

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.

Financial Statements
(With Independent Auditors' Report)

August 31, 2014 and 2013

Vermont Symphony Orchestra Association, Inc.
August 31, 2014 and 2013

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Independent Auditors' Report

Board of Directors
Vermont Symphony Orchestra Association, Inc.
Burlington, Vermont

We have audited the accompanying financial statements of Vermont Symphony Orchestra Association, Inc. (the Orchestra), which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orchestra as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Report on Summarized Comparative Information

We have previously audited the Orchestra's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

McSoley McCoy & Co.

November 14, 2014
VT Reg. No. 92-349

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2014
(With Summarized Information for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 8,973	\$ -	\$ -	\$ 8,973	\$ 35,590
Accounts receivable	20,292	-	-	20,292	24,453
Grants & contributions receivable, net	2,083	12,500	-	14,583	23,583
Prepaid expense	17,179	-	-	17,179	22,188
	<u>48,527</u>	<u>12,500</u>	<u>-</u>	<u>61,027</u>	<u>105,814</u>
Non-current assets:					
Grants & contributions receivable, net	-	-	432,256	432,256	524,850
Investments	-	1,193,562	3,301,993	4,495,555	3,873,558
Music library, net of accum. deprec. of \$22,392	23,703	-	-	23,703	24,337
Equipment & vehicle, net of accum. deprec. of \$176,415	62,612	-	-	62,612	72,932
Beneficial interest in assets held by others	-	88,660	297,353	386,013	281,498
Interfund receivables/(payables)	(79,071)	-	79,071	-	-
	<u>7,244</u>	<u>1,282,222</u>	<u>4,110,673</u>	<u>5,400,139</u>	<u>4,777,175</u>
Total non-current assets	<u>7,244</u>	<u>1,282,222</u>	<u>4,110,673</u>	<u>5,400,139</u>	<u>4,777,175</u>
Total assets	<u>\$ 55,771</u>	<u>\$ 1,294,722</u>	<u>\$ 4,110,673</u>	<u>\$ 5,461,166</u>	<u>\$ 4,882,989</u>
Liabilities and Net Assets					
Accounts payable	\$ 94,498	\$ -	\$ -	\$ 94,498	\$ 76,791
Accrued liabilities	10,384	-	-	10,384	9,441
Deferred revenues	234,264	-	-	234,264	265,025
Line of credit	30,000	-	-	30,000	37,000
	<u>369,146</u>	<u>-</u>	<u>-</u>	<u>369,146</u>	<u>388,257</u>
Total liabilities	<u>369,146</u>	<u>-</u>	<u>-</u>	<u>369,146</u>	<u>388,257</u>
Net Assets					
Unrestricted	(313,375)	-	-	(313,375)	(417,182)
Temporarily restricted	-	1,294,722	-	1,294,722	1,004,707
Permanently restricted	-	-	4,110,673	4,110,673	3,907,207
	<u>(313,375)</u>	<u>1,294,722</u>	<u>4,110,673</u>	<u>5,092,020</u>	<u>4,494,732</u>
Total net assets (deficits)	<u>(313,375)</u>	<u>1,294,722</u>	<u>4,110,673</u>	<u>5,092,020</u>	<u>4,494,732</u>
Total liabilities and net assets	<u>\$ 55,771</u>	<u>\$ 1,294,722</u>	<u>\$ 4,110,673</u>	<u>\$ 5,461,166</u>	<u>\$ 4,882,989</u>

