

**OREGON SYMPHONY
ASSOCIATION**

**Consolidated
Audited Financial
Statements**

**For the Years Ended
June 30, 2011 and 2010**



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

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The Board of Directors
Oregon Symphony Association
Portland, Oregon

We have audited the accompanying consolidated statements of financial position of Oregon Symphony Association and The Oregon Symphony Foundation (the Symphony) (a nonprofit corporation) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Symphony's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Symphony's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Oregon Symphony Association and The Oregon Symphony Foundation as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobs, P.C.

October 25, 2011

Strength in Numbers

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OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,982,552	\$ 2,314,847
Accounts receivable	334,053	461,224
Pledges receivable, net	1,156,349	1,376,950
Prepaid expenses	330,400	296,385
Total current assets	3,803,354	4,449,406
Noncurrent Assets:		
Pledges receivable, net of discount	114,866	315,229
Investments	11,244,856	9,780,696
Music, instruments and equipment, net	213,884	223,385
TOTAL ASSETS	\$ 15,376,960	\$ 14,768,716
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 227,004	\$ 209,292
Deferred revenue	3,063,446	3,310,271
Current portion of charitable gift annuity liability	26,931	27,393
Total current liabilities	3,317,381	3,546,956
Charitable gift annuity liability, less current portion	77,268	77,355
Total liabilities	3,394,649	3,624,311
Net Assets (Deficit):		
Unrestricted:		
Available for general operations	488,173	521,652
Board designated	192,000	480,000
Endowment deficit	(1,033,612)	(1,635,157)
Net music, instruments and equipment	213,884	223,385
Total unrestricted	(139,555)	(410,120)
Temporarily restricted	3,918,251	3,432,610
Permanently restricted	8,203,615	8,121,915
Total net assets	11,982,311	11,144,405
TOTAL LIABILITIES AND NET ASSETS	\$ 15,376,960	\$ 14,768,716

See notes to financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2011 and 2010

	2011					2010				
	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:										
Concert income:										
Ticket sales	\$ 6,305,711	\$ -	\$ -	\$ -	\$ 6,305,711	\$ 5,677,905	\$ -	\$ -	\$ -	\$ 5,677,905
Grants for performances	192,000	-	-	-	192,000	200,000	-	-	-	200,000
Total concert income	<u>6,497,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,497,711</u>	<u>5,877,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,877,905</u>
Contributed income:										
Annual fund, net of pledge discount	4,843,293	-	443,674	40,700	5,327,667	4,915,060	-	125,089	7,350	5,047,499
Special events	249,194	-	-	-	249,194	93,000	-	128,124	-	221,124
Grants	237,616	-	-	-	237,616	217,566	-	-	-	217,566
Bequests	328,494	-	-	-	328,494	745,529	480,000	-	-	1,225,529
Donated materials and services	104,314	-	-	-	104,314	413,780	-	-	-	413,780
Other income	87,571	-	-	-	87,571	-	-	-	-	-
Net assets released from restriction for operations:										
Annual fund	557,824	-	(557,824)	-	-	364,820	-	(364,820)	-	-
Released from designation	288,000	(288,000)	-	-	-	-	-	-	-	-
Endowment distribution-operations	703,537	-	(703,537)	-	-	1,099,494	-	(1,099,494)	-	-
Total contributed income	<u>7,399,843</u>	<u>(288,000)</u>	<u>(817,687)</u>	<u>40,700</u>	<u>6,334,856</u>	<u>7,849,249</u>	<u>480,000</u>	<u>(1,211,101)</u>	<u>7,350</u>	<u>7,125,498</u>
Expenses:										
Program services	10,871,196	-	-	-	10,871,196	10,759,823	-	-	-	10,759,823
Management and general	2,355,161	-	-	-	2,355,161	2,256,944	-	-	-	2,256,944
Fundraising	671,029	-	-	-	671,029	709,824	-	-	-	709,824
Total expenses	<u>13,897,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,897,386</u>	<u>13,726,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,726,591</u>
Change in net assets from operations	168	(288,000)	(817,687)	40,700	(1,064,819)	563	480,000	(1,211,101)	7,350	(723,188)
Endowment activity:										
Investment income, net	-	-	1,902,725	-	1,902,725	-	2,793	1,010,883	-	1,013,676
Endowment distribution	-	-	-	-	-	9,995,154	(9,621,008)	(374,146)	-	-
Donor released funds	-	-	-	-	-	-	1,172,500	-	(1,172,500)	-
Other transfers	558,397	-	(599,397)	41,000	-	(1,635,157)	-	1,635,157	-	-
Change in net assets	558,565	(288,000)	485,641	81,700	837,906	8,360,560	(7,965,715)	1,060,793	(1,165,150)	290,488
Net assets (deficit):										
Beginning of year	<u>(890,120)</u>	<u>480,000</u>	<u>3,432,610</u>	<u>8,121,915</u>	<u>11,144,405</u>	<u>(9,250,680)</u>	<u>8,445,715</u>	<u>2,371,817</u>	<u>9,287,065</u>	<u>10,853,917</u>
End of year	<u>\$ (331,555)</u>	<u>\$ 192,000</u>	<u>\$ 3,918,251</u>	<u>\$ 8,203,615</u>	<u>\$ 11,982,311</u>	<u>\$ (890,120)</u>	<u>\$ 480,000</u>	<u>\$ 3,432,610</u>	<u>\$ 8,121,915</u>	<u>\$ 11,144,405</u>

