# THE MINNESOTA ORCHESTRAL ASSOCIATION

## FINANCIAL STATEMENTS

## YEARS ENDED AUGUST 31, 2012 AND 2011

THE MINNESOTA ORCHESTRAL ASSOCIATION
TABLE OF CONTENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

## INDEPENDENT AUDITORS' REPORT

Board of Directors
The Minnesota Orchestral Association
Minneapolis, Minnesota

We have audited the accompanying statements of financial position of The Minnesota Orchestral Association as of August 31, 2012 and 2011, and the related statements of changes in net assets, operating activities, and cash flows for the years then ended. These financial statements are the responsibility of the Association'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of The Minnesota Orchestral Association as of August 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota
November 15, 2012

# THE MINNESOTA ORCHESTRAL ASSOCIATION
# STATEMENTS OF FINANCIAL POSITION
# AUGUST 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and Cash Equivalents | $ 2,383,588 | $ 2,065,530 |
| Receivables, Net | 232,903 | 409,333 |
| Endowment Pledges Receivable | 520,855 | 863,063 |
| Hall Renovation Pledges Receivable | 15,705,376 | 1,901,688 |
| Other Pledges and Receivables, Net | 2,927,409 | 4,302,761 |
| Prepaid Expenses and Other | 1,101,033 | 1,190,346 |
| Total Current Assets | 22,871,164 | 10,732,721 |
| **NON-CURRENT RECEIVABLES** | | |
| Endowment Pledges Receivable, Net of Current Portion | 1,199,228 | 2,039,154 |
| Hall Renovation Pledges Receivable, Net of Current Portion | 3,983,586 | 5,615,484 |
| Other Pledges and Receivables, Net of Current Portion | 1,497,089 | 2,056,581 |
| Total Non-Current Receivables | 6,679,903 | 9,711,219 |
| **INVESTMENTS** | | |
| Endowments | 59,035,640 | 69,012,220 |
| Beneficial Interest Held in Trust - Building For the Future Fund | 8,280,780 | 3,122,325 |
| Beneficial Interest Held in Trust - Oakleaf | 58,251,530 | 60,198,333 |
| Beneficial Interest in Net Assets of St. Paul Foundation | 1,212,955 | 1,277,896 |
| Hall Fund | 7,790,329 | 7,056,345 |
| Hall Renovation | - | 19,243,574 |
| Other Investments | 2,732,800 | 2,554,982 |
| Total Investments | 137,304,034 | 162,465,675 |
| **OTHER LONG-TERM ASSETS** | | |
| Property and Equipment, Net | 5,432,188 | 5,735,389 |
| Lease Incentive Asset, Net | 513,593 | - |
| Hall Renovation Cash Funds Held in Escrow | 32,946,298 | - |
| Hall Renovations | 9,792,013 | 3,302,850 |
| Other Assets | 545,496 | 566,770 |
| Total Other Long-Term Assets | 49,229,588 | 9,605,009 |
| Total Assets | $ 216,084,689 | $ 192,514,624 |

*See accompanying Notes to Financial Statements.*

| LIABILITIES AND NET ASSETS | 2012 | 2011 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts Payable and Accrued Expenses | $ 2,223,737 | $ 2,316,526 |
| Deferred Concert Revenue | 2,757,848 | 3,555,696 |
| Total Current Liabilities | 4,981,585 | 5,872,222 |
| **LONG-TERM LIABILITIES** | | |
| Long-Term Debt | 10,940,000 | 10,940,000 |
| Hall Renovation Accounts Payable | 5,224,606 | - |
| Hall Renovation Construction Debt | 11,400,000 | - |
| Lease Incentive Liability | 513,593 | - |
| Pension Liability | 8,761,381 | 7,509,178 |
| Total Long-Term Liabilities | 36,839,580 | 18,449,178 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **NET ASSETS** | | |
| Unrestricted Net Assets: | | |
| Pension Plans | (8,761,381) | (7,509,178) |
| Operations | (23,159,702) | (17,187,307) |
| Total Operations and Pension Plans | (31,921,083) | (24,696,485) |
| Hall Financing, Capital Assets and Charitable Annuities | 14,013,367 | 12,865,196 |
| Board-Designated Endowment | 3,953,084 | 1,520,824 |
| Total Unrestricted Net Assets | (13,954,632) | (10,310,465) |
| Temporarily Restricted Net Assets: | | |
| Hall Renovation | 35,327,440 | 26,544,355 |
| All Other | 6,973,374 | 9,202,769 |
| Total Temporarily Restricted Net Assets | 42,300,814 | 35,747,124 |
| Permanently Restricted Net Assets | 145,917,342 | 142,756,565 |
| Total Net Assets | 174,263,524 | 168,193,224 |
| Total Liabilities and Net Assets | $ 216,084,689 | $ 192,514,624 |

# THE MINNESOTA ORCHESTRAL ASSOCIATION
# STATEMENT OF CHANGES IN NET ASSETS
# YEAR ENDED AUGUST 31, 2012

| | 2012 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **REVENUE, GAINS AND OTHER SUPPORT** | | | | |
| Operating Revenue: | | | | |
| Ticket Sales and Service Revenue | $ 6,983,118 | $ - | $ - | $ 6,983,118 |
| Other Revenue | 1,548,124 | - | - | 1,548,124 |
| Total Concert and Other Operating Revenue | 8,531,242 | - | - | 8,531,242 |
| Contributed Revenue: | | | | |
| Contributions and Gifts | 5,314,869 | 388,562 | 5,000,000 | 10,703,431 |
| Grants for Specific Purposes | 361,011 | 1,399,563 | - | 1,760,574 |
| Symphony Ball | 958,124 | 25,000 | - | 983,124 |
| Net Pledge and Trust Activity | 3,556,993 | 15,584,946 | 14,066 | 19,156,005 |
| Change in Value of Split Interest Agreements | (288,906) | - | - | (288,906) |
| Total Contributed Revenue | 9,902,091 | 17,398,071 | 5,014,066 | 32,314,228 |
| Investment Income: | | | | |
| Interest and Dividends | 430,469 | 574,369 | - | 1,004,838 |
| Net Realized Gain on Sale of Investments | - | 3,411,556 | - | 3,411,556 |
| Net Unrealized Depreciation in Fair Value of Investments | 569,257 | (1,694,707) | - | (1,125,450) |
| Change in Beneficial Interest in Net Assets of Foundation and Trust | - | - | (1,853,289) | (1,853,289) |
| Total Investment Income | 999,726 | 2,291,218 | (1,853,289) | 1,437,655 |
| Loss on Disposal of Fixed Assets | (232,816) | - | - | (232,816) |
| Net Assets Released from Restrictions | 13,135,599 | (13,135,599) | - | - |
| Total Revenue, Gains and Other Support | 32,335,842 | 6,553,690 | 3,160,777 | 42,050,309 |
| **EXPENSES** | | | | |
| Operating | 31,532,914 | - | - | 31,532,914 |
| Nonoperating Fundraising | 1,253,426 | - | - | 1,253,426 |
| Orchestra Hall Redevelopment | 76,823 | - | - | 76,823 |
| Peavey Plaza Redevelopment Study | 16,338 | - | - | 16,338 |
| Hall Financing | 76,887 | - | - | 76,887 |
| Depreciation | 551,985 | - | - | 551,985 |
| Total Expenses | 33,508,373 | - | - | 33,508,373 |
| Pension Expense | 2,471,636 | - | - | 2,471,636 |
| Total Expenses | 35,980,009 | - | - | 35,980,009 |
| **CHANGE IN NET ASSETS** | (3,644,167) | 6,553,690 | 3,160,777 | 6,070,300 |
| Net Assets - Beginning of Year | (10,310,465) | 35,747,124 | 142,756,565 | 168,193,224 |
| **NET ASSETS - END OF YEAR** | $ (13,954,632) | $ 42,300,814 | $ 145,917,342 | $ 174,263,524 |

