

OREGON SYMPHONY ASSOCIATION

Consolidated Audited Financial Statements

For the Years Ended June 30, 2017 and 2016



MCDONALD JACOBS

INDEPENDENT AUDITOR'S REPORT

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 consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated 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. 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, 2017 and 2016, and 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 Jacobson, P.C.

Portland, Oregon
November 14, 2017

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,215,582	\$ 2,417,983
Accounts receivable	378,767	328,661
Pledges receivable, net	1,610,474	953,685
Prepaid expenses	418,003	320,061
Total current assets	4,622,826	4,020,390
Pledges receivable - noncurrent	827,010	142,740
Investments	11,003,534	10,364,412
Music, instruments and equipment, net	817,555	672,254
TOTAL ASSETS	\$ 17,270,925	\$ 15,199,796
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 434,840	\$ 409,703
Deferred revenue	3,725,089	3,891,698
Current portion of charitable gift annuity liability	1,800	1,800
Total current liabilities	4,161,729	4,303,201
Charitable gift annuity liability, less current portion	13,470	12,243
Total liabilities	4,175,199	4,315,444
Net Assets (Deficit):		
Unrestricted:		
Available for general operations	(112,622)	32,051
Board designated	434,000	309,000
Endowment deficit	(1,364,500)	(1,589,489)
Net music, instruments and equipment	817,555	672,254
Total unrestricted	(225,567)	(576,184)
Temporarily restricted	4,734,796	2,921,283
Permanently restricted	8,586,497	8,539,253
Total net assets	13,095,726	10,884,352
TOTAL LIABILITIES AND NET ASSETS	\$ 17,270,925	\$ 15,199,796

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:					
Concert income:					
Ticket sales	\$ 9,624,820	\$ -	\$ -	\$ -	\$ 9,624,820
Grants for performances	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,000</u>
Total concert income	<u>9,814,820</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,814,820</u>
Contributed and other income:					
Annual fund, net of pledge discount	5,685,514	125,000	1,956,000	47,244	7,813,758
Special events, net of expenses of \$84,753	847,626	-	-	-	847,626
Grants	419,142	-	-	-	419,142
Bequests	486,835	-	-	-	486,835
Donated materials and services	154,730	-	-	-	154,730
Other income	74,564	-	-	-	74,564
Net assets released from restriction for operations:					
Annual fund	491,073	-	(491,073)	-	-
Released from designation	-	-	-	-	-
Endowment distribution-operations	<u>623,623</u>	<u>-</u>	<u>(623,623)</u>	<u>-</u>	<u>-</u>
Total contributed income	<u>8,783,107</u>	<u>125,000</u>	<u>841,304</u>	<u>47,244</u>	<u>9,796,655</u>
Total support and revenue	<u>18,597,927</u>	<u>125,000</u>	<u>841,304</u>	<u>47,244</u>	<u>19,611,475</u>
Expenses:					
Program services	14,735,821	-	-	-	14,735,821
Management and general	2,773,131	-	-	-	2,773,131
Fundraising	<u>1,088,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,088,347</u>
Total expenses	<u>18,597,299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,597,299</u>
Change in net assets from operations	628	125,000	841,304	47,244	1,014,176
Endowment and non-operating activity:					
Investment income, net	-	-	1,197,198	-	1,197,198
Other transfers	<u>224,989</u>	<u>-</u>	<u>(224,989)</u>	<u>-</u>	<u>-</u>
Change in net assets	225,617	125,000	1,813,513	47,244	2,211,374
Net assets (deficit):					
Beginning of year	<u>(885,184)</u>	<u>309,000</u>	<u>2,921,283</u>	<u>8,539,253</u>	<u>10,884,352</u>
End of year	<u>\$ (659,567)</u>	<u>\$ 434,000</u>	<u>\$ 4,734,796</u>	<u>\$ 8,586,497</u>	<u>\$ 13,095,726</u>

