

THE FLORIDA ORCHESTRA, INC.

**Financial Statements, Supplementary Financial
Information and Reports as Required by the Comptroller
General of the United States**

**June 30, 2017 and 2016
(With Independent Auditor's Report Thereon)**

THE FLORIDA ORCHESTRA, INC.

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Independent Auditor's Report

The Board of Directors
The Florida Orchestra, Inc.
St. Petersburg, Florida:

We have audited the accompanying financial statements of The Florida Orchestra, Inc. (the "Orchestra") (a nonprofit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. 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.



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Opinion

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, which includes the schedule of expenditures of state financial assistance, as required by Chapter 10.650, *Rules of the State of Florida Auditor General*, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017 on our consideration of the Orchestra's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Florida Orchestra, Inc.'s internal control over financial reporting and compliance.

MAYER HOFFMAN MCCANN P.C.

November 9, 2017
Clearwater, Florida

THE FLORIDA ORCHESTRA, INC.

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 524,382	929,608
Accounts receivable	69,966	126,633
Promises to give, net	717,070	530,050
Bequests receivable	-	148,291
Investments, at fair value	9,297,043	7,427,842
Beneficial interest in remainder trusts	78,353	163,743
Beneficial interest in perpetual trusts	3,214,614	3,028,187
Beneficial interest in assets held by others	444,871	433,159
Prepaid expenses	155,254	249,769
Property and equipment, net	87,542	66,596
	<u>14,589,095</u>	<u>13,103,878</u>
Total assets	\$ <u>14,589,095</u>	<u>13,103,878</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 576,997	313,975
Capital lease obligations	41,774	12,685
Advance ticket sales	1,405,352	1,424,049
	<u>2,024,123</u>	<u>1,750,709</u>
Total liabilities	2,024,123	1,750,709
Net assets:		
Unrestricted:		
Unrestricted operating deficit	(1,589,562)	(845,581)
Unrestricted - board-designated endowment funds	1,513,176	1,275,393
	<u>(76,386)</u>	<u>429,812</u>
Temporarily restricted	3,275,573	1,746,099
Permanently restricted	9,365,785	9,177,258
	<u>12,564,972</u>	<u>11,353,169</u>
Total net assets	12,564,972	11,353,169
Total liabilities and net assets	\$ <u>14,589,095</u>	<u>13,103,878</u>

THE FLORIDA ORCHESTRA, INC.

Statement of Activities

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Private support	\$ 4,600,776	808,633	2,100	5,411,509
Governmental and other grants	1,073,383	-	-	1,073,383
Guild activities, net	79,722	-	-	79,722
Contributed services and in-kind	180,060	-	-	180,060
Total support	<u>5,933,941</u>	<u>808,633</u>	<u>2,100</u>	<u>6,744,674</u>
Revenue:				
Admissions	3,462,500	-	-	3,462,500
Other performance revenue	235,549	-	-	235,549
Investment income	-	1,717,215	-	1,717,215
Other	82,294	-	-	82,294
Total revenue	<u>3,780,343</u>	<u>1,717,215</u>	<u>-</u>	<u>5,497,558</u>
Net assets released from restrictions	<u>623,570</u>	<u>(623,570)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>10,337,854</u>	<u>1,902,278</u>	<u>2,100</u>	<u>12,242,232</u>
Expenses:				
Program services:				
Artistic	6,035,672	-	-	6,035,672
Box office	197,904	-	-	197,904
Education	147,487	-	-	147,487
Marketing	1,252,252	-	-	1,252,252
Operations	1,888,884	-	-	1,888,884
Total program services	<u>9,522,199</u>	<u>-</u>	<u>-</u>	<u>9,522,199</u>
Supporting services:				
General and administrative	1,093,217	-	-	1,093,217
Development	623,787	-	-	623,787
Total expenses	<u>11,239,203</u>	<u>-</u>	<u>-</u>	<u>11,239,203</u>
Change in net assets before other changes	<u>(901,349)</u>	<u>1,902,278</u>	<u>2,100</u>	<u>1,003,029</u>
Other changes:				
Gain in value - perpetual trust	-	-	186,427	186,427
Net appreciation of assets held by others	-	22,347	-	22,347
Investment return appropriated for expenditure	395,151	(395,151)	-	-
Change in net assets	<u>(506,198)</u>	<u>1,529,474</u>	<u>188,527</u>	<u>1,211,803</u>
Net assets, beginning of year	<u>429,812</u>	<u>1,746,099</u>	<u>9,177,258</u>	<u>11,353,169</u>
Net assets (deficit), end of year	<u>\$ (76,386)</u>	<u>3,275,573</u>	<u>9,365,785</u>	<u>12,564,972</u>

See accompanying independent auditor's report and notes to financial statements.

THE FLORIDA ORCHESTRA, INC.

Statement of Activities

For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Support:				
Private support	\$ 4,890,444	645,683	342,462	5,878,589
Governmental and other grants	254,221	-	-	254,221
Guild activities, net	64,247	-	-	64,247
Contributed services and in-kind	141,210	-	-	141,210
Total support	<u>5,350,122</u>	<u>645,683</u>	<u>342,462</u>	<u>6,338,267</u>
Revenue:				
Admissions	3,316,398	-	-	3,316,398
Other performance revenue	236,265	-	-	236,265
Investment loss	-	(191,456)	-	(191,456)
Other	102,598	-	-	102,598
Total revenue	<u>3,655,261</u>	<u>(191,456)</u>	<u>-</u>	<u>3,463,805</u>
Net assets released from restrictions	<u>1,004,422</u>	<u>(1,004,422)</u>	<u>-</u>	<u>-</u>
Total support and revenue	10,009,805	(550,195)	342,462	9,802,072
Expenses:				
Program services:				
Artistic	5,452,538	-	-	5,452,538
Box office	175,497	-	-	175,497
Marketing	1,135,664	-	-	1,135,664
Operations	1,704,600	-	-	1,704,600
Total program services	<u>8,468,299</u>	<u>-</u>	<u>-</u>	<u>8,468,299</u>
Supporting services:				
General and administrative	1,024,485	-	-	1,024,485
Development	659,066	-	-	659,066
Total expenses	<u>10,151,850</u>	<u>-</u>	<u>-</u>	<u>10,151,850</u>
Change in net assets before other changes	(142,045)	(550,195)	342,462	(349,778)
Other changes:				
Loss in value - perpetual trust	-	-	(195,232)	(195,232)
Net depreciation of assets held by others	-	(22,407)	-	(22,407)
Investment return appropriated for expenditure	436,969	(436,969)	-	-
Change in net assets	294,924	(1,009,571)	147,230	(567,417)
Net assets, beginning of year	<u>134,888</u>	<u>2,755,670</u>	<u>9,030,028</u>	<u>11,920,586</u>
Net assets end of year	\$ <u>429,812</u>	<u>1,746,099</u>	<u>9,177,258</u>	<u>11,353,169</u>

THE FLORIDA ORCHESTRA, INC.

Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,211,803	(567,417)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	27,479	28,785
Amortization of lease prepayment	92,500	92,500
Realized and unrealized (gain) loss on investments	(1,545,238)	368,334
Net decrease (increase) in receivable from remainder trusts	85,390	(11,153)
Contributions and grants restricted for permanent endowment	(2,100)	(342,462)
Change in beneficial interest in perpetual trust	(186,427)	195,232
Change in beneficial interest in assets held by others	(11,712)	21,581
Changes in operating assets and liabilities:		
Decrease (increase) in receivables and promises to give, net	(130,353)	366,985
Decrease in bequests receivable	148,291	100,411
Decrease (increase) in prepaid expenses	2,015	(16,636)
Increase (decrease) in accounts payable and accrued expenses	263,022	(237,210)
Increase (decrease) in advance ticket sales	(18,697)	29,563
	(64,027)	28,513
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Property and equipment purchases	(4,711)	(18,923)
Purchases of investments	(1,410,467)	(891,956)
Proceeds from sale of investments	1,086,504	589,168
	(328,674)	(321,711)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds received from contributions and grants restricted for permanent endowment	2,100	342,462
Principal payments on capital lease obligations	(14,625)	(7,803)
	(12,525)	334,659
Net cash provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	(405,226)	41,461
Cash and cash equivalents at beginning of year	929,608	888,147
Cash and cash equivalents at end of year	\$ 524,382	929,608
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 12,346	1,624
Property and equipment acquired through a capital lease	\$ 43,714	-

See accompanying independent auditor's report and notes to financial statements.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements

June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

(a) Description of Organization

The Florida Orchestra, Inc. (the “Orchestra”) was incorporated for the purpose of administering and sponsoring an orchestra as a community educational facility and to obtain supplemental supporting funds, over and above operating income, required for such operations. The Orchestra’s activities include stage performances, special concerts, and other educational programs and endeavors to promote the cultural life in the Tampa Bay community.

(b) Basis of Accounting

These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Orchestra as a whole. 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 as follows:

Unrestricted net assets consist of net assets not subject to donor-imposed stipulations, including contributions that have been designated by the Board.

Temporarily restricted net assets consist of net assets subject to donor-imposed stipulations that may or will be met by actions of the Orchestra and/or the passage of time.

Permanently restricted net assets consist of net assets subject to donor-imposed stipulations that the assets be maintained in perpetuity. All permanently restricted net assets are endowment funds.

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. Donor-restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

(c) Estimates in Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and the accompanying notes to the financial statements. Actual results could differ from those estimates.

(d) Cash Equivalents

For purposes of the statement of cash flows, the Orchestra considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(1) **Summary of Significant Accounting Policies - Continued**

(e) **Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Orchestra that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When donor-imposed restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to give which are due in more than one year are recorded at estimated fair value by discounting future cash flows using current risk-free rates of return based on U.S. Treasury Securities yields with maturity dates similar to the expected contribution collection period.

The Orchestra records an allowance for potential uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

(f) **Bequests Receivable**

The Orchestra recognizes a receivable and revenue for their interest in bequests based on the inventories of estate assets and conditions contained in the respective wills. Amounts expected to be received in future years are discounted to provide estimates in current year dollars. The Orchestra records bequests receivable (when the court declares the related will valid) as either temporarily restricted net assets, as these assets will not be available until future years, or as permanently restricted net assets. As funds from an estate (other than permanently restricted) are collected, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no bequests receivable as of June 30, 2017. Bequests receivable were approximately \$148,000 as of June 30, 2016.

(g) **Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in investment income 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 (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

(h) **Property and Equipment**

Property and equipment are recorded at cost, or in the event of contributed property, at fair value at the date of the contribution. Property contributions are reported as unrestricted support unless the donor restricts the donated asset to a specific purpose. Property and equipment are depreciated over their estimated useful lives using the straight-line method. Expenditures for property and equipment in excess of \$2,500 and with a useful life of at least one year are capitalized.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

(i) Advance Ticket Sales

Income from season subscription sales is recognized at the time of the performance. The performance season generally runs from October to May. Advance season ticket sales amounted to \$1,405,352 at June 30, 2017 for the 2017-2018 season and \$1,424,049 at June 30, 2016 for the 2016-2017 season.

(j) Contributed Services

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

(k) Income Taxes

The Orchestra is a not-for-profit corporation organized under the laws of the State of Florida and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. The Orchestra believes that it has no liability for taxes with respect to unrelated business income. However, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

The Orchestra follows Accounting Standards Codification Topic 740, *Income Taxes* (“ASC 740”). A component of this standard prescribes a recognition and measurement threshold of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The Orchestra’s policy is to recognize interest and penalties associated with tax positions under this standard as a component of tax expense, and none were recognized since there was no material impact of the application of this standard for the years ended June 30, 2017 and 2016. The Orchestra’s information returns are open to IRS examination for the 2013 tax year ended June 30, 2014, and all subsequent years.

(l) Advertising

Advertising costs are expensed as incurred, except when the advertising is directly related to probable future benefits. Advertising costs expensed were approximately \$715,000 and \$614,000 for the years ended June 30, 2017 and 2016, respectively.