*See accompanying Notes to Financial Statements.*

# THE MINNESOTA ORCHESTRAL ASSOCIATION
# STATEMENT OF CHANGES IN NET ASSETS
# YEAR ENDED AUGUST 31, 2011

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **REVENUE, GAINS AND OTHER SUPPORT** | | | | |
| Operating Revenue: | | | | |
| Ticket Sales and Service Revenue | $ 7,234,422 | $ - | $ - | $ 7,234,422 |
| Other Revenue | 1,858,749 | - | - | 1,858,749 |
| Total Concert and Other Operating Revenue | 9,093,171 | - | - | 9,093,171 |
| Contributed Revenue: | | | | |
| Contributions and Gifts | 5,975,107 | 932,385 | - | 6,907,492 |
| Grants for Specific Purposes | 1,202,381 | 1,462,652 | - | 2,665,033 |
| Symphony Ball | 1,057,139 | - | - | 1,057,139 |
| Net Pledge and Trust Activity | 3,398,967 | 4,463,050 | 480,802 | 8,342,819 |
| Change in Value of Split Interest Agreements | 52,652 | - | - | 52,652 |
| Total Contributed Revenue | 11,686,246 | 6,858,087 | 480,802 | 19,025,135 |
| Investment Income: | | | | |
| Interest and Dividends | 470,233 | 648,365 | - | 1,118,598 |
| Net Realized Gain on Sale of Investments | 1,982 | 7,780,904 | - | 7,782,886 |
| Net Unrealized Appreciation in Fair Value of Investments | 690,425 | 321,370 | - | 1,011,795 |
| Change in Beneficial Interest in Net Assets of Foundation and Trust | - | - | 5,305,191 | 5,305,191 |
| Total Investment Income | 1,162,640 | 8,750,639 | 5,305,191 | 15,218,470 |
| Loss on Disposal of Fixed Assets | - | - | - | - |
| Net Assets Released from Restrictions | 12,228,286 | (15,434,781) | 3,206,495 | - |
| Total Revenue, Gains and Other Support | 34,170,343 | 173,945 | 8,992,488 | 43,336,776 |
| **EXPENSES** | | | | |
| Operating | 30,451,395 | - | - | 30,451,395 |
| Nonoperating Fundraising | 786,103 | - | - | 786,103 |
| Orchestra Hall Redevelopment Study | - | - | - | - |
| Peavey Plaza Redevelopment Study | - | - | - | - |
| Hall Financing | 20,924 | - | - | 20,924 |
| Depreciation | 610,511 | - | - | 610,511 |
| Total Expenses | 31,868,933 | - | - | 31,868,933 |
| Pension Expense | (690,446) | - | - | (690,446) |
| Total Expenses | 31,178,487 | - | - | 31,178,487 |
| **CHANGE IN NET ASSETS** | 2,991,856 | 173,945 | 8,992,488 | 12,158,289 |
| Net Assets - Beginning of Year | (13,302,321) | 35,573,179 | 133,764,077 | 156,034,935 |
| **NET ASSETS - END OF YEAR** | $ (10,310,465) | $ 35,747,124 | $ 142,756,565 | $ 168,193,224 |

*See accompanying Notes to Financial Statements.*

## THE MINNESOTA ORCHESTRAL ASSOCIATION
## STATEMENTS OF OPERATING ACTIVITIES
## YEARS ENDED AUGUST 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **REVENUE, GAINS AND OTHER SUPPORT** | | |
| Operating Revenue: | | |
| Ticket Sales and Service Income | $ 6,549,933 | $ 6,881,572 |
| Tour Revenue | 433,185 | 352,850 |
| Other Revenue | 1,548,124 | 1,964,283 |
| Total Concert and Other Operating Revenue | 8,531,242 | 9,198,705 |
| Contributed Revenue: | | |
| Contributions and Gifts | 3,584,944 | 3,390,614 |
| Campaign Operating Gifts | 320,891 | 350,000 |
| Distributions from Beneficial Interest in Net Assets of Foundation and Trust | 3,065,863 | 3,041,963 |
| Grants for Specified Purposes | 261,336 | 1,478,206 |
| Symphony Ball | 958,124 | 1,057,139 |
| Total Contributed Revenue | 8,191,158 | 9,317,922 |
| Board-Designated Draws from Investments | 4,470,895 | 6,017,993 |
| Net Assets Released from Restrictions: | | |
| Grants for Specific Purposes | 2,169,083 | 1,252,381 |
| Grants to Fund Touring | 400,000 | 485,000 |
| Grants for Campaign | 800,000 | 990,000 |
| Contributions and Gifts | 998,141 | 281,556 |
| Total Net Assets Released from Restrictions | 4,367,224 | 3,008,937 |
| Total Revenue, Gains and Other Support | 25,560,519 | 27,543,557 |
| **EXPENSES** | | |
| Salaries | 18,135,977 | 17,247,730 |
| Benefits | 4,698,192 | 4,638,865 |
| Direct Concert Expense | 3,932,583 | 3,586,448 |
| Tour Expense | 482,048 | 325,032 |
| Advertising and Promotion | 1,580,210 | 1,542,759 |
| Symphony Ball | 327,167 | 299,396 |
| Interest and Financing | 515,176 | 645,489 |
| General, Administrative and Facility Operations | 1,861,561 | 2,165,676 |
| Total Expenses | 31,532,914 | 30,451,395 |
| **NET OPERATING ACTIVITIES** | $ (5,972,395) | $ (2,907,838) |

*See accompanying Notes to Financial Statements.*

# THE MINNESOTA ORCHESTRAL ASSOCIATION
## STATEMENTS OF CASH FLOWS
## YEARS ENDED AUGUST 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ 6,070,300 | $ 12,158,289 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 551,985 | 610,511 |
| Amortization of Debt Issuance Costs | 26,091 | 23,355 |
| Noncash Pension Expense (Revenue) | 2,471,636 | (690,446) |
| Net Unrealized (Appreciation) Depreciation in Fair Value of Investments | 1,125,450 | (1,011,795) |
| Net Realized Gain on Sale of Investments | (3,411,556) | (7,782,886) |
| Loss on Disposal of Fixed Assets | 232,816 | - |
| Change in Beneficial Interest in Net Assets of Foundation and Trust | 1,853,289 | (5,305,191) |
| Additions to Permanently Restricted Net Assets | (5,014,066) | (480,802) |
| Changes in Operating Assets and Liabilities: | | |
| Receivables | (8,878,382) | 6,577,967 |
| Prepaid Expenses and Other | 84,496 | 331,052 |
| Accounts Payable and Accrued Expenses | (92,789) | (811,913) |
| Hall Renovation Accounts Payable | 5,224,606 | - |
| Deferred Concert Revenue | (797,848) | 121,667 |
| Deferred Lease Incentive | (10,928) | - |
| Pension Liability | (1,219,433) | (1,449,676) |
| Net Cash Provided (Used) by Operating Activities | (1,784,333) | 2,290,132 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from Sales of Investments | 74,382,979 | 51,051,051 |
| Purchase of Investments | (48,788,521) | (51,996,310) |
| Hall Renovation Cash Funds Put in Escrow | (32,946,298) | - |
| Purchase of Property and Equipment | (6,959,835) | (1,504,451) |
| Net Cash Used by Investing Activities | (14,311,675) | (2,449,710) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments on Line of Credit | (2,000,000) | - |
| Borrowings on Line of Credit | 2,000,000 | - |
| Payments on Hall Renovation Construction Loan | (1,000,000) | - |
| Borrowings on Hall Renovation Construction Loan | 12,400,000 | - |
| Additions to Permanently Restricted Net Assets | 5,014,066 | 480,802 |
| Net Cash Provided by Financing Activities | 16,414,066 | 480,802 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 318,058 | 321,224 |
| Cash and Cash Equivalents - Beginning of Year | 2,065,530 | 1,744,306 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 2,383,588 | $ 2,065,530 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | |
| Cash Paid for Interest | $ 541,016 | $ 639,407 |
| Leasehold Improvements Acquired through Deferred Lease Incentive | $ 524,521 | $ - |

*See accompanying Notes to Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Description of Organization

The Minnesota Orchestral Association (Association) is a not-for-profit corporation established to provide music education and performance to the greater Minneapolis-Saint Paul metropolitan community and to the State of Minnesota.

