

**OREGON SYMPHONY
ASSOCIATION**

**Consolidated
Audited Financial
Statements**

**For the Years Ended
June 30, 2013 and 2012**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA
Shareholder

Susan J. Marks, CPA
Shareholder

Mark A. Clift, CPA
Shareholder

Karin S. Wandtke, CPA
Shareholder

Sang Ahn, CPA
Shareholder

Gerard DeBlois Jr., CPA
Shareholder

Jill Oswald
Shareholder

Mary Strasdin, CPA
Principal

Dennis C. Johnson, CPA
of counsel

To the Board of Directors
Oregon Symphony Association

We have audited the accompanying consolidated financial statements of Oregon Symphony Association (a nonprofit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated 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 organization'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 consolidated financial statements.

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

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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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Symphony Association as of June 30, 2013 and 2012, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobson, P.C.

Portland, Oregon
October 29, 2013

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,884,509	\$ 2,308,796
Accounts receivable	431,581	371,090
Pledges receivable, net	1,074,168	477,395
Prepaid expenses	205,791	219,706
Total current assets	3,596,049	3,376,987
Pledges receivable, net of discount	40,473	78,273
Investments	10,586,630	10,180,290
Music, instruments and equipment, net	245,114	197,363
TOTAL ASSETS	\$ 14,468,266	\$ 13,832,913
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 302,955	\$ 290,483
Deferred revenue	3,192,888	2,863,974
Current portion of charitable gift annuity liability	27,738	27,088
Total current liabilities	3,523,581	3,181,545
Charitable gift annuity liability, less current portion	72,007	71,408
Total liabilities	3,595,588	3,252,953
Net Assets (Deficit):		
Unrestricted:		
Available for general operations	457,774	505,033
Board designated	127,000	37,000
Endowment deficit	(1,372,131)	(1,488,843)
Net music, instruments and equipment	245,114	197,363
Total unrestricted	(542,243)	(749,447)
Temporarily restricted	3,125,923	3,082,958
Permanently restricted	8,288,998	8,246,449
Total net assets	10,872,678	10,579,960
TOTAL LIABILITIES AND NET ASSETS	\$ 14,468,266	\$ 13,832,913

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2013 and 2012

	2013				2012				
	Unrestricted	Board Designated	Temporarily		Unrestricted	Board Designated	Temporarily		Total
			Restricted	Permanently Restricted			Restricted	Permanently Restricted	
Support and revenue:									
Concert income:									
Ticket sales	\$ 6,200,960	\$ -	\$ -	\$ -	\$ 7,136,905	\$ -	\$ -	\$ -	\$ 7,136,905
Grants for performances	192,000	-	-	-	200,000	-	-	-	200,000
Total concert income	6,392,960	-	-	-	7,336,905	-	-	-	7,336,905
Contributed and other income:									
Annual fund, net of pledge discount	5,696,305	90,000	84,206	2,449	5,058,328	-	131,980	400	5,190,708
Special events, net of expenses of \$56,711 in 2013 and \$39,791 in 2012	255,016	-	-	-	243,056	-	-	-	243,056
Grants	241,860	-	-	-	177,116	-	-	-	177,116
Bequests	47,106	-	-	-	552,626	-	-	-	552,626
Donated materials and services	165,932	-	-	-	96,739	-	-	-	96,739
Other income	142,375	-	-	-	79,497	-	-	-	79,497
Net assets released from restriction for operations:									
Annual fund	218,577	-	(218,577)	-	300,973	-	(300,973)	-	-
Released from designation	-	-	-	-	155,000	(155,000)	-	-	-
Endowment distribution-operations	605,717	-	(605,717)	-	651,192	-	(651,192)	-	-
Total contributed income	7,372,888	90,000	(740,088)	2,449	7,314,527	(155,000)	(820,185)	400	6,339,742
Total support and revenue	13,765,848	90,000	(740,088)	2,449	14,651,432	(155,000)	(820,185)	400	13,676,647
Expenses:									
Program services	10,833,082	-	-	-	11,507,150	-	-	-	11,507,150
Management and general	2,080,023	-	-	-	2,282,021	-	-	-	2,282,021
Fundraising	852,251	-	-	-	861,922	-	-	-	861,922
Total expenses	13,765,356	-	-	-	14,651,093	-	-	-	14,651,093
Change in net assets from operations	492	90,000	(740,088)	2,449	339	(155,000)	(820,185)	400	(974,446)
Endowment activity:									
Investment income (loss), net	-	-	939,865	-	-	-	(427,905)	-	(427,905)
Other transfers	116,712	-	(156,812)	40,100	(455,231)	-	412,797	42,434	-
Change in net assets	117,204	90,000	42,965	42,549	(454,892)	(155,000)	(835,293)	42,834	(1,402,351)
Net assets (deficit):									
Beginning of year	(786,447)	37,000	3,082,958	8,246,449	(331,555)	192,000	3,918,251	8,203,615	11,982,311
End of year	\$ (669,243)	\$ 127,000	\$ 3,125,923	\$ 8,288,998	\$ (786,447)	\$ 37,000	\$ 3,082,958	\$ 8,246,449	\$ 10,579,960