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended 2016

	<u>Unrestricted</u>	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:					
Concert income:					
Ticket sales	\$ 8,062,682	\$ -	\$ -	\$ -	\$ 8,062,682
Grants for performances	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,000</u>
Total concert income	<u>8,252,682</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,252,682</u>
Contributed and other income:					
Annual fund, net of pledge discount	5,492,590	-	348,292	185,154	6,026,036
Special events, net of expenses of \$67,361	718,908	-	-	-	718,908
Grants	576,008	-	-	-	576,008
Bequests	467,035	-	-	-	467,035
Donated materials and services	162,302	-	-	-	162,302
Other income	53,852	-	-	-	53,852
Net assets released from restriction for operations:					
Annual fund	6,120	-	(6,120)	-	-
Released from designation	322,000	(322,000)	-	-	-
Endowment distribution-operations	<u>614,660</u>	<u>-</u>	<u>(614,660)</u>	<u>-</u>	<u>-</u>
Total contributed income	<u>8,413,475</u>	<u>(322,000)</u>	<u>(272,488)</u>	<u>185,154</u>	<u>8,004,141</u>
Total support and revenue	<u>16,666,157</u>	<u>(322,000)</u>	<u>(272,488)</u>	<u>185,154</u>	<u>16,256,823</u>
Expenses:					
Program services	13,071,303	-	-	-	13,071,303
Management and general	2,641,583	-	-	-	2,641,583
Fundraising	<u>952,889</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>952,889</u>
Total expenses	<u>16,665,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,665,775</u>
Change in net assets from operations	382	(322,000)	(272,488)	185,154	(408,952)
Endowment and non-operating activity:					
Investment loss, net	-	-	(318,613)	-	(318,613)
Other transfers	<u>(354,372)</u>	<u>-</u>	<u>354,372</u>	<u>-</u>	<u>-</u>
Change in net assets	(353,990)	(322,000)	(236,729)	185,154	(727,565)
Net assets (deficit):					
Beginning of year	<u>(531,194)</u>	<u>631,000</u>	<u>3,158,012</u>	<u>8,354,099</u>	<u>11,611,917</u>
End of year	<u>\$ (885,184)</u>	<u>\$ 309,000</u>	<u>\$ 2,921,283</u>	<u>\$ 8,539,253</u>	<u>\$ 10,884,352</u>

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 2,211,374	\$ (727,565)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	73,678	54,322
Contribution restricted for long-term investment	(47,244)	(185,154)
Realized and unrealized (gain) loss on investments and change in value of charitable gift annuities	(1,183,461)	358,370
Gain on sale of equipment	(4,490)	-
Allowance for uncollectible pledges	13,440	8,130
Discount on long-term pledges	13,390	-
Donated music and instruments	-	(13,900)
(Increase) decrease in:		
Accounts receivable	(50,106)	(96,092)
Pledges receivable	(1,367,889)	(616,326)
Prepaid expenses	(97,942)	(33,746)
Increase (decrease) in:		
Accounts payable and accrued expenses	25,137	105,583
Deferred revenue	(166,609)	521,594
Charitable gift annuity liability	1,227	(591)
Net cash used in operating activities	(579,495)	(625,375)
Cash flows from investing activities:		
Purchase of investments	(81,084)	(263,132)
Proceeds from sale of investments	625,423	616,460
Proceeds from sale of equipment	8,000	-
Purchases of music, instruments and equipment	(222,489)	(135,779)
Net cash provided by investing activities	329,850	217,549
Cash flows from financing activities:		
Contributions received for permanent endowment	47,244	185,154
Net cash provided by financing activities	47,244	185,154
Net decrease in cash and cash equivalents	(202,401)	(222,672)
Cash and cash equivalents - beginning of year	2,417,983	2,640,655
Cash and cash equivalents - end of year	\$ 2,215,582	\$ 2,417,983

See notes to consolidated financial statements.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

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.

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 or the Organizations). 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 based on the existence or absence of donor-imposed restrictions: 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.

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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 pledges 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.

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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, 2017 and 2016, the Association received approximately \$28,300 and \$29,900, 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 \$943,200 and \$787,800 for the years ended June 30, 2017 and 2016, respectively. Total advertising includes donated advertising of approximately \$52,200 and \$40,200 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, prepaid advertising totaled approximately \$53,500 and \$34,500, respectively.

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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 consolidated financial statements, as the Organizations have no activities subject to unrelated business income tax. The Association and Foundation are not private foundations.

The Organizations follow the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organizations' tax positions and concluded that there are no uncertain tax positions that require adjustment to the consolidated financial statements to comply with provisions of this Topic.