### Basis of Accounting

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

### Description of Net Assets

The Association classifies net assets, revenues and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

#### Unrestricted Net Assets

Unrestricted net assets are those that are not subject to any donor-imposed restrictions. The board of directors (the Board) has designated certain unrestricted net assets to be used only for purposes approved by the Board.

**Pension Plan** – Represents the accumulated non-operating effect of the pension plan on the Association's net assets.

**Hall Financing** – The Board has designated this fund to pay for ongoing capital improvements as well as the principal and interest obligations arising from long-term debt associated with improvements to the Hall.

**Capital Assets** – Capital assets include property and equipment. The property is being depreciated on a straight-line basis over 40 years and the equipment over 3 to 15 years.

**Charitable Annuities** – Represents the investments and actuarial liabilities related to charitable gift annuities.

**Board-Designated Endowment** – Board-designated endowment assets represent funds which are fully available at the discretion of the Board for the Association to use in any of its programs or operations. The Board authorizes an annual amount to be drawn from the temporarily restricted net assets for use in support of operations.

#### Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by the donor for use in future periods or for specific purposes. These amounts are transferred to unrestricted net assets in the periods that the restriction is fulfilled and shown as net assets released from restrictions in the accompanying statement of changes in net assets. If a restriction is fulfilled in the same reporting period in which the contribution is received, the revenue is reported as unrestricted.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Description of Net Assets (Continued)

#### Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets for Hall Renovation consist of pledges receivable and pledge payments dedicated to the refurbishment of Orchestra Hall, totaling $35,327,440 and $26,544,355 as of August 31, 2012 and 2011, respectively. As expenditures are made on the refurbishment project, these assets are released from restriction, and recorded as work in progress in unrestricted capital assets. As of August 31, 2012 and 2011, $9,792,013 and $3,302,850, respectively, had been released and spent on the project.

#### Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions which donors have specified to be maintained permanently by the Association. The related income may be expended for a purpose specified by the donor. In 1992, the Board passed a resolution to designate irrevocably $35,000,000 of the total endowment funds as permanently restricted under the Uniform Management of Institutional Funds Act. Since 1992, additional permanently restricted pledges and payments have been added and received, at which time they were added to the permanently restricted fund as designated by the donor.

### Cash and Cash Equivalents

The Association considers all cash investments with original maturities of 90 days or less to be cash equivalents. At times, such cash investments may be in excess of FDIC insurance limits.

### Hall Renovation Funds

Certain funds are being held in a third-party title escrow account for the Hall Renovations. Draws on these funds are made when eligible expenses are incurred by vendors on hall renovation construction.

### Receivables

The Association provides an allowance for bad debts using the allowance method. An account is individually analyzed for collectability. When all collection efforts have been exhausted, the balance is written off against the related allowance. In addition, an allowance is provided for accounts when a significant pattern of uncollectibility has occurred. An allowance was recorded for $3,764 as of August 31, 2012 and 2011.

### Endowment and Hall Pledges Receivable

Endowment and Hall pledges receivable represent unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Endowment and Hall Pledges Receivable (Continued)

The discounts on those amounts are computed using risk-free interest rates applicable to the year in which the pledges are received. Amortization of the discounts is included in Net Pledge and Trust Activity on the statements of changes in net assets. Conditional promises to give are not included as revenue until the conditions are substantially met.

The Association is currently fundraising for improvements to Orchestra Hall. Pledges and payments received for the Hall are recognized as temporarily restricted and will be released to fund spending on Hall renovations.

Charitable remainder trusts are also included in Endowment and Hall Pledges receivables. For charitable remainder trusts for which the Association is not the trustee, the value of the beneficial interest in the remainder trusts is recorded when the trust agreement has been received and there is sufficient information available to value the agreement. The amount recorded is the beneficial interest which is the net expected benefit to be received. This is determined as the difference between the fair value of the trust assets and the actuarial liability. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, lives covered, and age and gender characteristics of the donor.

Management has established an allowance for uncollectible endowment and hall pledges receivables as of August 31, 2012 and 2011 in the amount of $110,000.

### Other Pledges and Receivables

Other pledges and receivables are unconditional promises to give unrestricted and temporarily restricted net assets. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the year in which the pledges are received. Amortization of the discounts is included in Net Pledge and Trust Activity on the statements of changes in net assets. Conditional promises to give are not included as revenue until the conditions are substantially met.

Management has established an allowance for uncollectible other pledges and receivables as of August 31, 2012 and 2011 in the amount of $69,400 and $138,918, respectively.

### Investments

Investments other than alternative investments are stated at market value, as determined by the investment managers through reference to published market data. Alternative investments are carried at fair value as estimated by management using values provided by the investment managers. The Association believes that these valuations are a reasonable estimate of fair value as of August 31, 2012 and 2011, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (Continued)

Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost. Unrealized gains and losses are computed based on changes in the fair value of investments between years.

The Association invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

### Hall Renovations and Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value on the date received, less depreciation. Expenditures for new construction, major renewals and equipment over $500 are capitalized. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, ranging from 3 to 40 years. The cost of minor repairs and maintenance is charged to expense as incurred.

### Musical Instruments

The Association's intent is to maintain these instruments as a collection and for use in the orchestra. Instruments totaled $545,496 and $566,770 at August 31, 2012 and 2011, respectively, and are included at cost in Other Assets on the statements of financial position.

### Financing Costs

In 2005, the Association incurred $310,270 of financing costs related to the issuance of $11,000,000 in senior notes (see Note 4). The costs are being amortized on a straight-line basis over the ten-year life of the notes and are included in Other Assets on the statements of financial position. Amortization expense of the financing costs was $26,091 for 2012 and 2011.

### Gift Annuity Contracts

The Association records liabilities under annuity contracts with donors which are included in Accounts Payable and Accrued Expenses on the statements of financial position. The liability is established at the time of the contribution using life expectancy actuarial tables and is revalued annually. Actual gains and losses resulting from the annual revaluation of annuity obligations are consistent with the method used to initially record the contributions, based upon the existence or absence of the donor-imposed restrictions and are included in Change in Value of Split Interest Agreements on the statements of changes in net assets.

### Deferred Concert Revenue

Advance season ticket sales are deemed to be earned and reported as revenue upon the completion of the related performance or event. Amounts received but not yet earned are reported as deferred revenue.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Net Asset Classification

The Association follows the guidance found in the *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure for All Endowed Funds* Standard issued by the Financial Accounting Standards Board. This Standard provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enhanced version of the Uniform Prudent Management of Institutional Funds Act of 2006. (UPMIFA). The standard also improves disclosures about an organizations endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. 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.

The board of directors has interpreted 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 Association classifies as permanently net restricted 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 Association in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the fund
(2) The purposes of the Association and the donor-restricted fund
(3) General economic conditions
(4) The possible effects of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Association
(7) The investment policies of the Association

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Concentrations

One donor (State of Minnesota, $14,000,000 grant for the Hall Renovation) accounted for 54% of total pledges receivable at August 31, 2012. Two private individual donors accounted for 20% of total pledges receivable at August 31, 2011. Two donors (State of Minnesota, $14,000,000 grant for the Hall Renovation and one individual estate gift) accounted for 59% of contribution income in 2012. Two donors (Oakleaf Trust distribution and one individual estate gift) accounted for 38% of contribution income in 2011.

### Fair Value Measurement

The Association follows the guidance in the *Fair Value Measurements Standard*. This standard applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement.

The *Fair Value Measurements Standard* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and requires expanded disclosures about fair value measurements.

The Association accounts for its investments at fair value. In accordance with the *Fair Value Measurements Standard*, the Association has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

*Level 2* – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes publicly traded equities held in limited partnerships.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes long/short funds, private equity, venture capital, hedge fund, and real assets.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue Recognition

Contributions, including unconditional promises to give and temporarily restricted contributions, are recognized as revenue in the period the contributions are received. Conditional (revocable) promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Pledged contributions to be paid more than one year in the future are discounted at the appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Revenue for sponsorship of events that directly benefit the sponsor is recognized when the benefit occurs.

### Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, endowment pledges receivable, other pledges and receivables, investments, borrowings under the line of credit, accounts payable and accrued expenses, and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The fair value of endowment pledges receivable and other pledges and receivables, which are based on the discounted cash flows using current interest rates, approximates the carrying value at August 31, 2012 and 2011. Fair values of investments are based on quoted market prices at August 31, 2012 and 2011. The fair value of the Association's long-term debt is estimated based on the current rates offered to the Association for debt of similar terms and maturities. Under this method, the Association's fair value of long-term debt was not significantly different from the carrying value at August 31, 2012 and 2011.

### Advertising Costs

Advertising costs incurred by the Association for direct response advertisements are capitalized as prepaid expenses and charged to expense over the period the advertisement is determined to be of economic benefit. Direct response advertisements include mailings for subscribers and single ticket and group ticket purchasers. All advertising costs incurred for a specific event are charged to expense when the corresponding event occurs.

The Association incurred advertising expenses of $1,580,210 in fiscal year 2012 and $1,542,759 in fiscal year 2011. Prepaid expenses for advertising include $249,798 and $237,442 at August 31, 2012 and 2011, respectively.

### Tax-Exempt Status

The Association is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, as amended, (Code) and similar statutes of Minnesota law and, accordingly, is generally not subject to federal or state income taxes. The Association has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction for donors.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Tax-Exempt Status (Continued)

The Association has adopted guidance in the *Accounting for Uncertainty in Income Taxes* Standard. No adjustments to the financial statements were required as a result of the implementation this standard. The Association has no current obligation for unrelated business income tax.

The Association's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years ended August 31, 2009 to 2011 are open to examination by federal and state authorities.

### Reclassifications

The Association reclassified the Endowment and Hall Pledges Receivable current and non-current portions to separate the two pieces out in order to provide a more transparent detail of activity. These reclassifications have been made to the 2011 financial statements in order to present them in conformity with the 2012 financial statements. These reclassifications have had no effect on net assets as previously reported.

### 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

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 15, 2012, the date the financial statements were available to be issued.

## NOTE 2 PLEDGES RECEIVABLE

### Endowment Pledges Receivable

Endowment pledges receivable at August 31, 2012 and 2011 are expected to be realized in the following periods:

| | 2012 | 2011 |
|---|---|---|
| Less than One Year | $ 520,855 | $ 863,063 |
| One Year to Five Years | 970,505 | 1,546,183 |
| More than Five Years | 848,769 | 1,253,763 |
| Less: Present Value Discount and Amortization | (585,046) | (725,793) |
| Less: Allowance for Doubtful Accounts | (35,000) | (35,000) |
| Total | $ 1,720,083 | $ 2,902,216 |

The discount rate used to calculate the present value of endowment and hall pledges receivables recorded in fiscal years 2012 and 2011 was 1.4% and 2.6%, respectively, based on rates as of August 31, 2012 and 2011.

### Hall Renovation Pledges Receivable

Hall renovation pledges receivable at August 31, 2012 and 2011 are expected to be realized in the following periods:

| | 2012 | 2011 |
|---|---|---|
| Less than One Year | $ 15,705,376 | $ 1,901,688 |
| One Year to Five Years | 3,861,643 | 5,315,173 |
| More than Five Years | 517,194 | 868,281 |
| Less: Present Value Discount and Amortization | (320,251) | (492,970) |
| Less: Allowance for Doubtful Accounts | (75,000) | (75,000) |
| Total | $ 19,688,962 | $ 7,517,172 |

The discount rate used to calculate the present value of endowment and hall pledges receivables recorded in fiscal years 2012 and 2011 was 1.4% and 2.6%, respectively, based on rates as of August 31, 2012 and 2011.

### Other Pledges and Receivables

Other pledges and receivables are expected to be realized in the following periods:

| | 2012 | 2011 |
|---|---|---|
| Less than One Year | $ 2,927,409 | $ 4,302,761 |
| One Year to Five Years | 1,252,195 | 2,074,759 |
| More than Five Years | 362,983 | 217,112 |
| Less: Present Value Discount and Amortization | (48,689) | (96,372) |
| Less: Allowance for Doubtful Accounts | (69,400) | (138,918) |
| Total | $ 4,424,498 | $ 6,359,342 |

The discount rate used to calculate the present value of other pledges and receivables recorded in fiscal years 2012 and 2011 was 1.4% and 2.6%, respectively, based on rates as of August 31, 2012 and 2011.

## NOTE 3 PROPERTY AND EQUIPMENT AND HALL RENOVATIONS

Details of property and equipment and hall renovations at August 31 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 3,006,334 | $ 3,006,334 |
| Building and Improvements | 12,611,128 | 14,956,547 |
| Vehicles | 112,605 | 112,383 |
| Equipment | 5,881,201 | 5,479,730 |
| Less: Accumulated Depreciation and Amortization | (16,179,080) | (17,819,605) |
| Total | $ 5,432,188 | $ 5,735,389 |
| | | |
| Leasehold Improvements | $ 524,521 | $ - |
| Less: Accumulated Depreciation and Amortization | (10,928) | - |
| Total | $ 513,593 | $ - |
| | | |
| Hall Renovation Work in Progress | $ 9,792,013 | $ 3,302,850 |

### Leasehold Improvements

As part of the continuing efforts to reduce costs, during the fiscal year ending August 31, 2012, the Association consolidated its administrative offices and by July 2013 will have reduced its office space square footage needs by nearly 25%. As is common practice, the Association was able to negotiate approximately $524,000 in landlord provided lease incentives to pay for the cost of the office build-out. The asset and liability will be depreciated and amortized over the life of the 10-year lease. This is reflected on the statements of financial position as Property and Equipment and as a Lease Incentive Liability.

### Renovation of Orchestra Hall

In June 2012, the Association commenced construction on renovation of Orchestra Hall located in the City of Minneapolis. The Orchestra Hall renovation is expected to cost approximately $52,000,000 and is financed through a combination of private contributions and a $14,000,000 grant from the State of Minnesota. The renovation is expected to be completed by July 2013. The Association has entered into a construction contract with a remaining commitment at August 31, 2012 of approximately $42,200,000, which includes the balance to finish.

On June 23, 2012, the Association entered into a 50-year ground lease with the City of Minneapolis. At the same time, the City entered into a 20-year lease agreement to lease it back to the Association. At the end of the 20-year term of the lease-back, the Association has the option to renew the lease-back for two successive periods, the first of which shall be for 20 years, and the second shall be an additional 10 years. Management considers the possibility that the lease-back would not be renewed with the City as remote and, therefore, has retained Orchestra Hall on its financial statements as a capital asset and will depreciate Orchestra Hall over its useful life.

## NOTE 4 INVESTMENTS

A comparative summary of investments at August 31 is as follows:

| | 2012 | 2011 |
|---|---|---|
| **ENDOWMENTS** | | |
| Cash and Cash Equivalents | $ 587,822 | $ 3,324,647 |
| Mutual Funds - Equity | 17,407,870 | 7,723,493 |
| Mutual Funds - Bonds | 15,992,514 | 10,272,339 |
| Common and Preferred Stocks | 2,067,816 | 6,478,190 |
| Alternative Investments: | | |
| Fixed Income | 12,557,705 | 29,357,666 |
| Fund of Funds | 1,430,961 | 2,280,354 |
| Private Equity Funds | 4,278,542 | 4,256,279 |
| Global Equity Fund | 4,712,410 | 5,319,252 |
| Total Endowments | $ 59,035,640 | $ 69,012,220 |
| **HALL FUND** | | |
| Mutual Funds - Equity | $ 5,355,852 | $ 4,847,709 |
| Mutual Funds - Fixed Income | 1,692,838 | 1,728,805 |
| Cash and Cash Equivalents | 741,639 | 479,831 |
| Total Hall Fund | $ 7,790,329 | $ 7,056,345 |
| **HALL RENOVATION** | | |
| Money Market | $ - | $ 19,243,574 |
| **OTHER INVESTMENTS** | | |
| Privately Held Common Stock | $ 50,000 | $ 76,338 |
| Mutual Funds - Equity | 1,844,425 | 1,692,420 |
| Mutual Funds - Fixed Income | 582,972 | 603,556 |
| Cash and Cash Equivalents | 255,403 | 182,668 |
| Total Other Investments | $ 2,732,800 | $ 2,554,982 |

### Beneficial Interest in Net Assets of Foundation and Trust

The Association is a beneficiary of a designated fund at The Saint Paul Foundation (Foundation), pursuant to which amounts contributed are held as a separate fund designated for the benefit of the Association. The Foundation makes income distributions from the fund to the Association once a year. The fair value of the interest in the net assets of the Foundation are based on the fair value of the assets in the fund, which were $1,212,955 and $1,277,896 at August 31, 2012 and 2011, respectively.