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

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014
(With Summarized Information for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Operating revenues:					
Performance revenues:					
Ticket sales	\$ 402,923	\$ -	\$ -	\$ 402,923	\$ 375,959
Ensembles	66,035	-	-	66,035	54,967
Contracted services	<u>95,329</u>	<u>-</u>	<u>-</u>	<u>95,329</u>	<u>55,662</u>
Total performance revenues	<u>564,287</u>	<u>-</u>	<u>-</u>	<u>564,287</u>	<u>486,588</u>
Public support:					
State of Vermont General Fund	-	141,215	-	141,215	141,224
Vermont Arts Council	-	4,000	-	4,000	5,000
National Endowment for the Arts	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>15,000</u>
Total public support	<u>-</u>	<u>155,215</u>	<u>-</u>	<u>155,215</u>	<u>161,224</u>
Private support:					
Memberships	141,875	-	-	141,875	173,278
Other gifts, grants and bequests	53,451	73,099	85,077	211,627	96,891
Foundation support	-	44,000	-	44,000	44,500
Corporate support	187,882	-	-	187,882	218,550
Special events	54,147	-	-	54,147	85,611
In-kind contributions	<u>218,878</u>	<u>-</u>	<u>-</u>	<u>218,878</u>	<u>232,040</u>
Total private support	<u>656,233</u>	<u>117,099</u>	<u>85,077</u>	<u>858,409</u>	<u>850,870</u>
Other income:					
Program advertising	29,325	-	-	29,325	33,803
Concessions and product sales	5,766	-	-	5,766	10,105
Other	2,941	-	-	2,941	6,784
Net investment income appropriated for operation	<u>-</u>	<u>134,755</u>	<u>-</u>	<u>134,755</u>	<u>111,711</u>
Total other income	<u>38,032</u>	<u>134,755</u>	<u>-</u>	<u>172,787</u>	<u>162,403</u>
Net assets released from restrictions:	<u>409,069</u>	<u>(397,069)</u>	<u>(12,000)</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>1,667,621</u>	<u>10,000</u>	<u>73,077</u>	<u>1,750,698</u>	<u>1,661,085</u>

The accompanying notes are an integral part of these financial statements

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014
(With Summarized Information for 2013)
(Continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Operating expenses:					
Artistic personnel expenses:					
Orchestra & artistic staff	\$ 438,006	\$ -	\$ -	\$ 438,006	\$ 369,535
Travel expenses	149,264	-	-	149,264	143,889
Guest artists & chorus	48,486	-	-	48,486	59,537
Ensembles & residencies	86,064	-	-	86,064	66,183
Total artistic personnel expenses	<u>721,820</u>	<u>-</u>	<u>-</u>	<u>721,820</u>	<u>639,144</u>
Direct concert expenses:					
Production salaries & wages	59,475	-	-	59,475	58,084
Production benefits & taxes	13,742	-	-	13,742	13,526
Music rentals & royalties	19,889	-	-	19,889	24,560
Insurance for concerts	10,163	-	-	10,163	8,226
Performance space rentals	64,628	-	-	64,628	68,744
Stagehands	18,949	-	-	18,949	19,660
Ticket expense	19,649	-	-	19,649	23,209
Printed program expense	26,136	-	-	26,136	23,558
Equipment rental & other	143,824	-	-	143,824	135,764
Total direct concert expenses	<u>376,455</u>	<u>-</u>	<u>-</u>	<u>376,455</u>	<u>375,331</u>
Marketing expenses:					
Marketing salaries & wages	53,842	-	-	53,842	46,309
Marketing benefits & taxes	15,089	-	-	15,089	18,031
Concession & product costs	5,123	-	-	5,123	7,861
Other marketing expenses	160,961	-	-	160,961	161,142
Total marketing expenses	<u>235,015</u>	<u>-</u>	<u>-</u>	<u>235,015</u>	<u>233,343</u>
Development expenses:					
Development salaries & wages	11,655	-	-	11,655	48,247
Development benefits & taxes	1,670	-	-	1,670	9,919
Development expenses	65,783	-	-	65,783	50,623
Special events expense	9,842	-	-	9,842	18,133
Total development expenses	<u>88,950</u>	<u>-</u>	<u>-</u>	<u>88,950</u>	<u>126,922</u>

