1 to 2%.

The Entity's disclosure of its endowment net asset composition by type of fund as of May 31, 2017, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 1,567,947	$ 1,567,947
Board-designated endowment funds (including $195,000 pledge receivable)	718,391	-	-	718,391
Total funds	$ 718,391	$ -	$ 1,567,947	$ 2,286,338

The Entity's disclosure of changes in endowment net assets for the year ended May 31, 2017, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 380,565	$ -	$ 1,539,544	$ 1,920,109
Investment return:				
Investment income	20,240	-	44,668	64,908
Net appreciation of investments	51,894	-	114,525	166,419
Total investment return	72,134	-	159,193	231,327
Contributions	95,802	-	28,403	124,205
Appropriated for expenditure	(64,831)	-	-	(64,831)
Reclassifications	234,721	-	(159,193)	75,528
Other changes	-	-	-	-
Endowment net assets, end of year	$ 718,391	$ -	$ 1,567,947	$ 2,286,338

NOTE 13 - CSO ARTSBUILD INVESTMENT RETURN

According to ArtsBuild, the value of the portion of the ArtsBuild investment portfolio that was donated to ArtsBuild, to support the Chattanooga Symphony and Opera Association was $2,714,768 as of May 31, 2017. From these ArtsBuild funds, the Chattanooga Symphony and Opera Association received $132,429 in fiscal year ended May 31, 2017, classified as CSO ArtsBuild investment return in the Statement of Activities.

NOTE 14 - RELATED PARTY TRANSACTIONS

A board member is an attorney at a law office the Entity uses. During the year, $8,905 was paid to the law office.

A company owned by a board member holds the Entity's endowment funds. During the year, $20,197 was paid for investment fees to this company.

SUPPLEMENTARY INFORMATION

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Comparative Schedule of Financial Position
May 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ -	$ 89,247
Investments - unrestricted	188,607	206,664
Investments - board designated as endowment	523,391	380,565
Investments - temporarily restricted	181,921	217,921
Investments - permanently restricted endowment	1,567,947	1,539,544
Pledges receivable - net	241,770	325,112
Pledges receivable - net - board designated	195,000	-
Prepaid expenses	27,953	-
Furniture, equipment, and music - net	6,618	8,828
TOTAL ASSETS	$ 2,933,207	$ 2,767,881
LIABILITIES AND NET ASSETS		
Liabilities		
Bank overdraft	$ 11,144	$ -
Accounts payable and accrued expenses	68,345	73,854
Unearned revenue	251,328	349,662
Line-of-credit	224,113	138,373
Total Liabilities	554,930	561,889
Net Assets		
Unrestricted		
Operations	(220,635)	(55,679)
Board designated endowment	718,391	380,565
Youth Orchestra	130,653	123,641
Temporarily restricted net assets		
Gherkin Fund	67,785	67,785
Opera Fund	3,009	23,009
Bernhardt Fund	111,127	127,127
Permanently restricted net assets	1,567,947	1,539,544
Total Net Assets	2,378,277	2,205,992
TOTAL LIABILITIES AND NET ASSETS	$ 2,933,207	$ 2,767,881

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Schedule of Activities
Year Ended May 31, 2017

	Unrestricted				Temporarily Restricted					
	Operations	Fund Functioning as Endowment	Youth Orchestra	Total	Gherkin	Opera	Bernhardt	Total	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT										
Admissions	$ 863,263	$ -	$ 14,701	$ 877,964	$ -	$ -	$ -	$ -	$ -	$ 877,964
Concert fees	77,100	-	1,300	78,400	-	-	-	-	-	78,400
ArtsBuild allocation	193,000	-	7,000	200,000	-	-	-	-	-	200,000
Individual and corporate contributions	633,154	246,449	-	879,603	-	-	-	-	28,403	908,006
Fund-raising and special projects	114,897	-	13,047	127,944	-	-	-	-	-	127,944
Youth orchestra tuition	-	-	54,853	54,853	-	-	-	-	-	54,853
Grants	67,600	-	-	67,600	-	-	-	-	-	67,600
Foundation contributions	60,400	-	-	60,400	-	-	-	-	-	60,400
Program advertising	38,234	-	-	38,234	-	-	-	-	-	38,234
Other income	2,369	-	-	2,369	-	-	-	-	-	2,369
Investment return designated for operations:										
CSO ArtsBuild investment return	132,429	-	-	132,429	-	-	-	-	-	132,429
Investment return	17,363	231,377	-	248,740	-	-	-	-	-	248,740
Net assets released from restrictions	176,000	(140,000)	-	36,000	-	(20,000)	(16,000)	(36,000)	-	-
Total revenue and other support	2,375,809	337,826	90,901	2,804,536	-	(20,000)	(16,000)	(36,000)	28,403	2,796,939
EXPENSES										
Production	1,770,387	-	83,889	1,854,276	-	-	-	-	-	1,854,276
Marketing	248,404	-	-	248,404	-	-	-	-	-	248,404
Box office	74,750	-	-	74,750	-	-	-	-	-	74,750
Education	20,273	-	-	20,273	-	-	-	-	-	20,273
Fund-raising	113,604	-	-	113,604	-	-	-	-	-	113,604
Administrative	313,347	-	-	313,347	-	-	-	-	-	313,347
Total expenses	2,540,765	-	83,889	2,624,654	-	-	-	-	-	2,624,654
Change in net assets	(164,956)	337,826	7,012	179,882	-	(20,000)	(16,000)	(36,000)	28,403	172,285
Net assets - beginning	(55,679)	380,565	123,641	448,527	67,785	23,009	127,127	217,921	1,539,544	2,205,992
Net assets - end	$ (220,635)	$ 718,391	$ 130,653	$ 628,409	$ 67,785	$ 3,009	$ 111,127	$ 181,921	$ 1,567,947	$ 2,378,277