Use of Estimates

The preparation of consolidated 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 consolidated 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 November 14, 2017, the date the consolidated financial statements were available to be issued.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2017 and 2016 represent unconditional promises to give as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 1,647,144	\$ 976,915
Receivable in one to five years	<u>840,400</u>	<u>142,740</u>
	2,487,544	1,119,655
Less discount for long-term pledges	13,390	-
Less allowance for uncollectible pledges	<u>36,670</u>	<u>23,230</u>
Pledges receivable, net	<u>\$ 2,437,484</u>	<u>\$ 1,096,425</u>
Current	\$ 1,610,474	\$ 953,685
Noncurrent	<u>827,010</u>	<u>142,740</u>
Total pledges receivable	<u>\$ 2,437,484</u>	<u>\$ 1,096,425</u>

At June 30, 2017 and 2016, 55% and 37%, respectively, of total pledges are due from two donors. Additionally, at June 30, 2017, the Association has a pledge receivable from a foundation totaling \$500,000 conditional upon meeting certain goals, and accordingly are not recorded as revenue. The Association will record revenue when the conditions have been met.

4. INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Cash and equivalents	\$ 9,398	\$ 7,926
Common stock and other equities	58,966	55,652
Corporate bonds	17,015	17,812
Insurance policies	820,443	809,652
Beneficial interest in assets held by Oregon Community Foundation	<u>10,097,712</u>	<u>9,473,370</u>
Total investments	<u>\$ 11,003,534</u>	<u>\$ 10,364,412</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

4. INVESTMENTS, Continued

The Symphony's donor-restricted endowments are invested with The Oregon Community Foundation (OCF) in eight 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, 2017 and 2016 consists of:

	<u>2017</u>	<u>2016</u>
Endowment earnings:		
Interest and dividends	\$ 86,818	\$ 133,377
Change in value	1,164,784	(399,269)
Investment expenses	<u>(52,977)</u>	<u>(50,215)</u>
Total endowment earnings (loss)	1,198,625	(316,107)
Change in value of charitable gift annuities and other investments	<u>(1,427)</u>	<u>(2,506)</u>
Investment income (loss), net	<u>\$ 1,197,198</u>	<u>\$ (318,613)</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Music, instruments and orchestra equipment	\$ 984,900	\$ 961,700
Office furniture and equipment	937,458	821,082
Website in process	<u>76,043</u>	<u>-</u>
	1,998,401	1,782,782
Less accumulated depreciation	<u>1,180,846</u>	<u>1,110,528</u>
Music, instruments and equipment, net	<u>\$ 817,555</u>	<u>\$ 672,254</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

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).

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 \$85,379 and \$81,389 at June 30, 2017 and 2016, 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 remaining 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 \$15,270 and \$14,043 at June 30, 2017 and 2016, respectively.

	2017	2016
Current annuity agreement liability	\$ 1,800	\$ 1,800
Noncurrent annuity agreement liability	13,470	12,243
Total charitable gift annuity	\$ 15,270	\$ 14,043

7. LINE OF CREDIT

In March 2017, the Association obtained a \$450,000 line of credit with a bank with interest payable monthly at a the bank's prime rate plus (4.25% at June 30, 2017) on outstanding advances. The line is secured by assets of the Association and is renewed annually and matures March 2018. There were no advances outstanding at June 30, 2017.

8. BOARD DESIGNATED NET ASSETS

The Board designated a portion of unrestricted net assets for use in future operations. Board designated net assets totaled \$434,000 and \$309,000 at June 30, 2017 and 2016, respectively.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2017 and 2016:

	2017	2016
Annual fund pledges	\$ 1,829,188	\$ 364,261
Charitable gift annuities	7,707	9,134
Accumulated endowment earnings (Note 15)	2,897,901	2,547,888
Total temporarily restricted net assets	\$ 4,734,796	\$ 2,921,283

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at June 30, 2017 and 2016 consist of endowment funds which totaled \$8,586,497 and \$8,539,253, 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 15 for additional information.

II. RETIREMENT PLANS

The Association contributes to a multiemployer defined benefit pension plan and a defined contribution plan under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Association chooses to stop participating in some of its multiemployer plans, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

OREGON SYMPHONY ASSOCIATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
 June 30, 2017 and 2016

II. RETIREMENT PLANS, Continued

The Association's participation in these plans for the annual period ended June 30, 2017 and 2016, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for the plan's year-end at March 31, 2017, and March 31, 2016, respectively. The zone status is based on information that the Association received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration dates of the collective-bargaining agreement to which the plans are subject. There have been no significant changes that affect the comparability of 2017 and 2016 contributions.