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

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014
(With Summarized Information for 2013)
(Continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
General & administrative expenses:					
General & administrative salaries & wages	\$ 117,083	\$ -	\$ -	\$ 117,083	\$ 113,164
General & administrative benefits and taxes	28,240	-	-	28,240	26,081
Professional services	30,978	-	-	30,978	31,592
Office rent	30,456	-	-	30,456	29,889
Insurance expense	16,067	-	-	16,067	15,373
Office supplies, etc.	23,139	-	-	23,139	21,734
Telephone, fax	9,046	-	-	9,046	7,629
Depreciation	13,226	-	-	13,226	11,035
Interest & finance charges	7,909	-	-	7,909	4,479
Other	28,369	-	-	28,369	33,859
Total general & administrative expenses	<u>304,513</u>	<u>-</u>	<u>-</u>	<u>304,513</u>	<u>294,835</u>
 Total operating expenses	 <u>1,726,753</u>	 <u>-</u>	 <u>-</u>	 <u>1,726,753</u>	 <u>1,669,575</u>
 Change in net assets from operations	 <u>(59,132)</u>	 <u>10,000</u>	 <u>73,077</u>	 <u>23,945</u>	 <u>(8,490)</u>
 Other changes:					
Contributions:					
Permanently restricted	-	-	1,531	1,531	165,290
Increase in reserve for uncollectible pledges	(12,000)	-	-	(12,000)	-
Reclassification of net assets	174,939	(303,797)	128,858	-	-
Investment return not designated for operations	<u>-</u>	<u>583,812</u>	<u>-</u>	<u>583,812</u>	<u>286,430</u>
 Total other changes	 <u>162,939</u>	 <u>280,015</u>	 <u>130,389</u>	 <u>573,343</u>	 <u>451,720</u>
 Change in net assets	 103,807	 290,015	 203,466	 597,288	 443,230
 Net assets (deficits) at beginning of year	 <u>(417,182)</u>	 <u>1,004,707</u>	 <u>3,907,207</u>	 <u>4,494,732</u>	 <u>4,051,502</u>
 Net assets (deficits) at end of year	 <u>\$ (313,375)</u>	 <u>\$ 1,294,722</u>	 <u>\$ 4,110,673</u>	 <u>\$ 5,092,020</u>	 <u>\$ 4,494,732</u>

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

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

	2014	2013
Cash flows from operating activities		
Increase in net assets	\$ 597,288	\$ 443,230
Adjustments to reconcile to net cash provided (used) by operating activities:		
Depreciation	13,226	11,035
Bad debt expense	12,000	-
Amortization of discount on pledge receivables	(5,056)	-
Contributions restricted to endowment	(116,871)	(129,837)
Investment income	(718,734)	(176,886)
Changes in assets and liabilities:		
(Increase) decrease in grants & contributions receivable	9,000	(2,500)
(Increase) decrease in operating receivables	96,755	(2,135)
Decrease in prepaid expenses	5,009	4,990
Increase in accounts payable	17,707	12,177
Increase (decrease) in accrued liabilities	943	(862)
Increase (decrease) in deferred revenues & refundable advances	(30,761)	6,123
Net cash provided (used) by operating activities	(119,494)	165,335
Cash used in investing activities:		
Additions to equipment and music library	(2,271)	(23,624)
Purchase of investments	(1,836,872)	(2,938,465)
Sale of investments and receipt of investment income	1,822,149	2,657,957
Net cash used in investing activities	(16,994)	(304,132)
Cash provided by (used in) financing activities:		
Net borrowings (repayments) on the line of credit	(7,000)	37,000
Contributions received restricted for endowment	116,871	130,963
Net cash provided by financing activities	109,871	167,963
Net increase (decrease) in cash and cash equivalents	(26,617)	29,166
Cash and cash equivalents, beginning of year	35,590	6,424
Cash and cash equivalents, end of year	\$ 8,973	\$ 35,590
Supplemental Data:		
Interest and finance charges paid	\$ 7,909	\$ 4,479