See notes to financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 837,906	\$ 290,488
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	40,839	53,955
Contribution restricted for long-term investment	(40,700)	(7,350)
Gain on sale of equipment	-	2,820
Realized and unrealized gains on investments	(1,851,977)	(961,415)
Allowance for uncollectible pledges	(23,023)	17,063
Discount on long-term pledges	(12,100)	(20,200)
Donated instruments	(5,000)	-
(Increase) decrease in:		
Accounts receivable	127,171	(85,727)
Pledges receivable	456,087	(817,524)
Prepaid expenses	(34,015)	92,047
Increase (decrease) in:		
Accounts payable and accrued expenses	17,712	(617,240)
Deferred revenue	(246,825)	373,452
Charitable gift annuity liability	(549)	(9,106)
Net cash used in operating activities	(734,474)	(1,688,737)
Cash flows from investing activities:		
Purchase of investments	(315,720)	(1,179,942)
Proceeds from sale of investments	703,537	11,838,030
Proceeds from sale of equipment	-	4,000
Purchases of music, instruments and equipment	(26,338)	(17,422)
Net cash provided by investing activities	361,479	10,644,666
Cash flows from financing activities:		
Repayments on short-term debt	-	(7,000,000)
Contributions received for permanent endowment	40,700	7,350
Net cash provided by (used in) financing activities	40,700	(6,992,650)
Net increase (decrease) in cash and cash equivalents	(332,295)	1,963,279
Cash and cash equivalents - beginning of year	2,314,847	351,568
Cash and cash equivalents - end of year	\$ 1,982,552	\$ 2,314,847
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ -	\$ 28,559

See notes to financial statements.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011 and 2010

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.

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, 2011 and 2010

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.

Advertising

Advertising costs are generally charged to expense when incurred and total approximately \$609,600 and \$596,000 for the years ended June 30, 2011 and 2010, respectively. Total advertising includes donated advertising of approximately \$41,000 and \$325,000 for the years ended June 30, 2011 and 2010, 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 capitalized costs of the advertising are amortized over the season to which the ticket sales relate.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

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 Symphony is a nonprofit corporation 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 Symphony has no activities subject to unrelated business income tax. The Symphony is not a private foundation.

Management believes that the Association's and Foundation's information returns for years ended June 30, 2007 and prior are 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 25, 2011, the date the financial statements were available to be issued.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2011 and 2010 represent unconditional promises to give as follows:

	2011	2010
Receivable in less than one year	\$ 1,167,849	\$ 1,411,473
Receivable in one to five years	121,666	334,129
	1,289,515	1,745,602
Less discount on pledges due in more than one year	6,800	18,900
Less allowance for uncollectible pledges	11,500	34,523
Net pledges receivable	\$ 1,271,215	\$ 1,692,179
Current pledges	\$ 1,156,349	\$ 1,376,950
Long-term pledges	114,866	315,229
Total pledges receivable	\$ 1,271,215	\$ 1,692,179

Long-term contributions receivable have been discounted to present value using discount rates ranging from 2.5 to 4.0%.

At June 30, 2011, 73% of pledges were due from three donors (52% was due from two donors at June 30, 2010).

The Symphony has two pledges receivable totaling \$2,063,500 that are contingent upon meeting certain conditions and accordingly, are not recorded at June 30, 2011. These pledges will be recorded as revenue when the conditions are met.

4. INVESTMENTS

Investments at June 30, 2011 and 2010 are carried at fair value and consist of the following:

	2011	2010
Cash and commercial paper	\$ 2,915	\$ 2,705
Common stock	96,311	90,660
Corporate bonds	57,410	51,868
Insurance policies	685,791	644,955
Beneficial interest in assets held by Oregon Community Foundation	10,402,429	8,990,508
Total investments	\$ 11,244,856	\$ 9,780,696

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

4. INVESTMENTS, Continued

In May 2008, the Board of Directors established the Oregon Symphony Association Endowment Fund of The Oregon Community Foundation (OCF). In January 2010, the Board of Directors established six additional Endowment Funds of OCF. 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 fund as liabilities on its statement of financial position. The Symphony receives distributions based on the provisions of the agreement with OCF.