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 292,718	\$ (1,402,351)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	38,127	39,346
Contribution restricted for long-term investment	(42,549)	(42,834)
Gain on sale of equipment	(27,222)	-
Realized and unrealized (gains) losses on investments	(890,738)	511,078
Allowance for uncollectible pledges	4,600	(3,600)
Discount on long-term pledges	(2,200)	(3,800)
Donated instruments	(40,000)	(600)
(Increase) decrease in:		
Accounts receivable	(60,491)	(37,037)
Pledges receivable	(561,373)	722,947
Prepaid expenses	13,915	110,694
Increase (decrease) in:		
Accounts payable and accrued expenses	12,472	63,479
Deferred revenue	328,914	(199,472)
Charitable gift annuity liability	1,249	(5,703)
Net cash used in operating activities	(932,578)	(247,853)
Cash flows from investing activities:		
Purchase of investments	(148,942)	(180,625)
Proceeds from sale of investments	633,340	734,113
Proceeds from sale of equipment	28,000	-
Purchases of music, instruments and equipment	(46,656)	(22,225)
Net cash provided by investing activities	465,742	531,263
Cash flows from financing activities:		
Contributions received for permanent endowment	42,549	42,834
Net cash provided by financing activities	42,549	42,834
Net increase (decrease) in cash and cash equivalents	(424,287)	326,244
Cash and cash equivalents - beginning of year	2,308,796	1,982,552
Cash and cash equivalents - end of year	\$ 1,884,509	\$ 2,308,796

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. THE ORGANIZATIONS

Oregon Symphony Association (the Association) (a nonprofit corporation) was originally established in 1896. Its mission is to present concert performances, broadcasts and recordings, incorporating significant works covering a broad range of symphonic repertoire; to assist and encourage music education; and to provide quality music experiences for people of all ages in Oregon, southwest Washington, and northern California.

The Oregon Symphony Foundation (the Foundation) was established July 1, 1996, as a separate corporation. The Foundation's mission is to raise new endowment funds on behalf of the Symphony and to assume fiduciary responsibility for investment of the endowment funds.

The Symphony's primary sources of revenue include ticket sales and contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Oregon Symphony Association and The Oregon Symphony Foundation (collectively, the Symphony). All inter-organization transactions and balances have been eliminated.

Basis of Presentation

The Symphony reports 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.

- Unrestricted net assets represent net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets represent net assets subject to donor-imposed stipulations that may or will be met by actions of the Symphony and/or the passage of time.
- Permanently restricted net assets represent those assets of the Symphony for which the corpus is to remain intact. The income for these assets may be used for purposes specified by the donor.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Symphony considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents held in investment accounts are considered investments.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Symphony is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Bequests are recorded as revenue at the time the Symphony has an established right to the bequest and the proceeds are measurable. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Prepaid Expenses

Prepaid expenses primarily represent costs incurred in advance related to the following season's performances. These costs are recognized as expenses in the season when the performances are presented.

Investments

Investments, including investments held at Oregon Community Foundation, are carried at fair value. Donor-restricted and unrestricted investment income earned on permanently restricted net assets is reported as an increase in temporarily restricted net assets. Investment income is reported as unrestricted in the reporting period if the restriction expires and the amount is appropriated for expenditure. All other donor-restricted investment income is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

Music, Instruments and Equipment

Acquisitions of music, instruments and equipment in excess of \$1,000 are capitalized. Music, instruments and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Depreciation

Depreciation of music, instruments and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 5 to 50 years.

Ticket Sales and Deferred Revenue

Ticket sales are recognized as revenue in the period earned as the related performances are presented. Deferred revenue represents monies collected in advance for ticket sales applicable to the following performance season.

Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Symphony recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2013 and 2012, the Association received approximately \$12,000 and \$9,500, respectively, of donated professional services that have been included in management and general expense.