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

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

1. Summary of Significant Accounting Policies

Vermont Symphony Orchestra Association, Inc. (the Orchestra) is a member of the League of American Orchestras, Inc., which publishes, from time to time, guidelines for the presentation of financial statements of its members. The guidelines adopted by the Orchestra and used in these financial statements conform to U.S. generally accepted accounting principles.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The Orchestra 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. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence and/or nature of any donor-imposed restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Cash and Cash Equivalents

The Orchestra treats all cash accounts, checking, savings, money market, and other cash funds with an initial maturity of three months or less as cash and cash equivalents for purposes of the statement of cash flows.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. The cost assigned to investments received by gift is the market value at the date the gift is received. The net realized and unrealized gains (losses) on investments are reflected in the statement of activities.

Promises to Give

Unconditional promises to give, commonly called contributions and grants receivable, that are expected to be collected within one year, are recorded at net realizable value. Those expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts, if material, are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of these discounts is included in contribution revenue. Conditional promises to give are not included in support until the contributions are substantially met.

Equipment, Vehicle and Music Library

Equipment, vehicle and music library are recorded at cost and are being depreciated over their useful economic lives (3-20 years for equipment and vehicles and 40 years for the music library) using the straight-line method.

The Orchestra follows the provisions of FASB ASC 360 *Property, Plant and Equipment*. Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of the recoverability would be performed.

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

Summary of Significant Accounting Policies (continued)

Tax Status

The Orchestra is exempt from federal income tax (on activities related to its tax-exempt purpose) as an organization described in Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly supported organization under Section (509)(a)(2). Contributions to the Orchestra qualify for the charitable contribution deduction under Internal Revenue Code Section 170(b)(1)(A).

FASB ASC 740, *Income Taxes*, requires entities to disclose in their financial statements the nature of any uncertainty in their tax positions. For tax exempt entities, tax-exempt status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. Management believes the Orchestra has no uncertain tax positions. The Orchestra anticipates that it will not have a change in uncertain tax positions during the next twelve months that would have a material impact on their financial statements. If necessary, the Orchestra would accrue interest and penalties on uncertain tax positions as a component of the provision for income taxes. Management believes the Orchestra is no longer subject to income tax examinations for years prior to the year ended August 31, 2011.

Advertising

The Orchestra expenses advertising costs as incurred.

Temporarily Restricted Funds

Temporarily restricted funds consist of resources restricted by donors to be used for funding special projects of the Orchestra, primarily to bring musical performances to those who might not otherwise be able to attend orchestra performances.

Permanently Restricted Funds

Permanently restricted funds consist of bequests and other gifts received from donors, which are subject to the restriction that the principal be invested in perpetuity and that only the income be used to defray certain specified expenses. During 2014, management determined there were funds that had been previously identified as temporarily restricted that should have been unrestricted or permanently restricted. Therefore, during 2014 management transferred \$303,797 of temporarily restricted funds to unrestricted funds for \$174,939 and permanently restricted funds for \$128,858.

Deferred Revenues and Prepaid Expenses

Deferred revenues and prepaid expenses primarily represent revenues received and expenses paid for prior to year-end relating to concerts performed subsequent to the end of the fiscal year.

Refundable Advances

Contributions received during a prior or current fiscal year, if any, which contain donor-imposed conditions are shown as refundable advances in the statement of financial position until the conditions have been substantially met. There were no refundable advances as of August 31, 2014 and 2013.

Expense Allocation

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

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 AUGUST 31, 2014 AND 2013

Summary of Significant Accounting Policies (continued)

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 period reported. Actual results could differ from those estimates.

Comparative Data

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Orchestra's financial statements for the year ended August 31, 2013, from which the summarized information was derived.

Reclassifications

Portions of the 2013 financial statements have been reclassified to conform to the 2014 financial statement presentation.