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Schedule of Activities
Year Ended May 31, 2016

	Unrestricted				Temporarily Restricted					
	Operations	Fund Functioning as Endowment	Youth Orchestra	Total	Gherkin	Opera	Bernhardt	Total	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT										
Admissions	$ 886,361	$ -	$ 12,518	$ 898,879	$ -	$ -	$ -	$ -	$ -	$ 898,879
Concert fees	109,234	-	1,300	110,534	-	-	-	-	-	110,534
ArtsBuild allocation	193,000	-	7,000	200,000	-	-	-	-	-	200,000
Individual and corporate contributions	861,964	-	-	861,964	-	-	-	-	8,992	870,956
Fund-raising and special projects	116,012	-	10,924	126,936	-	-	-	-	-	126,936
Youth orchestra tuition	-	-	48,045	48,045	-	-	-	-	-	48,045
Grants	68,000	-	-	68,000	-	-	-	-	-	68,000
Foundation contributions	71,200	-	-	71,200	-	-	-	-	-	71,200
Program advertising	41,740	-	-	41,740	-	-	-	-	-	41,740
Other income	2,616	-	2,032	4,648	-	-	-	-	-	4,648
Investment return designated for operations:										
CSO ArtsBuild investment return	124,391	-	-	124,391	-	-	-	-	-	124,391
Investment return	(172)	-	-	(172)	-	-	-	-	-	(172)
Net assets released from restrictions	160,000	(125,000)	-	35,000	-	-	(35,000)	(35,000)	-	-
Total revenue and other support	2,634,346	(125,000)	81,819	2,591,165	-	-	(35,000)	(35,000)	8,992	2,565,157
EXPENSES										
Production	1,663,438	-	86,608	1,750,046	-	-	-	-	-	1,750,046
Marketing	221,727	-	-	221,727	-	-	-	-	-	221,727
Box office	37,319	-	-	37,319	-	-	-	-	-	37,319
Fund-raising	84,004	-	-	84,004	-	-	-	-	-	84,004
Administrative	537,824	-	-	537,824	-	-	-	-	-	537,824
Total expenses	2,544,312	-	86,608	2,630,920	-	-	-	-	-	2,630,920
Change in net assets	90,034	(125,000)	(4,789)	(39,755)	-	-	(35,000)	(35,000)	8,992	(65,763)
Net assets - beginning	(145,713)	505,565	128,430	488,282	67,785	23,009	162,127	252,921	1,530,552	2,271,755
Net assets - end	$ (55,679)	$ 380,565	$ 123,641	$ 448,527	$ 67,785	$ 23,009	$ 127,127	$ 217,921	$ 1,539,544	$ 2,205,992

CHATTANOOGA SYMPHONY AND OPERA ASSOCIATION
Comparative Schedule of Cash Flows
Years Ended May 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase (decrease) in net assets	$ 172,285	$ (65,763)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	2,210	7,511
Net realized and unrealized (gains) on investments	(248,739)	172
Change in operating assets and liabilities:		
(Increase) decrease in receivables	(111,658)	(139,308)
(Increase) decrease in prepaid expenses	(27,953)	12,250
Increase (decrease) in accounts payable and accrued expenses	(5,509)	8,358
Increase (decrease) in unearned revenue	(98,334)	41,672
Total adjustments	(489,983)	(69,345)
Net cash provided (used) by operating activities	(317,698)	(135,108)
Cash Flows from Non-capital Financing Activities		
Net proceeds (repayment) from line-of-credit	85,740	38,432
Cash Flows from Investing Activities		
Disposal (purchase) of fixed assets	-	(950)
Purchase of investments	(124,205)	(33,740)
Proceeds from sales of investments	255,772	171,452
Net cash provided (used) by investing activities	131,567	136,762
Net increase (decrease) in cash	(100,391)	40,086
Cash and cash equivalents - beginning	89,247	49,161
Cash and cash equivalents - end	$ (11,144)	$ 89,247
Supplemental Disclosure		
Interest paid	$ 8,903	$ 9,035