Advertising

Advertising costs are generally charged to expense when incurred and total approximately \$567,900 and \$595,100 for the years ended June 30, 2013 and 2012, respectively. Total advertising includes donated advertising of approximately \$31,600 and \$26,300 for the years ended June 30, 2013 and 2012, respectively.

Costs for direct-response advertising are capitalized and amortized over the expected period of future benefits. Direct-response advertising consists primarily of direct mail brochures associated with subscription and single ticket sales, and telemarketing efforts. The prepaid costs of the advertising are amortized over the season to which the ticket sales relate. At June 30, 2013 and 2012, prepaid advertising totaled approximately \$9,700 and \$12,500, respectively.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Expense Allocation

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

Income Tax Status

The Association and Foundation are nonprofit corporations exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. No provision for income taxes is made in the accompanying financial statements, as the Organizations have no activities subject to unrelated business income tax. The Association and Foundation are not private foundations.

The Association's and Foundation's information returns for years ended June 30, 2009 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Symphony has evaluated all subsequent events through October 29, 2013, the date the consolidated financial statements were available to be issued.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2013 and 2012 represent unconditional promises to give as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 1,086,668	\$ 485,295
Receivable in one to five years	<u>41,273</u>	<u>81,273</u>
	1,127,941	566,568
Less discount for long-term pledges	800	3,000
Less allowance for uncollectible pledges	<u>12,500</u>	<u>7,900</u>
Pledges receivable, net	<u>\$ 1,114,641</u>	<u>\$ 555,668</u>
Current	\$ 1,074,168	\$ 477,395
Long-term	<u>40,473</u>	<u>78,273</u>
Total pledges receivable	<u>\$ 1,114,641</u>	<u>\$ 555,668</u>

Long-term pledges are discounted to present value using a discount rate of 4.0%.

At June 30, 2013, 56% of total pledges are due from two donors (45% of total pledges are due from two donors at June 30, 2012).

4. INVESTMENTS

Investments at June 30, 2013 and 2012 are carried at fair value and consist of the following:

	<u>2013</u>	<u>2012</u>
Cash and equivalents	\$ 4,754	\$ 2,295
Common stock	74,698	83,604
Corporate bonds	33,456	36,591
Insurance policies	688,390	663,190
Beneficial interest in assets held by Oregon		
Community Foundation	<u>9,785,332</u>	<u>9,394,610</u>
Total investments	<u>\$ 10,586,630</u>	<u>\$ 10,180,290</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

4. INVESTMENTS, Continued

The Symphony's donor-restricted endowments are invested with The Oregon Community Foundation (OCF) in seven individual endowment funds. Under the terms of the agreements, variance power has been granted to OCF, however, the Symphony is the beneficiary of the funds and the transfer is reciprocal in nature. Accordingly, OCF recognizes the funds as liabilities on its statement of financial position. The Symphony receives distributions based on the provisions of the agreement with OCF.

Investment income (loss) for the years ended June 30, 2013 and 2012 consists of:

	2013	2012
Endowment earnings:		
Interest and dividends	\$ 100,722	\$ 139,485
Net realized/unrealized gains (losses)	904,015	(484,910)
Investment expenses	(50,747)	(54,036)
Total endowment earnings	953,990	(399,461)
Change in value of charitable gift annuities and other investments	(14,125)	(28,444)
Investment income (loss), net	\$ 939,865	\$ (427,905)

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

5. MUSIC, INSTRUMENTS AND EQUIPMENT

Music, instruments and equipment consist of the following at June 30, 2013 and 2012:

	2013	2012
Music, instruments and orchestra equipment	\$ 537,554	\$ 461,565
Office furniture and equipment	683,507	677,007
	1,221,061	1,138,572
Less accumulated depreciation	975,947	941,209
Music, instruments and equipment, net	\$ 245,114	\$ 197,363

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

6. ASSETS HELD IN CHARITABLE GIFT ANNUITIES

The Symphony has entered into charitable gift annuity agreements with various donors. Under the agreements, the Symphony is required to pay a guaranteed amount (annuity) for the lifetime of the donor or beneficiary (annuitant). Unless restricted by the donor, the remainder is placed in the Board designated fund for endowment.

The Symphony's charitable gift annuity funds are held in a separate trust, which is managed in accordance with the trust's investment policy. Assets are invested in marketable securities and totaled \$112,908 and \$122,490 at June 30, 2013 and 2012, respectively.