(m) Barter Transactions

The Orchestra trades its tickets for other goods and services used in its normal course of business. Revenue and expense recognized under those barter transactions were \$179,795 and \$122,425 for the years ended June 30, 2017 and 2016, respectively.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

(n) Functional Allocation of Expenses

The cost of providing the 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 the supporting services benefited.

(2) Promises to Give

Unconditional promises to give consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted promises	\$ 715,598	422,729
Restricted for endowment	19,372	132,247
	<u>734,970</u>	<u>554,976</u>
Total unconditional promises to give	734,970	554,976
Less unamortized discount	(1,045)	(2,145)
Less allowance for uncollectibles	(16,855)	(22,781)
	<u>(17,900)</u>	<u>(24,926)</u>
Net unconditional promises to give	<u>\$ 717,070</u>	<u>530,050</u>
Amounts due in:		
Less than one year	\$ 722,095	529,226
One to five years	12,875	25,750
	<u>734,970</u>	<u>554,976</u>

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 6%.

Of total promises to give of \$734,970 and \$554,976 at June 30, 2017 and 2016, respectively, there were no individual donor amounts that exceeded 10%. Approximately 4% and 8% of total private support was provided by one donor for the years ended June 30, 2017 and 2016, respectively.

Under separate agreements, the Orchestra has received conditional promises to give based on the condition that the Orchestra will continue operations. These conditional promises to give are not recorded in the accompanying statements of financial position. As of June 30, 2017 and 2016, the conditional promises were approximately \$1,078,000 and \$1,409,000, respectively.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(3) Investments

Investments are stated at fair value and consist of the following at June 30, 2017 and 2016:

	2017		2016	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 73,792	73,792	148,591	148,591
Common stocks	4,268,948	6,918,347	4,085,357	5,445,875
Fixed-income securities and funds	2,145,127	2,187,700	1,729,416	1,752,267
Other assets	104,760	117,204	86,913	81,109
	\$ 6,592,627	9,297,043	6,050,277	7,427,842

The long-term investment portfolio is restricted as a permanent endowment. At June 30, 2015, the Orchestra had one permanently restricted endowment contribution of \$240,000 from the State of Florida and received a second contribution of \$240,000 during fiscal 2016. The related funding agreement required that the Orchestra designate an additional \$360,000 to supplement each of the State endowment contributions. Both of the \$240,000 contributions will revert back to the State of Florida if the Orchestra ceases operations, files for bankruptcy protection, or willfully expends any portion of the \$600,000 related to each contribution. Earnings from the endowment fund are available to fund the Orchestra's operating activities.

As of June 30, 2017 and 2016, the balance that the Orchestra owed to the endowment fund was approximately \$207,000 and \$550,000, respectively. A significant portion of the amount borrowed from the permanently restricted endowment fund, with the permission of certain endowment donors, was borrowed in prior years to cover operating losses. During the year ended June 30, 2016, all amounts borrowed in prior years were paid back to the endowment fund and the remaining balance owed at June 30, 2017 and 2016 represents timing relating to transfer of board-designated bequests.

The following schedule summarizes investment income for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends (net of investment management expenses of \$53,909 and \$47,287, respectively)	\$ 171,977	176,878
Realized and unrealized gains (losses)	1,545,238	(368,334)
Total investment return	\$ 1,717,215	(191,456)

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(4) Beneficial Interest in Remainder Trusts

The Orchestra has been named as a remainder beneficiary in various charitable remainder trusts. Certain trust instruments require quarterly payments to the donors at percentages ranging from 7% to 9% of the fair value of the trust assets as of the beginning of each year. Each of the remainder trusts terminates upon the death of the donor(s). The Orchestra's financial statements reflect receivables from the remainder trusts at present value. The trusts are stated at the actuarial present value of the estimated future benefits to be received when the trust assets are distributed. A discount rate of 5% is used in computing present values. The receivables will be adjusted in future periods to reflect accretion of the original present value discount. The receivable balance at June 30, 2017 and 2016 was \$78,353 and \$163,743, respectively. The decrease from June 30, 2016 was due to the Orchestra collecting its remainder interest in one trust during fiscal year 2017.

(5) Property and Equipment

Property and equipment consists of the following at June 30, 2017 and 2016:

	2017	2016
Furniture and equipment	\$ 182,180	165,008
Computer equipment	94,935	94,095
Vehicles	56,185	56,185
Leasehold improvements	6,647	6,647
Sound system	4,433	1,650
Musical equipment	179,375	179,375
	523,755	502,960
Less accumulated depreciation	(436,213)	(436,364)
	\$ 87,542	66,596

Depreciation charged to operations amounted to \$27,479 and \$28,785 for the years ended June 30, 2017 and 2016, respectively.

(6) Beneficial Interest in Perpetual Trusts

The Orchestra is the income beneficiary of an irrevocable perpetual trust. The net income derived from this trust is to be distributed 50% to the Orchestra and 50% to another organization. The Orchestra's interest in the trust is recorded at 50% of the fair value of the trust assets that produce the income. Distributions from this trust for the years ended June 30, 2017 and 2016 were approximately \$132,000 and \$133,000, respectively. These amounts are included as a component of Private Support in the accompanying Statements of Activities. As of June 30, 2017, the balance of \$3,153,571 was comprised of: equities - 74%, fixed income - 12%, hedge funds - 11%, real estate - 1%, and other - 2%. As of June 30, 2016 the balance of \$2,964,921 was comprised of: equities - 64%, fixed income - 14%, hedge fund - 10%, real estate - 6% and other - 6%. During fiscal year 2014, the Orchestra was named as an income beneficiary in a smaller irrevocable perpetual trust valued at \$61,043 and \$63,266 at June 30, 2017 and 2016, respectively.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(6) **Beneficial Interest in Perpetual Trusts - Continued**

Under a separate perpetual trust, the Orchestra has also been named as an income beneficiary. The Orchestra is entitled to one-sixth of the income earned by the trust. The trust distributes a percentage of income annually in accordance with IRS guidelines. Earnings distributed from the trust for the years ended June 30, 2017 and 2016 were approximately \$147,000 and \$157,000, respectively. The Orchestra's interest in this perpetual trust is not considered to be an asset as the trustee has the ability to modify the charitable beneficiaries. These amounts are included as a component of Private Support in the accompanying Statement of Activities.