The Association is also the beneficiary, but not the trustee, under a Trust Agreement (the Trust) with Oakleaf, pursuant to which the Association is entitled to certain income distributions from trust assets each year, dependent upon the Association achieving defined criteria. This Agreement was amended during the year ended August 31, 2011 to include the Building for the Future Fund. The Trust may be terminated by its trustees at any time after 20 years (2017) at which time all trust assets could be added to the Association's endowment.

## NOTE 4 INVESTMENTS (CONTINUED)

**Beneficial Interest in Net Assets of Foundation and Trust (Continued)**

The fair value of the interest in the net assets of the Trust are based on the fair value of the assets in the trust, which were $66,532,310 and $63,320,658 at August 31, 2012 and 2011, respectively. Distributions from the Trust of $3,005,367 and $2,978,328 for the years ended August 31, 2012 and 2011, respectively, are included in Contributions and Gifts on the statements of changes in net assets.

## NOTE 5 DEBT

**Lines of Credit**

The Association has unsecured lines of credit, as amended, with two banks under which it could borrow up to $5,000,000. Each of the lines have an available balance of $2,500,000 and bear interest at a rate of 2.5% above the LIBOR interest rate (2.75% at August 31, 2012), as defined, and both expire on February 28, 2013. As of August 31, 2012 and 2011, the Association had $-0- borrowings outstanding under the lines of credit. The $5,000,000 line also requires the Association to maintain a balance in the unrestricted board-designated investments of at least $5,000,000, measured quarterly.

**Long-Term Debt**

In May 2004, the Association entered into a new unsecured loan and note purchase agreement with the City and an investment service. Based on the agreement, the City issued $1,690,000 of tax-exempt revenue notes, Series 2004 (2004 Note) to the Association to refinance the remaining outstanding balances from the Series 1996 and Series 1997 Revenue Notes totaling $1,567,266. The 2004 Note bears interest at a rate equal to the six-month LIBOR rate plus 23 basis points and is payable in semi-annual payments with the principal due in full on April 1, 2019. The rate was initially set at 1.58% and will be reset every October 1 and April 1 thereafter. The interest rate was 1.00% and 1.98% at August 31, 2012 and 2011, respectively. The 2004 Note also requires the Association to maintain a balance in the unrestricted board-designated investments of at least $2,028,000, measured quarterly.

In April 2005, the Association issued unsecured senior notes in the amount of $11,000,000. Interest at a fixed rate of 5.64% is payable in semi-annual payments on April 1 and October 1 with the principal due in full on April 1, 2015. The Association is required to maintain funds sufficient to make the next semi-annual debt service payment plus one full year of interest. The unsecured senior notes are subject to covenants which require the Association to maintain unrestricted cash and investments equal to no less than $5 million along with maintenance of a savings account, trust fund and a debt service reserve. In addition, endowment assets of $11.1 million are pledged as collateral on this note.

In July 2010, the Association repurchased $1,750,000 of the $11,000,000 in outstanding debt and derecognized the related liability. The $1,750,000 repurchased notes were required to be retired by the note issuer in June 2012.

## NOTE 5 DEBT (CONTINUED)

### Long-Term Debt (Continued)

In June 2012, the Association borrowed $12,400,000 in new debt related to the renovation of Orchestra Hall. Interest rate of the new debt is variable; the rate at August 31, 2012 is 2.7305% and is payable monthly calculated on the outstanding principal balance. Principal is due on September 1, 2017 with required payments due September 1 of each year until 2017. Principal payments are being made as Hall Renovation pledge payments are received. The Association is required to pledge invested assets as collateral for the balance of the outstanding principal. The Association is required to maintain a separate bank account for all Hall Renovation pledge payments. Interest and principal payments are paid out of the same account. As of August 31, 2012, the outstanding principal balance on this debt is $11,400,000.

Aggregate maturities are as follows at August 31:

| Year Ending August 31, | 2004 Note | Senior Notes | Hall Renovation Construction | Total |
|---|---|---|---|---|
| 2013 | $ - | $ - | $ 600,000 | $ 600,000 |
| 2014 | - | - | 1,300,000 | 1,300,000 |
| 2015 | - | - | 1,200,000 | 1,200,000 |
| 2016 | - | 9,250,000 | 400,000 | 9,650,000 |
| Thereafter | 1,690,000 | - | 7,900,000 | 9,590,000 |
| Total Long-Term Debt | $ 1,690,000 | $ 9,250,000 | $ 11,400,000 | $ 22,340,000 |

## NOTE 6 EMPLOYEE BENEFIT PLANS

The Association sponsors a defined benefit pension plan and trust agreement covering eligible musicians other than conductors (Musician Plan). This plan was curtailed during fiscal year 1997, and a curtailment loss was recognized equal to the liability for the accrual of pension benefits determined as of the curtailment date. The Musician Plan uses a measurement date of August 31. As a replacement, the Association contributes to a multi-employer defined benefit pension plan for eligible musicians other than conductors that will accrue benefits for future years. The minimum funding percentage is 7.63% (7.00% regular contribution and 0.63% for the 9% surcharge described below) on each eligible musician's earnings. Employer contributions to the multi-employer plan were $584,441 and $585,803 in 2012 and 2011, respectively. For the plan's fiscal year ended March 31, 2012, the employer contributions accounted for 1.1% of the plan's total contributions. The Association is currently paying a 9% surcharge to the plan due to the plan being underfunded. The plan's most recent certified funding status is critical. As of March 31, 2012, the Association's estimated cost to withdraw from the plan is $24,790,605 (as of March 2011, the cost was $18,679,189). The Association has no current intention to withdraw from the plan and, as such, the cost is not recorded as a liability in the Association's financial statements. The collective bargaining agreement with the Twin Cities Musicians Union Local #30 – 73 expired on October 1, 2012.

## NOTE 6 EMPLOYEE BENEFIT PLANS (CONTINUED)

The Association also maintained a defined benefit plan and trust agreement covering staff employees (Administration Plan), which was frozen effective August 31, 1991. The Administration Plan uses a measurement date of August 31. Management has replaced this plan with a defined contribution plan covering those employees. Employer contributions to the defined contribution plan were $198,362 and $186,030 in 2012 and 2011, respectively.

The changes in the projected benefit obligation are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Musician Plan | Administration Plan | Musician Plan | Administration Plan |
| Projected Benefit Obligation at Beginning of Year | $ 17,029,664 | $ 2,041,698 | $ 18,012,736 | $ 2,112,126 |
| Increases (Decreases) During Year | | | | |
| Attributable to: | | | | |
| Interest on Projected Benefit Obligation | 800,237 | 94,825 | 767,736 | 91,373 |
| Actuarial Losses (Gains) | 1,949,981 | 192,222 | (438,919) | (3,749) |
| Benefits Paid | (1,310,256) | (230,769) | (1,311,889) | (158,052) |
| Net Increase (Decrease) for Year | 1,439,962 | 56,278 | (983,072) | (70,428) |
| Projected Benefit Obligation at End of Year | $ 18,469,626 | $ 2,097,976 | $ 17,029,664 | $ 2,041,698 |
| Accumulated Benefit Obligation | $ 18,469,626 | $ 2,097,976 | $ 17,029,664 | $ 2,041,698 |