As trustee, the Symphony is obligated to make annuity payments under 5 charitable gift annuity agreements to 4 annuitants. Under the terms of the agreements, the donors receive payments over the donors' remaining lives. Using a discount rates of 1.0% to 5.4%, the estimated present value of the Symphony's liability under these agreements is \$99,745 and \$98,496 at June 30, 2013 and 2012, respectively.

	2013	2012
Current annuity agreement liability	\$ 27,738	\$ 27,088
Non-current annuity agreement liability	72,007	71,408
Total charitable gift annuity	\$ 99,745	\$ 98,496

7. BOARD DESIGNATED NET ASSETS

During the year ended June 30, 2012, the Board designated \$37,000 of unrestricted net assets for use in future operations. During the year ended June 30, 2013, the Board designated an additional \$90,000 of unrestricted net assets for use in future operations. Board designated net assets at June 30, 2013 totaled \$127,000.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012:

	2013	2012
Annual fund pledges	\$ 162,923	\$ 300,588
Charitable gift annuities	13,163	23,994
Accumulated endowment earnings (Note 14)	2,949,837	2,758,376
Total temporarily restricted net assets	\$ 3,125,923	\$ 3,082,958

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2013 and 2012 consist of endowment funds which totaled \$8,288,998 and \$8,246,449, respectively. The income earned on investments includes both earnings restricted by donors for specific purposes and unrestricted earnings available for general operations. Unexpended endowment income is reported as temporarily restricted net assets. See Note 14 for additional information.

10. RETIREMENT PLAN

The Symphony is obligated to contribute to a retirement plan for union employees through the American Federation of Musicians. Monthly contributions made are based on a percent of musicians' salaries. Contributions to the plan for 2013 and 2012 totaled \$216,817 and \$211,729, respectively. Additionally, musicians who were employed by the Symphony prior to the 1972/73 season, who retire in accordance with the union provisions, are entitled to an additional retirement payment. The provision is fully funded at the estimated maximum liability.

11. LEASE COMMITMENTS

The Symphony leases its office under a lease agreement originally expiring August 2015 for base monthly rent of \$14,476 with annual increases of approximately 2.4%. The lease was renegotiated during the year ended June 30, 2013. Monthly rent starting July 1, 2013 is \$16,704 with annual increases of approximately 2.5%.

The Symphony leases certain equipment under two noncancelable operating leases expiring December 2014 and November 2016.

Lease expense under these agreements for the years ended June 30, 2013 and 2012 approximated \$228,500 and \$221,700, respectively.

Total minimum future lease payments are as follows:

For the year ending June 30, 2014	\$ 240,100
2015	245,200
2016	234,800
2017	217,700
2018	223,100
Thereafter	<u>37,800</u>
	<u>\$ 1,198,700</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

12. CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Symphony maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$1,271,000 as of June 30, 2013. Cash balances at June 30, 2012 were fully insured.

13. RELATED PARTY TRANSACTIONS

Three members of the permanent orchestra were also members of the Board of Directors during the years ended June 30, 2013 and 2012. The Symphony received donated legal services totaling approximately \$12,000 and \$9,500 during the years ended June 30, 2013 and 2012, respectively, from a firm where a board member is employed. During the fiscal year ended June 30, 2012, the Symphony paid the orchestra approximately \$190,000 for guest performances to a performer (a board member of the Association) and his orchestra. Additionally, the Symphony utilizes banking services from a bank where a board member is employed.

14. ENDOWMENT

At June 30, 2013, the Foundation's endowment consists of donor-restricted funds which are held at Oregon Community Foundation. As required by U.S. generally accepted accounting principles (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.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted Oregon's enacted Uniform Prudent Management of Institutional Funds Act (the Act or UPMIFA) 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by the Act.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

14. ENDOWMENT, Continued

In accordance with UPMIFA, the Foundation 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 Foundation 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 Foundation
- (7) The investment policies of the Foundation

Endowment net asset composition by type of fund as of June 30, 2013 and 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2013				
Donor-restricted - endowment funds	<u>\$ (1,372,131)</u>	<u>\$ 2,949,837</u>	<u>\$ 8,288,998</u>	<u>\$ 9,866,704</u>
June 30, 2012				
Donor-restricted - endowment funds	<u>\$ (1,488,843)</u>	<u>\$ 2,758,376</u>	<u>\$ 8,246,449</u>	<u>\$ 9,515,982</u>