(7) **Beneficial Interest in Assets Held by Others**

In fiscal year 1998, the Orchestra established an account at the Community Foundation of Tampa Bay (the "Foundation") with a payment of \$20,000. Since 1998, the Orchestra has deposited additional funds with the Foundation. The amounts deposited are considered to be an asset of the Orchestra and are included in beneficial interest in assets held by others in the accompanying statement of financial position as of June 30, 2017 and 2016, in the amounts of \$346,337 and \$323,990, respectively. In addition, at June 30, 2017 and 2016, the Foundation was holding a balance of approximately \$3,274,000 and \$2,969,000, respectively, representing contributions made directly to the Foundation for the benefit of the Orchestra. Earnings on these funds are earmarked to be distributed on a periodic basis to the Orchestra. The Foundation has been granted variance power over these funds which provide the Foundation the unilateral power to redirect the use of the funds to other beneficiaries. Because the Foundation has been granted variance power, funds contributed by donors to the Foundation on behalf of the Orchestra are not considered to be an asset of the Orchestra. Distributions from the Foundation for the years ended June 30, 2017 and 2016 were approximately \$142,000 and \$175,000, respectively. These amounts are included in private support in the accompanying statements of activities for the years ended June 30, 2017 and 2016.

In addition, the Orchestra has funds held under a separate foundation. The amounts held are considered to be an asset of the Orchestra and are included in beneficial interest in assets held by others in the accompanying statement of financial position as of June 30, 2017 and 2016, in the amount of \$98,534 and \$109,169, respectively.

(8) **Fair Value Measurements**

The Orchestra follows Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820"). ASC 820 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price).

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(8) Fair Value Measurements - Continued

Under ASC 820, a fair value measure should reflect the assumptions that market participants would use in pricing the asset or liability, including the assumptions about the risk inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset and the risk of nonperformance. ASC 820 requires disclosures that stratify balance sheet amounts measured at fair value based on inputs the Orchestra used to derive fair value measurements. These strata include:

- Level 1: Valuations, where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the counter markets with sufficient volume);
- Level 2: Valuations, where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market;
- Level 3: Valuations, where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Organization-specific data. These unobservable assumptions reflect the Organization's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

Fair value of assets measured on a recurring basis at June 30, 2017 is as follows:

<u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Assets Measured at Fair Value at June 30, 2017</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Short-term investments	\$ 73,792	73,792	-	-
Common stocks	6,918,347	6,918,347	-	-
Fixed-income securities and funds	2,187,700	-	2,187,700	-
Other assets	117,204	117,204	-	-
	<u>9,297,043</u>	<u>7,109,343</u>	<u>2,187,700</u>	<u>-</u>
Receivable from remainder trusts	78,353	-	-	78,353
Beneficial interest in perpetual trusts	3,214,614	-	3,214,614	-
Beneficial interest in assets held by others	444,871	-	444,871	-
	<u>\$ 13,034,881</u>	<u>7,109,343</u>	<u>5,847,185</u>	<u>78,353</u>

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(8) Fair Value Measurements - Continued

Fair value of assets measured on a recurring basis at June 30, 2016 is as follows:

<u>Description</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Assets Measured at Fair Value at June 30, 2016</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Short-term investments	\$ 148,591	148,591	-	-
Common stocks	5,445,875	5,445,875	-	-
Fixed-income securities and funds	1,752,267	-	1,752,267	-
Other assets	81,109	81,109	-	-
	<u>7,427,842</u>	<u>5,675,575</u>	<u>1,752,267</u>	<u>-</u>
Beneficial interest in remainder trusts	163,743	-	-	163,743
Beneficial interest in perpetual trust	3,028,187	-	3,028,187	-
Beneficial interest in assets held by others	433,159	-	433,159	-
	<u>\$ 11,052,931</u>	<u>5,675,575</u>	<u>5,213,613</u>	<u>163,743</u>

Fair values for short-term investments and common stocks are determined by reference to quoted market prices for identical assets. Fair values for fixed-income securities and mutual funds and certificates of deposit are based on quoted prices for similar assets in markets that may not be active.

The methods used by the Orchestra in determining fair values for the beneficial interest in remainder trusts, perpetual trusts, and beneficial interest in assets held by others are as previously described in Notes 4, 6 and 7, respectively.

The following table sets forth a summary of changes in fair value of assets using significant unobservable inputs (Level 3) for the years ended June 30, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 163,743	152,590
Change in fair value	-	11,153
Settlement	<u>(85,390)</u>	<u>-</u>
Balance, end of year	<u>\$ 78,353</u>	<u>163,743</u>

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(8) Fair Value Measurements - Continued

The Orchestra estimates the fair value of its beneficial interest in remainder trusts by using an income approach based on calculating the present value of the future distributions expected to be received. This approach takes into account the Orchestra's determination of an appropriate risk-adjusted discount rate (5% at June 30, 2017), expected appreciation of the trust investments, and donor life expectancy information published in the Annuity Mortality Tables. The Orchestra remeasures the fair value of its beneficial interest in remainder trusts annually and adjusts the measurement inputs based on statements received from the trustee, market conditions, and other relevant data.

(9) Temporarily Restricted Net Assets

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

	2017	2016
Endowment unappropriated investment return	\$ 2,204,019	859,605
Subsequent year operations	993,201	574,460
Bequests receivable	-	148,291
Interest in charitable remainder trusts	78,353	163,743
	\$ 3,275,573	1,746,099

(10) Leases

The Orchestra is obligated under capital leases for office equipment. These leases expire at various dates through May, 2022. At June 30, 2017 and 2016, the gross amount of office equipment recorded under the capital leases was \$85,638 and \$41,924, respectively. The net book value of the office equipment at June 30, 2017, after deducting accumulated amortization of \$41,311, was \$44,327. The net book value of the office equipment at June 30, 2016, after deducting accumulated amortization of \$32,371, was \$9,553.