Investment income consists of:

	2011	2010
Interest and dividends	\$ 106,743	\$ 126,231
Net realized and unrealized gains	1,851,977	961,415
Investment expenses	(55,995)	(73,970)
Investment income, net	\$ 1,902,725	\$ 1,013,676

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, 2011 and 2010:

	2011	2010
Music, instruments and orchestra equipment	\$ 440,149	\$ 423,785
Office furniture and equipment	675,598	660,624
	1,115,747	1,084,409
Less accumulated depreciation	901,863	861,024
Music, instruments and equipment, net	\$ 213,884	\$ 223,385

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

6. LINE OF CREDIT

The Symphony had a revolving line of credit up to \$8,500,000 with interest payable monthly. The loan included an interest rate option at LIBOR. The line was secured by investments and was subject to certain financial and non-financial covenants. The Foundation was a guarantor. During the year ended June 30, 2010, the board resolved to utilize board designated funds to pay off the outstanding balance of \$7,000,000 and close the account.

Interest expense totaled \$28,559 for the year ended June 30, 2010.

7. 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 \$156,637 and \$145,233 at June 30, 2011 and 2010, respectively.

As trustee, the Symphony is obligated to make annuity payments under 4 charitable gift annuity agreements to 3 annuitants (3 annuity agreements for 2 annuitants in 2010). Under the terms of the agreements, the donors receive payments over the donors' remaining lives. Using a discount rate of 4.5%, the estimated present value of the Symphony's liability under these agreements is \$104,199 and \$104,748 at June 30, 2011 and 2010, respectively.

	2011	2010
Current annuity agreement liability	\$ 26,931	\$ 27,393
Non-current annuity agreement liability	77,268	77,355
Total charitable gift annuity liability	\$ 104,199	\$ 104,748

8. BOARD DESIGNATED NET ASSETS

As of June 30, 2011 and 2010, the Board designated \$192,000 and \$480,000, respectively, of unrestricted net assets for use in future operations.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2011 and 2010:

	2011	2010
Annual fund pledges	\$ 633,387	\$ 759,490
Charitable gift annuities	52,438	40,485
Accumulated endowment earnings (Note 15)	3,232,426	2,632,635
Total temporarily restricted net assets	\$ 3,918,251	\$ 3,432,610

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2011 and 2010 totaled \$8,203,615 and \$8,121,915, respectively. Unexpended endowment income is reported as temporarily restricted net assets. See Note 15 for additional information.

During the year ended June 30, 2010, the Symphony was notified by two donors that the permanent restrictions on prior contributions totaling \$1,172,500 had been removed.

11. 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 2011 and 2010 totaled \$190,776 and \$175,260, 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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

12. LEASE COMMITMENTS

The Symphony leases its office under a lease agreement expiring September 2010 for base monthly rent of \$17,120 with annual increases of 2%. The Symphony renewed this lease with an amendment which will expire August 2015. Base monthly rent is \$14,476 with annual increases of approximately 2.4%.

The Symphony leases certain equipment under two noncancelable operating leases expiring December 2014 and May 2015.

Lease expense under these agreements for the years ended June 30, 2011 and 2010 approximated \$221,700 and \$235,200, respectively.

Total minimum future lease payments are as follows:

For the year ending June 30, 2012	\$ 222,600
2013	225,700
2014	214,800
2015	212,500
2016	<u>37,800</u>
	\$ <u>913,400</u>

13. 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. Additional coverage is available from December 31, 2010 through December 31, 2012 for noninterest bearing accounts. The balances, at times, may exceed the federally insured limit. There were no uninsured balances at June 30, 2011. As of June 30, 2010 the Symphony's uninsured cash balances approximated \$2,033,000.