The changes in the fair value of net assets available for plan benefits are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Musician Plan | Administration Plan | Musician Plan | Administration Plan |
| Fair Value of Net Assets Available for Plan Benefits at Beginning of Year | $ 10,345,753 | $ 1,216,431 | $ 9,432,423 | $ 1,043,139 |
| Increases (Decreases) During the Year | | | | |
| Attributable to: | | | | |
| Actual Return on Plan Assets | 706,834 | 94,771 | 1,000,597 | 126,416 |
| Sponsor Contributions | 1,066,092 | 153,341 | 1,240,935 | 208,741 |
| Expenses Paid | (195,341) | (40,635) | (16,313) | (3,813) |
| Benefits Paid | (1,310,256) | (230,769) | (1,311,889) | (158,052) |
| Net Increase (Decrease) for Year | $ 267,329 | $ (23,292) | $ 913,330 | $ 173,292 |
| Fair Value of Net Assets Available for Plan Benefits at End of Year | $ 10,613,082 | $ 1,193,139 | $ 10,345,753 | $ 1,216,431 |

## NOTE 6 EMPLOYEE BENEFIT PLANS (CONTINUED)

A reconciliation of the funded status of the Plan is as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Musician Plan | Administration Plan | Musician Plan | Administration Plan |
| Projected Benefit Obligation in Excess of Plan Assets | $ (7,856,544) | $ (904,837) | $ (6,683,911) | $ (825,267) |
| Unrecognized Net Transition Asset | - | - | - | - |
| Unrecognized Prior Service Cost | - | - | - | - |
| Unrecognized Net Gains | - | - | - | - |
| Pension Liability | $ (7,856,544) | $ (904,837) | $ (6,683,911) | $ (825,267) |

The components of pension expense for the Plan consisted of the following:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Musician Plan | Administration Plan | Musician Plan | Administration Plan |
| Administration Expenses | $ 105,000 | $ 20,000 | $ 90,000 | $ 20,000 |
| Interest on Projected Benefit Obligation | 800,237 | 94,825 | 767,736 | 91,373 |
| Expected Return on Plan Assets | (932,007) | (110,173) | (1,005,158) | (115,088) |
| Amortization of Prior Service Cost | 60,576 | 3,782 | 60,576 | 3,782 |
| Amortization of Net Loss | 662,888 | 179,157 | 553,976 | 174,734 |
| Net Periodic Benefit Cost | 696,694 | 187,591 | 467,130 | 174,801 |
| Current Year Loss (Gain) | 2,265,495 | 228,259 | (508,045) | (31,264) |
| Amortization of Net Actuarial Gain | (723,464) | (182,939) | (614,552) | (178,516) |
| Total Pension Expense (Gain) | $ 2,238,725 | $ 232,911 | $ (655,467) | $ (34,979) |

Actuarial assumptions are as follows:

| | 2012 | 2011 |
|---|---|---|
| Assumptions Used to Determine Year-End Benefit Obligation: | | |
| Discount Rate | 3.85 % | 4.80 % |
| Rate of Increase in Compensation Levels | N/A | N/A |
| Assumptions Used to Determine Net Periodic Pension Costs: | | |
| Discount Rate | 4.80 % | 4.50 % |
| Rate of Increase in Compensation Levels | N/A | N/A |
| Expected Long-Term Rate of Return on Assets | 7.75 % | 8.25 % |

## NOTE 6 EMPLOYEE BENEFIT PLANS (CONTINUED)

Estimated future benefit payments over the next 10 years, which reflect expected future service, are expected to be paid as follows:

| Year | Musician Plan | Administration Plan |
|---|---|---|
| 2013 | $ 1,344,000 | $ 194,000 |
| 2014 | 1,320,000 | 184,000 |
| 2015 | 1,288,000 | 174,000 |
| 2016 | 1,273,000 | 164,000 |
| 2017 | 1,265,000 | 154,000 |
| 2017 to 2022 | 5,882,000 | 728,000 |

In determining the net periodic pension cost, the Association uses a market-related value of pension plan assets, calculated using five-year smoothing of gains and losses.

These assumptions are reviewed on an annual basis. In determining the expected long-term return on assets, the Association evaluates the long-term returns earned by the plans, the mix of investments that comprise plan assets and forecasts of future long-term investment returns.

### Plan Assets

Plan assets allocated at August 31 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Musician Plan | Administration Plan | Musician Plan | Administration Plan |
| Mutual Funds - Equity | 45.01 % | - % | 39.20 % | - % |
| Mutual Funds - Fixed Income | 36.02 | 79.54 | 30.60 | 83.20 |
| Mutual Funds - Real Estate and Commodities | 4.48 | - | 12.00 | - |
| Cash | 14.49 | 20.46 | 18.20 | 16.80 |
| Total | 100.00 % | 100.00 % | 100.00 % | 100.00 % |

Plan assets are invested with the objective of maximizing long-term returns while minimizing material losses in order to meet future benefit obligations when they come due.

For the Musician and Administration Plans, the Association uses an investment approach utilizing various mutual funds with the risk tolerance established by the Association for the plans. Risk tolerance is determined through consideration of plan liabilities, funded status and the Association's financial condition. The investment portfolios consist of mutual funds with a diversified blend of equity and fixed income investments. Investment risk is measured and monitored on an ongoing basis by the Association through quarterly investment portfolio reviews and annual plan asset and liability reviews. No securities of the Association or related parties are held as assets by either Plan.

## NOTE 6 EMPLOYEE BENEFIT PLANS (CONTINUED)

### Plan Assets (Continued)

The Association's Board approved a policy for future plan years to maintain a funding level as required by statute for the Musician and Administration Plans. The contributions made to the Musician's Plan was $1,066,092 and $1,240,935 in fiscal 2012 and 2011, respectively. The contributions made to the Administrative Plan was $153,341 and $208,741 in fiscal 2012 and 2011, respectively.

Expected fiscal 2013 contributions to be made to the Musician and Administrative Plans are $1,627,698 and $213,720, respectively.

The plan uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The following table presents the fair value hierarchy for the balances of the assets of the plan measured at fair value on a recurring basis as of August 31, 2012 and 2011:

| | 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Musicians Plan: | | | | |
| Mutual Funds - Equity | $ 4,776,948 | $ - | $ - | $ 4,776,948 |
| Mutual Funds - Fixed Income | 3,822,832 | - | - | 3,822,832 |
| Mutual Funds - Real Estate and Commodities | 475,466 | - | - | 475,466 |
| Cash | 1,537,836 | - | - | 1,537,836 |
| Total | $ 10,613,082 | $ - | $ - | $ 10,613,082 |
| Administration Plan: | | | | |
| Mutual Funds - Fixed Income | $ 949,023 | $ - | $ - | $ 949,023 |
| Cash | 244,116 | - | - | 244,116 |
| Total | $ 1,193,139 | $ - | $ - | $ 1,193,139 |

| | 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Musicians Plan: | | | | |
| Mutual Funds - Equity | $ 4,055,535 | $ - | $ - | $ 4,055,535 |
| Mutual Funds - Fixed Income | 3,165,800 | - | - | 3,165,800 |
| Mutual Funds - Real Estate and Commodities | 1,241,490 | - | - | 1,241,490 |
| Cash | 1,882,927 | - | - | 1,882,927 |
| Total | $ 10,345,753 | $ - | $ - | $ 10,345,753 |
| Administration Plan: | | | | |
| Mutual Funds - Fixed Income | $ 1,012,071 | $ - | $ - | $ 1,012,071 |
| Cash | 204,360 | - | - | 204,360 |
| Total | $ 1,216,431 | $ - | $ - | $ 1,216,431 |

## NOTE 7 NET ASSETS

**Temporarily Restricted**

Temporarily restricted net assets at August 31, 2012 and 2011 consist of:

| | 2012 | 2011 |
|---|---|---|
| Zellmer Scholarship Fund | $ 146,477 | $ 133,212 |
| Pledges and Payments Restricted for Hall Renovation | 35,327,440 | 26,544,355 |
| Contributions to Operations: | | |
| Pledge Payments for Future Years Operations | 3,475,721 | 4,049,277 |
| In-kind Services Pledged for Fiscal 2013 | 115,160 | 121,300 |
| Pledges Receivable for Fiscal 2013 | 2,054,023 | 3,077,640 |
| Pledges Receivable for Future Fiscal Years | 1,181,993 | 1,821,340 |
| Total Temporarily Restricted Net Assets | $ 42,300,814 | $ 35,747,124 |

**Permanently Restricted**

Permanently restricted net assets at August 31, 2012 and 2011 consist of:

| | 2012 | 2011 |
|---|---|---|
| Pledges to Permanent Endowment | $ 440,410 | $ 426,757 |
| Permanent Endowment | 77,731,667 | 77,731,254 |
| Oakleaf Trust for the Minnesota Orchestra | 58,251,530 | 60,198,333 |
| Building for the Future Fund | 8,280,780 | 3,122,325 |
| St. Paul Foundation Trust | 1,212,955 | 1,277,896 |
| Total Permanently Restricted Net Assets | $ 145,917,342 | $ 142,756,565 |

**Net Assets Released from Restrictions**

Net assets are released from restrictions when the time or purpose of the restriction is satisfied. The amount of net assets released from restriction at August 31, 2012 and 2011 was $13,135,599 and $15,434,781, respectively. In connection with the creation of the Building for the Future Fund in 2011, $3,206,495 was contributed to the Fund out of Temporarily Restricted Net Assets.