The two plans that the Association participates in are:

- American Federation of Musicians and Employers' Pension Fund (AFMEPF)
- Stage Entertainment Industries 401(k) Plan (SEI 401(k))

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Association Contributions		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2017	2016		2017	2016		
AFMEPF	51-6120204-001	Yellow as of 3/31/16	Green as of 3/31/16	RP	\$230,140	\$221,784	No	8/28/18
SEI 401(k)		Not applicable	Not applicable	Not applicable	\$8,369	\$6,147	Not applicable	

AFMEPF provides fixed, monthly retirement payments on the basis of the benefits earned by the participating employees. AFMEPF's Annual Funding Notice for the years ended March 31, 2017 and 2016 indicated total assets of \$1,976 million and \$2,067 million, respectively; total actuarial value of liabilities of \$2,866 million and \$2,532 million, respectively. The plan's Annual Funding Notice for the plan years ended March 31, 2017 and 2016, indicate that the funded percentage was 69.0% and 81.6%, respectively

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

II. RETIREMENT PLANS, Continued

SEI 401(k) is a defined contribution plan and provides benefits to employees based on funds accumulated in the each employee's account. Employees are only entitled to the amounts in their individual accounts. As such, no unfunded liability has been reported to the Association by the plan administrators.

The Association's contributions to the union-sponsored, defined benefit, multiemployer pension plan (AFMEPF) were \$230,140 and \$221,784 in 2017 and 2016, respectively. The plan is not administered by the Association and contributions are determined in accordance with provisions of negotiated labor contracts. If the Association were to withdraw from the plan, a withdrawal liability would be computed by the plan administrators. The plan has not provided an estimate of the withdrawal liability to the Association. However, the Association has no present intention of withdrawing from the plan, nor has the Association been informed that there is any intention to terminate the plan.

At the date the consolidated financial statements were issued, Forms 5500 were not available for the plan year ending in 2017.

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.

The Association has a Simplified Employee Pension - Individual Retirement Account plan for non-union employees meeting specified eligibility requirements. The Association may make contributions to the plan at the discretion of the Board. Contributions to the plan for 2017 and 2016 totaled \$119,801 and \$104,047, respectively.

Contributions to all plans for 2017 and 2016 totaled \$358,310 and \$331,978, respectively.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

12. LEASE COMMITMENTS

The Symphony leases its office under a lease agreement expiring August 2018 with current monthly rent of \$17,988, subject to annual increases of approximately 2.5%.

The Symphony leases certain equipment under two noncancelable operating leases expiring June 2019 and December 2021.

Lease expense under these agreements for the years ended June 30, 2017 and 2016 approximated \$244,500 and \$242,000, respectively.

Total minimum future lease payments are as follows:

For the year ending June 30, 2018	\$ 250,000
2019	64,700
2020	18,300
2021	<u>9,100</u>
	<u>\$ 342,100</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. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$2,151,000 and \$2,154,000 as of June 30, 2017 and 2016, respectively.

14. RELATED PARTY TRANSACTIONS

Four members of the permanent orchestra were also members of the Board of Directors during 2017 and 2016. The Symphony received donated legal services totaling approximately \$10,800 and \$29,900 during the years ended June 30, 2017 and 2016, respectively, from a firm where a board member is employed. At year end, the Symphony was committed to pay \$200,000 to a performer, who is also a member of the Board of Directors, and his orchestra for a future performance. Additionally, in the year ended June 30, 2016, the Symphony paid approximately \$1,000 for guest performances to the same related party.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

15. ENDOWMENT

At June 30, 2017 and 2016, the Symphony'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 Symphony 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 Symphony 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 Symphony in a manner consistent with the standard of prudence prescribed by the Act.