The present value of future minimum capital lease payments as of June 30, 2017 is as follows:

Year Ending June 30,		
2018	\$	16,620
2019		15,136
2020		6,359
2021		5,696
2022		5,219
Total future minimum lease payments		49,030
Less amount representing interest		(7,256)
Present value of minimum capital lease payments	\$	41,774

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(10) Leases - Continued

In March 2007, the Orchestra entered into a lease agreement with St. Petersburg College (the "College"). Under the terms of the agreement, the Orchestra began occupying space at a new office at the College Downtown Center in St. Petersburg in January 2008. The lease term commenced on the first day of the month following the issuance of a certificate of occupancy. The lease term is for forty years; however, each party has the option to terminate the lease after ten years or anytime thereafter. In connection with the lease agreement, the Orchestra was required to make an original prepayment of \$925,000 to the College. Funding for the prepayment was provided by a donor in a prior fiscal period. The prepayment is being amortized over the initial ten year term of the lease. The remaining unamortized portion is approximately \$46,000 and \$139,000 as of June 30, 2017 and 2016, respectively, and is included in prepaid expenses in the accompanying statements of financial position. Amortization of the prepayment was \$92,500 for the years ended June 30, 2017 and 2016, and is included in rent expense. Annual payments required under the lease consist of a \$1 base rental plus an "operating fee" to cover utilities, maintenance and other services. The operating fee is subject to annual changes and was \$74,749 for the year ended June 30, 2017 and \$72,886 for the year ended June 30, 2016.

Rent expense for operating leases, including month-to-month rentals, for the years ended June 30, 2017 and 2016 was approximately \$175,000 and \$173,000, respectively.

(11) Contributed Services and Contributions In-Kind

The Orchestra recognizes contribution revenue for certain services and in-kind donations received at fair value. Contributed services are reported as support and as an expense when the services are provided. Contributions in-kind (real or tangible property) are reported as support and as an asset or expense in the period received at estimated fair value. Contributions and in-kind donations (excluding capitalized items) are summarized as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program services:		
Catering services	\$ 11,250	10,000
Advertising and marketing	117,110	79,510
Venue rental	38,000	38,000
Supporting services:		
Payroll services	<u>13,700</u>	<u>13,700</u>
	<u>\$ 180,060</u>	<u>141,210</u>

The Orchestra recognized \$179,795 and \$122,425 in admissions revenue for the years ended June 30, 2017 and 2016, respectively, for tickets sold in exchange for contributed services.

In addition, for the years ended June 30, 2017 and 2016, approximately 5,100 and 4,700 hours, respectively, were volunteered for various administrative functions. No value has been assigned to the volunteer administrative services as they do not meet the criteria for recognition in the financial statements.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(12) Employee Retirement Benefits

The Orchestra sponsors a tax deferred retirement savings plan qualified under Section 403(b) of the Internal Revenue Code, covering all full-time employees. The plan allows for employee contributions through salary reductions, subject to certain restrictions. The Orchestra contributes 100% up to 3% of an employee's deferral into the Plan. The expense related to this plan for the years ended June 30, 2017 and 2016 was \$39,074 and \$35,732, respectively.

Beginning in January 1996, pension fund contributions for musicians were made to the American Federation of Musicians and Employees' Pension Fund, with the Orchestra contributing 6.5% of the musicians' gross wages for the years ended June 30, 2017 and 2016. The expense for this pension plan for the years ended June 30, 2017 and 2016 was \$219,673 and \$197,422, respectively.

(13) Contract with Musicians

The Orchestra's primary base of performers is musicians employed by the Orchestra under a collective bargaining agreement. The Orchestra entered into a new three-year collective bargaining agreement with the musicians in October 2015.

(14) Endowment Funds

The Orchestra's endowment consists of several individual funds established for a variety of purposes. Its endowment consists of donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective July 1, 2012, the State of Florida adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") and in accordance with Accounting Standards Codification Topic, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("ASC 958"), the Orchestra classifies investment earnings on endowments as a component of temporarily restricted net assets if not appropriated for expenditure in the period earned. Once investment earnings are appropriated for expenditure, the Orchestra reclassifies the amount appropriated as a component of unrestricted net assets.

Interpretation of Relevant Law: The Orchestra's Board of Directors has interpreted the wishes of donors and state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Orchestra 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 unrestricted net assets.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(14) Endowment Funds - Continued

Investment Return Objectives, Risk Parameters and Strategies: The Orchestra has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and fixed-income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to provide a high level of cash distribution, while growing the funds if possible. Therefore, the Orchestra expects its endowment assets, over time, to produce an average rate of return of approximately 6% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Orchestra's endowment distribution policy is intended to maintain the purchasing power of the endowment while providing distributions to support the Orchestra's operations. The distribution formula is intended to distribute an amount approximately equal to the endowment's long-term expected total return.

The distribution amount and policy are reviewed annually by the Investment Committee, or in lieu of an Investment Committee, by the Finance Committee, and the policy or distribution amount is adjusted as necessary. For the fiscal year ended June 30, 2017, the Board of Directors authorized the distribution to the operating fund of \$395,151 or 5.45% of the endowment assets' 12-quarter average as of December 31, 2015. For the fiscal year ended June 30, 2016, the Board of Directors authorized the distribution to the operating fund of \$436,969 or 7.13% of the endowment assets' 12-quarter average as of December 31, 2014.