2. In-Kind Contributions (Donated Materials, Facilities and Services)

Significant services, materials and facilities are donated to the Orchestra by various individuals and organizations and are included in the financial statements at fair market value at the time of contribution. In-kind revenue and related expenses have been included in the accompanying statement of activities as follows:

	2014	2013
Travel and accommodations	\$ 77,611	\$ 78,955
Marketing expense	96,254	87,294
Performance space rentals	9,820	9,820
Equipment rental & other expenses	15,137	13,804
Music rentals and royalties	625	375
Fundraising expenses	19,431	41,750
Office supplies	-	42
	\$ 218,878	\$ 232,040

In addition, the Orchestra received more than 6,944 hours of donated program-support time in 2014 and 2,500 hours in 2013 that was not recorded in the financial statements because it did not meet the criteria for recognition under generally accepted accounting principles.

3. Leases

The Orchestra occupies office space under a lease expiring May 2015 with rent of \$2,538 per month. Rent expense (including incidental charges) was \$30,456 and \$29,889 for the years ended August 31, 2014 and 2013, respectively.

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
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4. Line of Credit

The Orchestra has a line of credit with a commercial bank in the amount of \$200,000 due on November 30, 2014, bearing interest at prime less .35% (2.90% at August 31, 2014), and subject to an annual review and extension each year. The outstanding balance on the line of credit was \$30,000 and \$37,000 at August 31, 2014 and 2013, respectively. The line of credit is secured by substantially all of the Orchestra's non-endowment assets and carries a requirement to pay-down principal to zero for thirty consecutive days at least once annually.

5. Pension Plan

The Orchestra maintains a 403(b) Defined Contribution Retirement Plan through the Teachers Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF). For full-time employees who are 21 years of age and have completed a minimum term of service, the Orchestra makes an employer contribution equal to 5% of the employee's compensation. Participants are immediately vested in the benefits under the Plan. Pension expense for the years ended August 31, 2014 and 2013 was \$8,546 and \$6,136, respectively.

6. Promises to Give

Included in grants and contributions receivable are the following unconditional promises to give:

	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 2,083	\$ 2,083
Temporarily restricted:		
For future concerts	12,500	21,500
Permanently restricted	<u>432,256</u>	<u>524,850</u>
Net unconditional promises to give	<u>\$ 446,839</u>	<u>\$ 548,433</u>
Receivable in less than one year	\$ 264,961	\$ 354,539
Receivable in one to five years	216,513	179,415
Receivable in more than five years	<u>110,384</u>	<u>152,554</u>
Total unconditional promises to give	591,858	686,508
Less discounts to net present value	(68,919)	(73,975)
Less allowance for uncollectible promises	<u>(76,100)</u>	<u>(64,100)</u>
Net unconditional promises to give	<u>\$ 446,839</u>	<u>\$ 548,433</u>

Permanently restricted contributions receivable and those restricted for capital acquisition are shown as non-current, regardless of when they are expected to be received. Of the total allowance, \$69,600 and \$57,600 of the allowance for uncollectible promises relates to permanently restricted promises to give at August 31, 2014 and 2013, respectively.

7. Beneficial Interest in Assets Held by Others

In June 2001, the Orchestra transferred \$45,151 in permanently restricted contributions to the Vermont Community Foundation for the establishment of the Ann E. Cooper Fund for Artistic Leadership. In March 2011, in fulfillment of a permanently restricted capital campaign pledge, a second fund was established – the VSO Planned Giving Fund – with an initial transfer of \$52,736. Income earned by the funds (i.e. the allowable amount of earnings from the Foundation's common pooled fund) is generally distributable to the Orchestra (at the discretion of the Orchestra) on an annual basis. The Orchestra,

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
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however, has granted variance power to the Foundation, which means that the Board of Trustees of the Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served.

In 2003, the Orchestra was named as a 10% income beneficiary of a perpetual trust. The Orchestra will receive 10% of the income from the trust in perpetuity once certain property held in trust is sold and certain administrative affairs are concluded. During 2014, all of the property was placed into the trust. The Orchestra's interest in the trust is estimated at \$219,501 and \$165,744 as of August 31, 2014 and August 31, 2013, respectively, and is included in "beneficial interest in assets held by others" in the Statement of Financial Position.