## NOTE 8 FAIR VALUE MEASUREMENTS

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Association values all other assets and liabilities refer to Note 1 – Summary of Significant Accounting Policies. Cash and Cash Equivalents are included in the following tables to facilitate reconciliation with the amounts included in investments summary (see Note 3).

## NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis at August 31:

| | 2012 | | | |
|---|---|---|---|---|
| **ENDOWMENTS** | Level 1 | Level 2 | Level 3 | Total |
| Cash and Cash Equivalents | $ 587,822 | $ - | $ - | $ 587,822 |
| Mutual Funds - Equity | 17,407,870 | - | - | 17,407,870 |
| Mutual Funds - Bonds | 15,992,514 | - | - | 15,992,514 |
| Common and Preferred Stocks | 2,067,816 | - | - | 2,067,816 |
| Alternative Investments: | | | | |
| Fixed Income | - | 11,271,901 | 1,285,804 | 12,557,705 |
| Fund of Funds | - | - | 1,430,961 | 1,430,961 |
| Private Equity Funds | - | - | 4,278,542 | 4,278,542 |
| Global Equity Fund | - | 4,712,410 | - | 4,712,410 |
| Total Endowments | $ 36,056,022 | $ 15,984,311 | $ 6,995,307 | $ 59,035,640 |
| **HALL FUND** | | | | |
| Mutual Funds - Equity | $ 5,355,852 | $ - | $ - | $ 5,355,852 |
| Mutual Funds - Fixed Income | 1,692,838 | - | - | 1,692,838 |
| Cash and Cash Equivalents | 741,639 | - | - | 741,639 |
| Total Hall Fund | $ 7,790,329 | $ - | $ - | $ 7,790,329 |
| **HALL RENOVATION** | | | | |
| Money Market | $ - | $ - | $ - | $ - |
| **OTHER INVESTMENTS** | | | | |
| Privately Held Common Stock | $ - | $ - | $ 50,000 | $ 50,000 |
| Mutual Funds - Equity | 1,844,425 | - | - | 1,844,425 |
| Mutual Funds - Fixed Income | 582,972 | - | - | 582,972 |
| Cash and Cash Equivalents | 255,403 | - | - | 255,403 |
| Total Other Investments | $ 2,682,800 | $ - | $ 50,000 | $ 2,732,800 |
| **BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION AND TRUST** | $ - | $ - | $ 67,745,265 | $ 67,745,265 |
| Total Investments | $ 46,529,151 | $ 15,984,311 | $ 74,790,572 | $ 137,304,034 |

## NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

| | 2011 Level 1 | 2011 Level 2 | 2011 Level 3 | 2011 Total |
|---|---|---|---|---|
| **ENDOWMENTS** | | | | |
| Cash and Cash Equivalents | $ 3,324,647 | $ - | $ - | $ 3,324,647 |
| Mutual Funds - Equity | 7,723,493 | - | - | 7,723,493 |
| Mutual Funds - Bonds | 10,272,339 | - | - | 10,272,339 |
| Common and Preferred Stocks | 6,478,190 | - | - | 6,478,190 |
| Alternative Investments: | | | | |
| Fixed Income | - | 29,357,666 | - | 29,357,666 |
| Fund of Funds | - | - | 2,280,354 | 2,280,354 |
| Private Equity Funds | - | - | 4,256,279 | 4,256,279 |
| Global Equity Fund | - | 5,319,252 | - | 5,319,252 |
| Total Endowments | $ 27,798,669 | $ 34,676,918 | $ 6,536,633 | $ 69,012,220 |
| **HALL FUND** | | | | |
| Mutual Funds - Equity | $ 4,847,709 | $ - | $ - | $ 4,847,709 |
| Mutual Funds - Fixed Income | 1,728,805 | - | - | 1,728,805 |
| Cash and Cash Equivalents | 479,831 | - | - | 479,831 |
| Total Hall Fund | $ 7,056,345 | $ - | $ - | $ 7,056,345 |
| **HALL RENOVATION** | | | | |
| Money Market | $ 19,243,574 | $ - | $ - | $ 19,243,574 |
| **OTHER INVESTMENTS** | | | | |
| Privately Held Common Stock | $ - | $ - | $ 76,338 | $ 76,338 |
| Mutual Funds - Equity | 1,692,420 | - | - | 1,692,420 |
| Mutual Funds - Fixed Income | 603,556 | - | - | 603,556 |
| Cash and Cash Equivalents | 182,668 | - | - | 182,668 |
| Total Other Investments | $ 2,478,644 | $ - | $ 76,338 | $ 2,554,982 |
| **BENEFICIAL INTEREST IN NET ASSETS OF FOUNDATION AND TRUST** | $ - | $ - | $ 64,598,554 | $ 64,598,554 |
| Total Investments | $ 56,577,232 | $ 34,676,918 | $ 71,211,525 | $ 162,465,675 |

### Level 3 Assets

The following table provides summary of changes in fair value of the Association Level 3 financial assets for the year ended August 31:

| 2012 | Beneficial Interest in Foundation and Trust | Fixed Income Funds | Fund of Funds | Private Equities | Privately Held Common Stock | Total |
|---|---|---|---|---|---|---|
| Balance as of September 1, 2011 | $ 64,598,554 | $ - | $ 2,280,354 | $ 4,256,279 | $ 76,338 | $ 71,211,525 |
| Net Realized and Unrealized (Losses) Gains | - | - | (73,558) | 311,180 | (26,338) | 211,284 |
| Change in Value of Beneficial Interest | (1,853,289) | - | - | - | - | (1,853,289) |
| Purchases of Investments | 5,000,000 | - | - | - | - | 5,000,000 |
| Proceeds from Sales of Investments | - | - | (775,835) | (288,917) | - | (1,064,752) |
| Transfer from Level 2 | - | 1,285,804 | - | - | - | 1,285,804 |
| Balance as of August 31, 2012 | $ 67,745,265 | $ 1,285,804 | $ 1,430,961 | $ 4,278,542 | $ 50,000 | $ 74,790,572 |

## NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

### Level 3 Assets (Continued)

Based on the audited financial statements as of December 31, 2011 of the Oakleaf Trust for which the Association holds a beneficial interest, 25% of those investments were Level 1, 46% were Level 2 and 29% were Level 3.

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial Interest in Foundation and Trust | Fixed Income Funds | Fund of Funds | Private Equities | Privately Held Common Stock | Total |
| Balance as of September 1, 2010 | $ 56,086,868 | $ - | $ 4,060,119 | $ 3,493,122 | $ 76,338 | $ 63,716,447 |
| Net Realized and Unrealized Gains | - | - | 121,290 | 868,782 | - | 990,072 |
| Change in Value of Beneficial Interest | 5,305,191 | - | - | - | - | 5,305,191 |
| Purchases of Investments | 3,206,495 | - | - | - | - | 3,206,495 |
| Proceeds from Sales of Investments | - | - | (1,901,055) | (105,625) | - | (2,006,680) |
| Balance as of August 31, 2011 | $ 64,598,554 | $ - | $ 2,280,354 | $ 4,256,279 | $ 76,338 | $ 71,211,525 |

The transfer from Level 2 assets during the year is for a fund that began liquidation during the current year, eliminating the ability to redeem assets from the fund.