14. RELATED PARTY TRANSACTIONS

A board member provided artistic services to the Symphony as a guest performer. During the fiscal year ended June 30, 2011, the Symphony paid him approximately \$20,000 for performances. Additionally, three members of the permanent orchestra were also members of the Board of Directors during the years ended June 30, 2011 and 2010.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

15. ENDOWMENT

At June 30, 2011, the Foundation's endowment consists of 7 individual funds established for a variety of purposes, including funds held at Oregon Community Foundation. Its endowment includes only donor-restricted endowment funds at June 30, 2011 and 2010. 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. 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

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

15. ENDOWMENT, Continued

Endowment net asset composition by type of fund as of June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2011				
Donor-restricted - endowment funds	<u>\$ (1,033,612)</u>	<u>\$ 3,232,426</u>	<u>\$ 8,203,615</u>	<u>\$ 10,402,429</u>
June 30, 2010				
Donor-restricted - endowment funds	<u>\$ (1,635,157)</u>	<u>\$ 2,632,635</u>	<u>\$ 8,121,915</u>	<u>\$ 9,119,393</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - June 30, 2010	<u>\$ (1,635,157)</u>	<u>\$ 2,632,635</u>	<u>\$ 8,121,915</u>	<u>\$ 9,119,393</u>
Investment income, net of fees	-	50,748	-	50,748
Net appreciation and other changes	-	1,854,125	-	1,854,125
Contributions	-	-	40,700	40,700
Appropriation of endowment assets for expenditure	-	(703,537)	-	(703,537)
Transfers	-	-	41,000	41,000
Endowment deficit	<u>601,545</u>	<u>(601,545)</u>	<u>-</u>	<u>-</u>
Total changes	<u>601,545</u>	<u>599,791</u>	<u>81,700</u>	<u>1,283,036</u>
Endowment net assets - June 30, 2011	<u>\$ (1,033,612)</u>	<u>\$ 3,232,426</u>	<u>\$ 8,203,615</u>	<u>\$ 10,402,429</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

15. ENDOWMENT, Continued

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets					
- June 30, 2009	\$ -	\$ 8,445,715	\$ 1,460,235	\$ 9,287,065	\$ 19,193,015
Investment income, net of fees	-	251	52,009	-	52,260
Net appreciation and other changes	-	2,542	958,874	-	961,416
Contributions	-	-	-	7,350	7,350
Donor released restrictions	-	175,022	997,478	(1,172,500)	-
Appropriation of endowment assets for expenditure	-	(8,623,530)	(2,471,118)	-	(11,094,648)
Endowment deficit	<u>(1,635,157)</u>	<u>-</u>	<u>1,635,157</u>	<u>-</u>	<u>-</u>
Total changes	<u>(1,635,157)</u>	<u>(8,445,715)</u>	<u>1,172,400</u>	<u>(1,165,150)</u>	<u>(10,073,622)</u>
Endowment net assets					
- June 30, 2010	<u>\$ (1,635,157)</u>	<u>\$ -</u>	<u>\$ 2,632,635</u>	<u>\$ 8,121,915</u>	<u>\$ 9,119,393</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 \$1,033,612 and \$1,635,157 as of June 30, 2011 and 2010, 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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

15. ENDOWMENT, Continued

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 a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In fiscal year ending 2011, the Foundation adopted Oregon Community Foundation's (OCF) policy of appropriating for distribution each year 6 percent of its endowment fund's fair market value, 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% percent 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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

16. 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.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2011:</u>			
Assets:			
Investments - Common stock	\$ 96,311	-	-
Investments - Corporate bonds	57,410	-	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	10,402,429
Investments - cash value of life insurance	-	685,791	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(104,199)
<u>June 30, 2010:</u>			
Assets:			
Investments - Common stock	90,660	-	-
Investments - Corporate bonds	51,868	-	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	8,990,508
Investments - cash value of life insurance	-	644,955	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(104,748)

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2011 and 2010

16. FAIR VALUE MEASUREMENTS, Continued

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

Investments held at OCF in pooled funds are valued at the net asset per unit as provided by OCF trustees. Net asset value is based on fair value of the underlying assets of the funds using quoted market prices when available.

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.

The obligations under split interest agreements is determined by calculating the present value of the future distributions to be made using published life expectancy tables and a 4.5% discount rate.

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

Investments at OCF:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 8,990,508	4,258,563
Earnings, net of fees	57,883	52,298
Net realized and unrealized	1,846,936	461,304
Transfers in	210,639	4,550,506
Distributions	<u>(703,537)</u>	<u>(332,163)</u>
Balance at end of year	\$ <u>10,402,429</u>	\$ <u>8,990,508</u>

Total gains or losses are included in temporarily restricted net assets for the year. The change in unrealized gains relating to assets held total \$1,719,540 and \$1,326,991 at June 30, 2011 and 2010, respectively.

Obligation under charitable gift annuities:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ (104,748)	\$ (113,854)
Contributions	(20,000)	-
Payments to beneficiaries	32,488	27,393
Change in value of remaining obligation included in temporarily restricted net assets	<u>(11,939)</u>	<u>(18,287)</u>
Balance at end of year	\$ <u>(104,199)</u>	\$ <u>(104,748)</u>