8. Investments and Endowments

The Orchestra has eighteen separate endowment funds including four related to a capital campaign begun in 2007 and completed in 2011, and the remaining fourteen representing various endowment gifts, some of which date back more than twenty years. Seventeen of the eighteen funds are maintained in a single pooled investment account at a local trust company while the eighteenth is held in a separate investment account. The Orchestra also has permanently restricted funds in "beneficial interest in assets held by others" as discussed in Note 7 above.

The Orchestra's investment policies are as follows:

Interpretation of Relevant Law:

For purposes of disclosure in these financial statements, the Orchestra understands that state law (under the *Uniform Prudent Management of Institutional Funds Act* – "UPMIFA") creates no requirement to add to the fair value of the original gift as of the gift date of its permanently restricted endowment funds absent explicit donor stipulations to the contrary. Pursuant to generally accepted accounting principles promulgated as a result of UPMIFA, retained appreciation of the funds, if any, in excess of historical cost basis, is shown as temporarily restricted net assets until *appropriated* by management for operations. The management and the Board, in its fiduciary capacity, and with the guidance of professional investment managers, determine how the funds are to be invested. The Orchestra considers the duration and preservation of the endowment funds, general economic conditions, the possible effect of inflation or deflation, the expected total return of the funds, the availability of other resources, and the Orchestra's general investment policies when establishing investment allocations of the endowment funds.

Return Objectives, Risk Parameters and Investment Strategies:

The Orchestra has adopted investment and spending policies for the endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power for the endowment assets. Under this policy, permanently restricted endowment funds are invested in a manner that is intended to yield an average, long-term rate of return (net of investment fees) of approximately 7% (though actual returns in any given year may obviously vary from this amount). To satisfy its long-term rate of return objectives for its permanently restricted funds, the Orchestra relies on a total return strategy in which returns are achieved through a combination of capital appreciation (realized and unrealized capital gains) and current yield (interest and dividends). The Orchestra targets a diversified asset allocation weighted toward equity-based investments to achieve its long-term return objectives within prudent risk constraints.

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
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Investments and Endowments (continued)

Spending Policy and its Relation to Investment Strategies and Objectives:

The Orchestra's spending policy is to transfer annually to operations no more than 4% of the market value of the funds, based on a rolling twelve-quarter average of the fair market values of the investment accounts, subject to Finance Committee, Investment Committee and Board approval. Based on guidance from investment managers, the Orchestra projects that, over the long-term, and after amounts appropriated for operations, its endowment funds will grow at an average of approximately 3% annually – an amount it believes will protect the purchasing power of the endowment assets held in perpetuity.

The Orchestra reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values (using "Level 1" inputs by reference to quoted market prices) in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. The cost, fair market value, and unrealized appreciation (depreciation) of the Orchestra's investments by investment class are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
As of August 31, 2014:			
Cash and cash equivalents	\$ 71,766	\$ 71,766	\$ -
Bond and bond funds	1,070,271	1,091,985	21,714
Equities and equity mutual funds	2,189,120	3,178,937	989,817
Real assets	<u>156,312</u>	<u>152,867</u>	<u>(3,445)</u>
	<u>\$ 3,487,469</u>	<u>\$ 4,495,555</u>	<u>\$ 1,008,086</u>
As of August 31, 2013:			
Cash and cash equivalents	\$ 103,200	\$ 103,200	\$ -
Bond and bond funds	929,302	919,691	(9,611)
Equities and equity mutual funds	<u>2,163,503</u>	<u>2,850,667</u>	<u>687,164</u>
	<u>\$ 3,196,005</u>	<u>\$ 3,873,558</u>	<u>\$ 677,553</u>