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(14) Endowment Funds - Continued

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 1,513,176	-	-	1,513,176
Donor-restricted endowment funds	-	2,204,019	9,365,785	11,569,804
	<u>\$ 1,513,176</u>	<u>2,204,019</u>	<u>9,365,785</u>	<u>13,082,980</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, beginning of year	\$ 1,275,393	1,007,896	9,177,258	11,460,547
Contributions	89,492	-	2,100	91,592
Investment income, net of fees	-	1,739,565	-	1,739,565
Change in value of beneficial interest	-	-	186,427	186,427
Releases of restrictions	148,291	(148,291)	-	-
Amount appropriated for expenditure	-	(395,151)	-	(395,151)
Balance, end of year	<u>\$ 1,513,176</u>	<u>2,204,019</u>	<u>9,365,785</u>	<u>13,082,980</u>

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Board-designated endowment funds	\$ 1,275,393	-	-	1,275,393
Donor-restricted endowment funds	-	1,007,896	9,177,258	10,185,154
	<u>\$ 1,275,393</u>	<u>1,007,896</u>	<u>9,177,258</u>	<u>11,460,547</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, beginning of year	\$ 552,571	1,754,679	9,030,028	11,337,278
Contributions	478,580	148,291	342,462	969,333
Investment income, net of fees	-	(213,863)	-	(213,863)
Change in value of beneficial interest	-	-	(195,232)	(195,232)
Releases of restrictions	244,242	(244,242)	-	-
Amount appropriated for expenditure	-	(436,969)	-	(436,969)
Balance, end of year	<u>\$ 1,275,393</u>	<u>1,007,896</u>	<u>9,177,258</u>	<u>11,460,547</u>

THE FLORIDA ORCHESTRA, INC.

Notes to Financial Statements - Continued

(15) **Short-Term Borrowing Arrangement**

During fiscal 2017 the Orchestra executed a short-term borrowing arrangement with the brokerage institution holding its investments. The arrangement allows the Orchestra to borrow funds using certain of its investments as collateral. The interest rate on outstanding borrowings was 3.5% at June 30, 2017. There were no amounts outstanding under this arrangement at June 30, 2017.

(16) **Related Party**

The Orchestra has received conditional promises to give from members of the Board of Directors that are contingent upon the Orchestra enacting and maintaining the expense controls promised upon and detailed in the multi-year strategic plan budget. Due to the conditions on these promises to give, the net present value is not recorded in the Orchestra's financial statements. Additionally, the Orchestra has received contributions or promises to give from various members of the Board of Directors which are reflected in the financial statements in the amount of approximately \$941,000, and \$1,190,000 for the years ended June 30, 2017 and 2016, respectively.

(17) **Concentrations**

The Orchestra maintains cash balances with what management believes to be a high credit quality financial institution. At June 30, 2017 and 2016, amounts on deposit with this financial institution exceeded coverage provided by the FDIC by approximately \$544,000 and \$519,000, respectively.

Other concentrations of credit risk are described in Note 2.

(18) **Subsequent Events**

The Orchestra has evaluated events occurring after the statement of financial position date through November 9, 2017, the date which the financial statements were available to be issued.

SUPPLEMENTARY FINANCIAL INFORMATION

THE FLORIDA ORCHESTRA, INC.

Schedule of Combined Funds - Statement of Financial Position

June 30, 2017

Assets	Operating Fund	Endowment Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 524,382	-	524,382
Accounts receivable	69,966	-	69,966
Promises to give, net	698,743	18,327	717,070
Interfund receivables (payables)	(206,659)	206,659	-
Investments, at fair value	-	9,297,043	9,297,043
Beneficial interest in remainder trusts	78,353	-	78,353
Beneficial interest in perpetual trusts	-	3,214,614	3,214,614
Beneficial interest in assets held by others	98,534	346,337	444,871
Prepaid expenses	155,254	-	155,254
Property and equipment, net	87,542	-	87,542
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>1,506,115</u>	<u>13,082,980</u>	<u>14,589,095</u>
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 576,997	-	576,997
Capital lease obligations	41,774	-	41,774
Advance ticket sales	1,405,352	-	1,405,352
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	2,024,123	-	2,024,123
Net assets:			
Unrestricted net deficit	(1,589,562)	-	(1,589,562)
Unrestricted net assets - board-designated	-	1,513,176	1,513,176
Temporarily restricted	1,071,554	2,204,019	3,275,573
Permanently restricted	-	9,365,785	9,365,785
	<u> </u>	<u> </u>	<u> </u>
Total net assets (deficit)	(518,008)	13,082,980	12,564,972
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	\$ <u>1,506,115</u>	<u>13,082,980</u>	<u>14,589,095</u>

THE FLORIDA ORCHESTRA, INC.

Schedule of Combined Funds - Statement of Financial Position

June 30, 2016

Assets	Operating Fund	Endowment Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 929,608	-	929,608
Accounts receivable	126,633	-	126,633
Promises to give, net	399,948	130,102	530,050
Bequest receivables	148,291	-	148,291
Interfund receivables (payables)	(550,428)	550,428	-
Investments, at fair value	-	7,427,842	7,427,842
Beneficial interest in remainder trusts	163,743	-	163,743
Beneficial interest in perpetual trust	-	3,028,187	3,028,187
Beneficial interest in assets held by others	109,169	323,990	433,159
Prepaid expenses	249,769	-	249,769
Property and equipment, net	66,596	-	66,596
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ <u>1,643,329</u>	<u>11,460,549</u>	<u>13,103,878</u>
 Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 313,975	-	313,975
Capital lease obligations	12,685	-	12,685
Advance ticket sales	1,424,049	-	1,424,049
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,750,709	-	1,750,709
 Net assets:			
Unrestricted net deficit	(845,581)	-	(845,581)
Unrestricted net assets - board-designated	-	1,275,393	1,275,393
Temporarily restricted	738,201	1,007,898	1,746,099
Permanently restricted	-	9,177,258	9,177,258
	<u> </u>	<u> </u>	<u> </u>
Total net assets (deficit)	(107,380)	11,460,549	11,353,169
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net assets	\$ <u>1,643,329</u>	<u>11,460,549</u>	<u>13,103,878</u>

THE FLORIDA ORCHESTRA, INC.