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
- June 30, 2012	<u>\$ (1,488,843)</u>	<u>\$ 2,758,376</u>	<u>\$ 8,246,449</u>	<u>\$ 9,515,982</u>
Investment income, net of fees	-	49,975	-	49,975
Net appreciation	-	904,015	-	904,015
Contributions	-	-	2,449	2,449
Appropriation of endowment assets for expenditure	-	(605,717)	-	(605,717)
Transfers	-	(40,100)	40,100	-
Endowment deficit	<u>116,712</u>	<u>(116,712)</u>	<u>-</u>	<u>-</u>
Total changes	<u>116,712</u>	<u>191,461</u>	<u>42,549</u>	<u>350,722</u>
Endowment net assets				
- June 30, 2013	<u>\$ (1,372,131)</u>	<u>\$ 2,949,837</u>	<u>\$ 8,288,998</u>	<u>\$ 9,866,704</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

14. ENDOWMENT, Continued

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets				
- June 30, 2011	\$ (1,033,612)	\$ 3,396,526	\$ 8,203,615	\$ 10,566,529
Investment income, net of fees	-	85,449	-	85,449
Net depreciation	-	(484,910)	-	(484,910)
Contributions	-	4,706	400	5,106
Appropriation of endowment assets for expenditure	-	(651,192)	-	(651,192)
Transfers	-	(47,434)	42,434	(5,000)
Endowment deficit	(455,231)	455,231	-	-
Total changes	<u>(455,231)</u>	<u>(638,150)</u>	<u>42,834</u>	<u>(1,050,547)</u>
Endowment net assets				
- June 30, 2012	<u>\$ (1,488,843)</u>	<u>\$ 2,758,376</u>	<u>\$ 8,246,449</u>	<u>\$ 9,515,982</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature totaled \$1,372,131 and \$1,488,843 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred and continued appropriation for certain programs that was deemed prudent by the Board of Directors and have been included as a reduction of temporarily restricted net assets.

Return Objectives and Risk Parameters

The Foundation 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 Foundation 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 funds with the Oregon Community Foundation (Note 4).

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

14. ENDOWMENT, Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has adopted Oregon Community Foundation's (OCF) policy of appropriating for distribution each year calculated in accordance with OCF's grant percentage payout policies for permanent funds. In establishing this policy, the Foundation considered the long term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

15. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statements of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

15. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets and liabilities measured on a recurring basis at June 30, 2013 and 2012 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2013</u>			
Assets:			
Investments - common stock	\$ 74,698	\$ -	\$ -
Investments - corporate bonds	33,456	-	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	9,785,332
Investments - cash value of life insurance	-	688,390	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(99,745)
<u>June 30, 2012</u>			
Assets:			
Investments - common stock	83,604	-	-
Investments - corporate bonds	36,591	-	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	9,394,610
Investments - cash value of life insurance	-	663,190	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(98,496)

Fair values for investments in marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions.

Fair values for investments held by others (OCF) which are invested in co-mingled trusts and pooled funds, are based on the net asset value per unit as provided by the fund custodians, using a market approach.

Fair values for the cash value of life insurance policies are based on the stated cash value of the policy as provided by the insurer, using a market approach.

Fair values for the obligations under charitable gift annuities are determined by calculating the present value of the future distributions to be made using published life expectancy tables and a discount rate of 1.0%-5.4%, using an income approach.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2013 and 2012

15. FAIR VALUE MEASUREMENTS, Continued

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Investments at OCF:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 9,394,610	\$ 10,402,429
Earnings, net of fees	49,975	85,449
Change in value	904,015	(484,910)
Contributions	42,449	42,834
Disbursements	<u>(605,717)</u>	<u>(651,192)</u>
Balance at end of year	<u>\$ 9,785,332</u>	<u>\$ 9,394,610</u>

Earning, net of fees and the change in value are included in temporarily restricted net assets in the statements of activities.

Obligation under charitable gift annuities:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ (98,496)	\$ (104,199)
Contributions	(10,000)	-
Payments to beneficiaries	27,623	27,088
Change in value of remaining obligation (in temporarily restricted net assets)	<u>(18,872)</u>	<u>(21,385)</u>
Balance at end of year	<u>\$ (99,745)</u>	<u>\$ (98,496)</u>

16. OTHER COMMITMENTS

The Symphony has entered into a contract with the current Artistic Director through June 30, 2015. Subsequent to year-end, the contract was extended to June 30, 2018. Additionally, the Symphony has entered into contracts and agreements with various artists and a concert hall for performances during the fiscal year ending June 30, 2014.

The Symphony maintains a collective bargaining agreement for musicians. This agreement expires August 26, 2014.