A reconciliation of the beginning and ending balances of the Orchestra's endowment funds, including the components of investment income for the years ended August 31, 2014 and 2013, by net asset class is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Value of Endowment Funds 9/1/13:	\$ -	\$ 768,738	\$ 3,104,820	\$ 3,873,558
Contributions received & other deposits	<u>-</u>	<u>-</u>	<u>116,871</u>	<u>116,871</u>
Interest and dividends	-	66,250	-	66,250
Realized & unrealized gains	-	598,227	-	598,227
Fees	<u>-</u>	<u>(24,596)</u>	<u>-</u>	<u>(24,596)</u>
Net investment income	-	639,881	-	639,881
Appropriated for operations	<u>-</u>	<u>(134,755)</u>	<u>-</u>	<u>(134,755)</u>
Reclassifications	<u>-</u>	<u>(80,302)</u>	<u>80,302</u>	<u>-</u>
Value of Endowment Funds 8/31/14:	<u>\$ -</u>	<u>\$ 1,193,562</u>	<u>\$ 3,301,993</u>	<u>\$ 4,495,555</u>

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
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Investments and Endowments (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Value of Endowment Funds 9/1/12:	\$ -	\$ 441,131	\$ 2,989,883	\$ 3,431,014
Contributions received & other deposits	-	-	114,937	114,937
Interest and dividends	-	78,113	-	78,113
Realized & unrealized gains	-	380,605	-	380,605
Fees	-	(19,400)	-	(19,400)
Net investment income	-	439,318	-	439,318
Appropriated for operations	-	(111,711)	-	(111,711)
Value of Endowment Funds 8/31/13:	<u>\$ -</u>	<u>\$ 768,738</u>	<u>\$ 3,104,820</u>	<u>\$ 3,873,558</u>

The \$1,193,562 in temporarily restricted endowment net assets represents the cumulative unappropriated appreciation for those permanent funds whose fair values exceed the amounts that must be retained.

9. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Orchestra has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2014 and 2013.

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
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Fair Value Measurements (continued)

Bonds, mutual funds, common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Orchestra believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Orchestra's assets at fair value as of August 31, 2014 and 2013:

	<u>Investments at Fair Value as of August 31, 2014</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Cash and cash equivalents	\$ 71,766	\$ -	\$ -	\$ 71,766
Bonds:				
Corporate bonds	396,353	-	-	396,353
Brokered CD	215,052	-	-	215,052
Mutual funds:				
Fixed income	480,580	-	-	480,580
Equity	1,354,775	-	-	1,354,775
Common stock:				
Materials and industrials	230,406	-	-	230,406
Consumer	439,260	-	-	439,260
Energy	186,303	-	-	186,303
Financials	339,686	-	-	339,686
Health Care	312,655	-	-	312,655
Information technology	315,852	-	-	315,852
Real assets	<u>152,867</u>	<u>-</u>	<u>-</u>	<u>152,867</u>
Total	<u>\$ 4,495,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,495,555</u>
	<u>Investments at Fair Value as of August 31, 2013</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Cash and cash equivalents	\$ 103,038	\$ -	\$ -	\$ 103,038
Bonds:				
Corporate bonds	348,057	-	-	348,057
Brokered CD	215,305	-	-	215,305
Mutual funds:				
Fixed income	381,092	-	-	381,092
Equity	891,675	-	-	891,675
Common stock:				
Materials and industrials	195,031	-	-	195,031
Consumer	802,897	-	-	802,897
Energy	182,391	-	-	182,391
Financials	321,076	-	-	321,076
Information technology	312,034	-	-	312,034
Real Assets	<u>120,962</u>	<u>-</u>	<u>-</u>	<u>120,962</u>
Total	<u>\$ 3,873,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,873,558</u>

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
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AUGUST 31, 2014 AND 2013

10. Special Project

During 2012, the Orchestra issued the Triple Doubles compact disc. These are available for sale on their website. Compact disc sales totaled \$800 and \$1,482 in 2014 and 2013, respectively. There were no related costs for the production of the discs in 2014 or 2013.