Schedule of Combined Funds - Statement of Activities

For the Year Ended June 30, 2017

	<u>Operating Fund</u>	<u>Endowment Fund</u>	<u>Total</u>
Support and revenue:			
Support:			
Private support	\$ 5,319,916	91,593	5,411,509
Governmental and other grants	1,073,383	-	1,073,383
Guild activities, net	79,722	-	79,722
Contributed services and in-kind	180,060	-	180,060
	<hr/>	<hr/>	<hr/>
Total support	6,653,081	91,593	6,744,674
Revenue:			
Admissions	3,462,500	-	3,462,500
Other performance revenue	235,549	-	235,549
Investment income	-	1,717,215	1,717,215
Other	82,294	-	82,294
	<hr/>	<hr/>	<hr/>
Total revenue	3,780,343	1,717,215	5,497,558
Total support and revenue	10,433,424	1,808,808	12,242,232
Expenses:			
Program services:			
Artistic	6,035,672	-	6,035,672
Box office	197,904	-	197,904
Education	147,487	-	147,487
Marketing	1,252,252	-	1,252,252
Operations	1,888,884	-	1,888,884
Supporting Services:			
General and administrative	1,093,217	-	1,093,217
Development	623,787	-	623,787
	<hr/>	<hr/>	<hr/>
Total expenses	11,239,203	-	11,239,203
Change in net assets before other changes	(805,779)	1,808,808	1,003,029
Other changes:			
Gain in value - perpetual trust	-	186,427	186,427
Net appreciation of assets held by others	-	22,347	22,347
Investment return appropriated for expenditure	395,151	(395,151)	-
	<hr/>	<hr/>	<hr/>
Change in net assets	(410,628)	1,622,431	1,211,803
Net assets (deficit), beginning of year	(107,380)	11,460,549	11,353,169
Net assets (deficit), end of year	\$ (518,008)	13,082,980	12,564,972

THE FLORIDA ORCHESTRA, INC.

Schedule of Combined Funds - Statement of Activities

For the Year Ended June 30, 2016

	<u>Operating Fund</u>	<u>Endowment Fund</u>	<u>Total</u>
Support and revenue:			
Support:			
Private support	\$ 4,909,254	969,335	5,878,589
Governmental and other grants	254,221	-	254,221
Guild activities, net	64,247	-	64,247
Contributed services and in-kind	141,210	-	141,210
	<hr/>	<hr/>	<hr/>
Total support	5,368,932	969,335	6,338,267
Revenue:			
Admissions	3,316,398	-	3,316,398
Other performance revenue	236,265	-	236,265
Investment loss	-	(191,456)	(191,456)
Other	102,598	-	102,598
	<hr/>	<hr/>	<hr/>
Total revenue	3,655,261	(191,456)	3,463,805
Total support and revenue	9,024,193	777,879	9,802,072
Expenses:			
Program services:			
Artistic	5,452,538	-	5,452,538
Box office	175,497	-	175,497
Marketing	1,135,664	-	1,135,664
Operations	1,704,600	-	1,704,600
Supporting Services:			
General and administrative	1,024,485	-	1,024,485
Development	659,066	-	659,066
	<hr/>	<hr/>	<hr/>
Total expenses	10,151,850	-	10,151,850
Change in net assets before other changes	(1,127,657)	777,879	(349,778)
Other changes:			
Loss in value - perpetual trust	-	(195,232)	(195,232)
Net depreciation of assets held by others	-	(22,407)	(22,407)
Investment return appropriated for expenditure	436,969	(436,969)	-
	<hr/>	<hr/>	<hr/>
Change in net assets	(690,688)	123,271	(567,417)
Net assets, beginning of year	583,308	11,337,278	11,920,586
	<hr/>	<hr/>	<hr/>
Net assets (deficit), end of year	\$ (107,380)	11,460,549	11,353,169
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

THE FLORIDA ORCHESTRA, INC.

Schedule of Functional Expenses

For the Year Ended June 30, 2017

	Program Services	Supporting Services		Total
		General and Administrative	Development	
Accounting and legal	\$ -	47,054	-	47,054
Bad debt expense	-	-	16,995	16,995
Business entertainment	762	3,865	600	5,227
Computer supplies and support	11,662	4,583	-	16,245
Conferences	4,234	2,400	115	6,749
Depreciation	-	27,479	-	27,479
Employee recruitment and relocation	11,611	16,433	2,616	30,660
Equipment rental and maintenance	64,287	16,606	-	80,893
Guest artists and conductors	1,064,823	-	-	1,064,823
Guest artists - travel and lodging	111,218	-	-	111,218
Hall rental	924,598	-	-	924,598
Health insurance and other benefits	709,528	29,987	24,925	764,440
Insurance	-	26,903	-	26,903
Interest and penalties	-	12,346	-	12,346
License and fees	48,646	-	350	48,996
Media advertising	535,062	-	-	535,062
Merchant charges and bank fees	-	70,098	-	70,098
Miscellaneous	3,421	2,303	2,029	7,753
Music rental	69,888	-	-	69,888
Occupancy	-	175,222	-	175,222
Office supplies	-	11,755	-	11,755
Payroll taxes	387,826	29,574	22,781	440,181
Postage, shipping and mailing service	15,691	16,792	7,620	40,103
Printing and publications	102,214	15,024	19,022	136,260
Production	10,833	-	-	10,833
Professional and consultant fees	4,690	144,566	53,801	203,057
Receptions	41,144	-	153,944	195,088
Recording fees	13,200	-	-	13,200
Retirement plan contributions	246,468	9,937	2,342	258,747
Salaries and wages	4,422,821	405,521	266,964	5,095,306
Sponsor recognition	-	-	13,966	13,966
Staging and stagehands	390,369	-	-	390,369
Telephone	-	12,545	-	12,545
Telephone campaigns	-	-	33,004	33,004
Trade	179,795	-	-	179,795
Travel and parking	143,495	7,303	2,136	152,934
Other	3,913	4,921	577	9,411
	<u>\$ 9,522,199</u>	<u>1,093,217</u>	<u>623,787</u>	<u>11,239,203</u>

THE FLORIDA ORCHESTRA, INC.