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

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

15. ENDOWMENT, Continued

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017				
Donor-restricted - endowment funds	<u>\$ (1,364,500)</u>	<u>\$ 2,897,901</u>	<u>\$ 8,586,497</u>	<u>\$ 10,119,898</u>
June 30, 2016				
Donor-restricted - endowment funds	<u>\$ (1,589,489)</u>	<u>\$ 2,547,888</u>	<u>\$ 8,539,253</u>	<u>\$ 9,497,652</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</u>
Endowment net assets - June 30, 2016	<u>\$ (1,589,489)</u>	<u>\$ 2,547,888</u>	<u>\$ 8,539,253</u>	<u>\$ 9,497,652</u>
Contributions	-	-	47,244	47,244
Investment income, net of fees	-	33,841	-	33,841
Change in value	-	1,164,784	-	1,164,784
Appropriation of endowment assets for expenditure	-	(623,623)	-	(623,623)
Endowment deficit	<u>224,989</u>	<u>(224,989)</u>	<u>-</u>	<u>-</u>
Total changes	<u>224,989</u>	<u>350,013</u>	<u>47,244</u>	<u>622,246</u>
Endowment net assets - June 30, 2017	<u>\$ (1,364,500)</u>	<u>\$ 2,897,901</u>	<u>\$ 8,586,497</u>	<u>\$ 10,119,898</u>

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

15. ENDOWMENT, Continued

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</u>
Endowment net assets				
- June 30, 2015	\$ (1,235,117)	\$ 3,124,283	\$ 8,354,099	\$ 10,243,265
Contributions	-	-	185,154	185,154
Investment income, net of fees	-	83,162	-	83,162
Change in value	-	(399,269)	-	(399,269)
Appropriation of endowment assets for expenditure	-	(614,660)	-	(614,660)
Endowment deficit	(354,372)	354,372	-	-
Total changes	<u>(354,372)</u>	<u>(576,395)</u>	<u>185,154</u>	<u>(745,613)</u>
Endowment net assets				
- June 30, 2016	<u>\$ (1,589,489)</u>	<u>\$ 2,547,888</u>	<u>\$ 8,539,253</u>	<u>\$ 9,497,652</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 Symphony to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature totaled \$1,364,501 and \$1,589,489 as of June 30, 2017 and 2016, 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 Symphony 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 Symphony 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, 2017 and 2016

15. ENDOWMENT, Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Symphony 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 Symphony considered the long term expected return on its endowment. Accordingly, over the long term, the Symphony expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Symphony'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.

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.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

16. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets and liabilities measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2017</u>			
Assets:			
Investments - equities	\$ 58,966	\$ -	\$ -
Investments - corporate bonds	-	17,015	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	10,097,712
Investments - cash value of life insurance	-	820,443	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(15,270)
<u>June 30, 2016</u>			
Assets:			
Investments - equities	55,652	-	-
Investments - corporate bonds	-	17,812	-
Beneficial interest in assets held at Oregon Community Foundation	-	-	9,473,370
Investments - cash value of life insurance	-	809,652	-
Liabilities:			
Obligations under charitable gift annuities	-	-	(14,043)

Fair values for investments in marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for investments in corporate bonds are provided by custodians and are based on pricing models that incorporate available trade, bid and other market information. 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 4.5%, using an income approach.

OREGON SYMPHONY ASSOCIATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2017 and 2016

16. FAIR VALUE MEASUREMENTS, Continued

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

Investments at OCF:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 9,473,370	\$ 10,221,993
Earnings, net of fees	33,841	83,162
Change in value	1,164,784	(399,269)
Contributions	49,340	182,144
Disbursements	<u>(623,623)</u>	<u>(614,660)</u>
Balance at end of year	<u>\$ 10,097,712</u>	<u>\$ 9,473,370</u>

Earnings, 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>2017</u>	<u>2016</u>
Balance at beginning of year	\$ (14,043)	\$ (14,634)
Payments to beneficiaries	1,800	1,800
Change in value of remaining obligation (in temporarily restricted net assets)	<u>(3,027)</u>	<u>(1,209)</u>
Balance at end of year	<u>\$ (15,270)</u>	<u>\$ (14,043)</u>

17. OTHER COMMITMENTS

The Symphony entered into contracts with the current Artistic Director through July 31, 2021 and the current President and CEO through June 30, 2020. Additionally, the Symphony entered into contracts and agreements with various artists and a concert hall for performances during the fiscal year ending June 30, 2018.

The Symphony maintains a collective bargaining agreement for musicians. This agreement expires August 28, 2018.