11. Net Asset Balances

The temporarily restricted and permanently restricted net assets at August 31, 2014 and 2013 are composed of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of August 31, 2014:				
Morris Block Memorial Fund	\$ -	\$ 9,556	\$ 30,667	\$ 40,223
Ann E. Cooper Fund	-	15,681	45,151	60,832
Robert De Cormier Fund	-	10,548	97,323	107,871
John Dinse Fund	-	11,350	43,421	54,771
Hilda Gollnick Fund	-	7,716	24,520	32,236
May D. Goodman Memorial Fund	-	112,432	250,000	362,432
William Gray Memorial Fund	-	3,317	20,525	23,842
Frank Hensel Memorial Fund	-	3,970	12,616	16,586
Susi Learmonth Symphony Kids	-	16,917	65,614	82,531
Natalie Lisman Soloist Fund	-	8,446	17,855	26,301
Eleanor C. Long Second Oboe Fund	-	9,079	39,667	48,746
Caroline MacDonald Memorial Fund	-	13,785	34,350	48,135
Shirley Niebling Fund	-	907	-	907
Kate Tamarkin Education Fund	-	7,866	34,084	41,950
Webb Trust Fund	-	6,790	146,444	153,234
David Wilson Memorial Fund	-	33,055	87,580	120,635
Campaign Endowment Funds	-	887,839	2,777,122	3,664,961
Campaign Education Funds	-	41,854	115,000	156,854
Other endowment funds	-	8,137	16,532	24,669
VCF Planned Giving Fund	-	13,478	92,202	105,680
Interest in Perpetual Trust	-	59,499	160,000	219,499
Restricted for future fiscal periods	-	12,500	-	12,500
Non-endowment unrestricted	<u>(313,375)</u>	<u>-</u>	<u>-</u>	<u>(313,375)</u>
	<u>\$ (313,375)</u>	<u>\$ 1,294,722</u>	<u>\$ 4,110,673</u>	<u>\$ 5,092,020</u>

VERMONT SYMPHONY ORCHESTRA ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2014 AND 2013

Net Asset Balances (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of August 31, 2013:				
Morris Block Memorial Fund	-	4,846	30,667	35,513
Ann E. Cooper Fund	-	10,783	45,151	55,934
Robert De Cormier Fund	-	1,806	55,000	56,806
John Dinse Fund	-	4,620	42,171	46,791
Hilda Gollnick Fund	-	3,941	24,520	28,461
May D. Goodman Memorial Fund	\$ -	\$ 69,996	\$ 250,000	\$ 319,996
William Gray Memorial Fund	-	525	20,525	21,050
Frank Hensel Memorial Fund	-	2,028	12,616	14,644
Susi Learmonth Symphony Kids	-	7,499	60,999	68,498
Natalie Lisman Soloist Fund	-	5,367	17,855	23,222
Eleanor C. Long Second Oboe Fund	-	3,372	39,667	43,039
Caroline MacDonald Memorial Fund	-	8,149	34,350	42,499
Shirley Niebling Fund	-	801	-	801
Kate Tamarkin Education Fund	-	2,954	34,084	37,038
Webb Trust Fund	-	1,686	150,000	151,686
David Wilson Memorial Fund	-	21,167	65,651	86,818
Campaign Endowment Funds	-	727,120	2,679,683	3,406,803
Campaign Education Funds	-	23,488	115,000	138,488
Other endowment funds	-	5,249	16,532	21,781
VCF Planned Giving Fund	-	7,084	52,736	59,820
Interest in Perpetual Trust	-	5,744	160,000	165,744
Restricted for future concerts	-	49,727	-	49,727
Restricted for future fiscal periods	-	36,755	-	36,755
Non-endowment unrestricted	(417,182)	-	-	(417,182)
	<u>\$ (417,182)</u>	<u>\$ 1,004,707</u>	<u>\$ 3,907,207</u>	<u>\$ 4,494,732</u>

12. Subsequent Events

The Organization evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on November 14, 2014.