Schedule of Functional Expenses

For the Year Ended June 30, 2016

	Program Services	Supporting Services		Total
		General and Administrative	Development	
Accounting and legal	\$ -	42,926	-	42,926
Bad debt expense	-	-	12,866	12,866
Business entertainment	783	6,424	79	7,286
Computer supplies and support	11,564	5,212	-	16,776
Conferences	1,676	1,727	1,195	4,598
Depreciation	-	28,785	-	28,785
Employee recruitment and relocation	5,173	-	6,945	12,118
Equipment rental and maintenance	68,108	13,400	-	81,508
Guest artists and conductors	950,525	-	-	950,525
Guest artists - travel and lodging	102,618	-	-	102,618
Hall rental	793,386	-	-	793,386
Health insurance and other benefits	666,856	36,911	31,245	735,012
Insurance	-	33,920	-	33,920
Interest and penalties	-	1,624	-	1,624
License and fees	48,155	496	350	49,001
Media advertising	491,447	-	-	491,447
Merchant charges and bank fees	-	68,763	-	68,763
Miscellaneous	3,706	4,790	1,361	9,857
Music rental	103,667	-	-	103,667
Occupancy	-	173,285	-	173,285
Office supplies	-	17,229	-	17,229
Payroll taxes	337,474	28,158	25,671	391,303
Postage, shipping and mailing service	21,759	16,994	6,112	44,865
Printing and publications	93,852	18,046	19,474	131,372
Production	14,583	-	-	14,583
Professional and consultant fees	22,314	96,508	61,490	180,312
Receptions	23,865	-	146,051	169,916
Recording fees	13,213	-	-	13,213
Retirement plan contributions	219,818	11,563	1,773	233,154
Salaries and wages	3,880,478	372,608	292,340	4,545,426
Sponsor recognition	-	-	10,569	10,569
Staging and stagehands	347,789	-	-	347,789
Telephone	-	28,459	-	28,459
Telephone campaigns	-	-	31,288	31,288
Trade	122,425	-	-	122,425
Travel and parking	94,934	12,462	6,003	113,399
Other	28,131	4,195	4,254	36,580
	<u>\$ 8,468,299</u>	<u>1,024,485</u>	<u>659,066</u>	<u>10,151,850</u>

THE FLORIDA ORCHESTRA, INC.

Schedule of Expenditures of State Financial Assistance

For the Year Ended June 30, 2017

<u>State Agency/ State Project</u>	<u>CSFA Number</u>	<u>Grant Number</u>	<u>Current Year Expenditures</u>
State Financial Assistance			
Department of State, Division of Cultural Affairs General Program Support (Cultural and Museum Grants)	45.061	17-9911	\$ 750,000
Department of State, Division of Cultural Affairs General Program Support (Cultural and Museum Grants)	45.061	17.6.102.228	<u>91,583</u>
Subtotal, General Program Support (Cultural and Museum Grants)			841,583
Department of State, Division of Cultural Affairs Cultural Endowment Program	45.007	n/a	<u>49,646</u>
Total expenditures of state financial assistance			\$ <u><u>891,229</u></u>

THE FLORIDA ORCHESTRA, INC.

Notes to Schedule of Expenditures of State Financial Assistance

For the Year Ended June 30, 2017

(1) Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state grant activity of The Florida Orchestra, Inc. under programs of the State of Florida for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Chapter 10.650, *Rules of the State of Florida Auditor General*. Because the Schedule presents only a selected portion of the operations of The Florida Orchestra, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Florida Orchestra, Inc.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Department of Financial Services' State Projects Compliance Supplement*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Subrecipients

The Florida Orchestra, Inc. provided no state financial assistance to subrecipients for the year ended June 30, 2017.

INTERNAL CONTROL AND COMPLIANCE



**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
The Florida Orchestra, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Florida Orchestra, Inc. (the “Orchestra”), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Orchestra’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orchestra’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Orchestra’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Orchestra's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Orchestra's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Orchestra's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MAYER HOFFMAN McCANN P.C.

November 9, 2017
Clearwater, Florida



**Independent Auditor’s Report on Compliance for Each Major State Project and on
Internal Control Over Compliance Required by Chapter 10.650,
Rules of the State of Florida Auditor General**

The Board of Directors
The Florida Orchestra, Inc.:

Report on Compliance for Each Major State Project

We have audited The Florida Orchestra, Inc.’s compliance with the types of compliance requirements described in the *Department of Financial Services’ State Projects Compliance Supplement* that could have a direct and material effect on The Florida Orchestra, Inc.’s major state project for the year ended June 30, 2017. The Florida Orchestra, Inc.’s major state project is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with State statutes, regulations, and the terms and conditions of its State projects applicable to its major state project.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for The Florida Orchestra, Inc.’s major state project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.650, *Rules of the Auditor General*. Those standards and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Orchestra’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major State project. However, our audit does not provide a legal determination on the Orchestra’s compliance.

Opinion on Each Major State Project

In our opinion, The Florida Orchestra, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of The Florida Orchestra, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Orchestra's internal control over compliance with the types of requirements that could have a direct and material effect on its major state project in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orchestra's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

MAYER HOFFMAN McCANN P.C.

November 9, 2017
Clearwater, Florida

THE FLORIDA ORCHESTRA, INC.

Schedule of Findings and Questioned Costs

June 30, 2017

(A) Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of The Florida Orchestra, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of The Florida Orchestra, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major state project are reported in the independent auditor's report on compliance for each major state project and on internal control over compliance required by Chapter 10.650, *Rules of the Florida Auditor General*.
5. The auditor's report on compliance for the major state project of The Florida Orchestra, Inc. expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General*, are reported in Part C, of this Schedule.
7. The program/project tested as a major state project was:
General Program Support (Cultural and Museum Grants) (CSFA 45.061)
8. The threshold for distinguishing Types A and B state projects was \$267,369.

(B) Findings - Audit of Financial Statements

None.

(C) Findings and Questioned Costs - Major State Project

None.

(D) Other Issues

A Summary Schedule of Prior Audit Findings is not required because there were no prior audit findings related to state projects.

No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.



Management Letter

The Board of Directors
The Florida Orchestra, Inc.:

Report on the Financial Statements

We have audited the financial statements of The Florida Orchestra, Inc. as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated November 9, 2017.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.650, *Rules of the Florida Auditor General*.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance For Each Major State Project and on Internal Control Over Compliance Required by Chapter 10.650, *Rules of the State of Florida Auditor General*, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 9, 2017, should be considered in conjunction with this management letter.

Other Matter

Section 10.654(1)(e), *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements or State project amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of This Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, and other granting agencies, and applicable management, and is not intended and should not be used by anyone other than these specified parties.

MAYER HOFFMAN MCCANN P.C.

November 9, 2017
Clearwater, Florida