Based on the audited financial statements as of December 31, 2010 of the Oakleaf Trust for which the Association holds a beneficial interest, 24% of those investments were Level 1, 42% were Level 2 and 34% were Level 3.

Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent) as of August 31:

| | 2012 | | | |
|---|---|---|---|---|
| | Net Asset Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Fixed Income | $ 4,613,097 | $ - | Daily | Daily |
| Fixed Income | 6,658,804 | - | Quarterly - Annually | 45 to 90 Days |
| Fixed Income | 1,285,804 | - | In Liquidation | N/A |
| Fund of Funds | 1,430,961 | - | In Liquidation | N/A |
| Private Equity Funds | 4,278,542 | 446,931 | N/A | N/A |
| Global Equity Fund | 4,712,410 | - | Monthly | 15 Days |

| | 2011 | | | |
|---|---|---|---|---|
| | Net Asset Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Fixed Income | $ 13,129,125 | $ - | Daily | Daily |
| Fixed Income | 4,644,281 | - | Daily | Daily |
| Fixed Income | 9,920,633 | - | Quarterly - Annually | 45 to 90 Days |
| Fixed Income | 1,663,627 | - | N/A | N/A |
| Fund of Funds | 2,280,354 | - | In Liquidation | N/A |
| Private Equity Funds | 4,256,279 | 633,811 | N/A | N/A |
| Global Equity Fund | 5,319,252 | - | Monthly | 15 Days |

## NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

**Level 3 Assets (Continued)**

Fixed Income includes investments primarily in diversified portfolios of distressed corporate and mortgage bonds, long/short credit, various asset-backed securities and loan investments. The fair value of the fixed income in this category has been estimated using the net asset value per share of the investments (or its equivalent).

Fund of Funds includes investments in multi-strategy and event driven funds. The fair value of the hedged equity funds in this category has been estimated using the net asset value per share of the investments (or its equivalent).

Private Equity Funds are invested primarily in long only equity managers along with distressed debt managers. The fair value of the private equity funds in this category has been estimated using the net asset value per share of the investments (or its equivalent).

Global Equity Fund invests primarily in international equities with a long-term investment horizon. The fair value of the global equity fund in this category has been estimated using the net asset value per share of the investments (or its equivalent).

## NOTE 9 ENDOWMENT

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding while seeking to maintain the purchasing power of endowment assets. Under this policy approved by the board of directors, the endowment assets are invested in a manner that is intended to achieve an annualized total return after investment management fees of 5%, net of inflation. Actual returns in any given year may vary from this amount.

Beginning in the fiscal year ended August 31, 2008, the Board undertook an initiative to reduce the operating draw from 6% to 5% over the next 10 years. The percentage is reduced 0.1% per year until it reaches 5.0%. For the fiscal year ended August 31, 2012, the planned operating draw was 5.6% of the rolling twelve quarter market value of the endowment assets. During fiscal years ended August 31, 2012 and 2011, the Association's endowment draw designated for current operations was $4,470,895 and $6,017,993, respectively.

The Board may change the targeted spending rate in any one year to achieve the strategic objectives of the Association. The Association's total draw of endowment funds designated for expenditure equaled $12,473,507 (or 21.1% of the ending MOA endowment value, $59,035,640) during the fiscal year ended August 31, 2012. That draw covered the 5.6% operating draw, the deficit from operations, the frozen pension plan contributions, and non-operating endowment fundraising expenses. The total draw during the fiscal year ended August 31, 2011 was $12,147,929 (or 17.6%).

## NOTE 9 ENDOWMENT (CONTINUED)

Beginning in the fiscal year ending August 31, 2013, and going forward, the targeted draw rate will be an average of 5% across all endowments and trusts.

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of historical value. Deficiencies of this nature, which are reported in unrestricted net assets, were $18,696,027 as of August 31, 2012 and $8,719,034 as of August 31, 2011. These deficiencies resulted from unfavorable market fluctuations during the fiscal years ended August 31, 2008 and 2009 and the continued appropriations for operating and non-operating expenses that were deemed prudent by the board of directors.

### Endowment by Net Asset Class for the Years Ended August 31,

| 2012 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-Restricted Endowment Funds | $ - | $ - | $ 77,731,667 | $ 77,731,667 |
| Board-Designated Endowment Funds | (18,696,027) | - | - | (18,696,027) |
| Total Endowment Funds | $ (18,696,027) | $ - | $ 77,731,667 | $ 59,035,640 |

| 2011 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-Restricted Endowment Funds | $ - | $ - | $ 77,731,254 | $ 77,731,254 |
| Board-Designated Endowment Funds | (8,719,034) | - | - | (8,719,034) |
| Total Endowment Funds | $ (8,719,034) | $ - | $ 77,731,254 | $ 69,012,220 |

### Changes in Endowment Net Assets for the Year Ended August 31,

| 2012 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Net Assets, Beginning of Year | $ (8,719,034) | $ - | $ 77,731,254 | $ 69,012,220 |
| Investment Return | - | 2,496,514 | - | 2,496,514 |
| Contributions | - | - | 413 | 413 |
| Appropriation of Endowment Assets for Expenditure | (9,976,993) | (2,496,514) | - | (12,473,507) |
| Endowment Net Assets, End of Year | $ (18,696,027) | $ - | $ 77,731,667 | $ 59,035,640 |

| 2011 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment Net Assets, Beginning of Year | $ (3,295,301) | $ 591,292 | $ 77,303,104 | $ 74,599,095 |
| Investment Return | - | 5,615,404 | - | 5,615,404 |
| Contributions | - | 517,500 | 428,150 | 945,650 |
| Appropriation of Endowment Assets for Expenditure | (5,423,733) | (6,724,196) | - | (12,147,929) |
| Endowment Net Assets, End of Year | $ (8,719,034) | $ - | $ 77,731,254 | $ 69,012,220 |

## NOTE 10 FUNCTIONAL REPORTING OF EXPENSES

Generally accepted accounting principles require the presentation of information about expenses reported by their functional classification, such as major classes of program services and supporting activities. Program services may include cost of sales and costs of other revenue generating activities that are program related. Supporting activities include management and general, fundraising and membership-development activities. A summary of the functional classification of expenses, excluding pension expense, as of August 31 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Expenses: | | |
| Program Services | $ 28,060,436 | $ 27,316,379 |
| Supporting Activities: | | |
| Costs of Direct Benefit to Donors - Symphony Ball | 296,405 | 270,576 |
| Management and General | 2,884,038 | 2,641,141 |
| Fundraising: | | |
| Symphony Ball | 30,762 | 28,820 |
| Other | 2,236,732 | 1,612,017 |
| Total Expenses | $ 33,508,373 | $ 31,868,933 |

## NOTE 11 RELATED PARTY TRANSACTIONS

**Contributions**

The Association received contributions from key staff, board members, and organizations over which board members may have significant influence. During the years ended August 31, 2012 and 2011, contribution revenue of $3,782,867 and $9,301,255, respectively, was received from those sources. As expected, Board contributions have decreased as the Hall Renovation campaign nears completion. At August 31, 2012 and 2011, pledges receivable from those sources were $6,913,663 and $10,870,435, respectively.

## NOTE 12 COMMITMENTS AND CONTINGENCIES

The Association's labor contract with the Twin Cities Musicians Union Local #30 – 73 extends through the 2011/2012 symphony season. The two parties agreed to this contract October 5, 2007. This contract expired on October 1, 2012. The Association and the Union began the negotiating process in April 2012. No agreement was reached as of October 1 and the Association subsequently locked out the musicians and canceled concert performances through December 23, 2012. While canceling concert performances reduces Earned Revenue it also reduces concert related expenses and musician salary and benefit costs. The lockout will have a significant impact on the fiscal year ending August 31, 2013 operating activity. The musicians are not paid during a lockout, nor do they receive benefits paid for by the Association.

## NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the fiscal year ended August 31, 2012, the Association entered into an agreement with the Minneapolis Convention Center to house concert performances.

The Association has a capital call commitment outstanding for three of its Alternative Investments in the amount of $446,931 at August 31, 2012. The Association has reserved funds within the current endowment fund investments to be transferred as the calls for capital contributions come due.

The Association entered into two contractual agreements for services in connection with the Orchestra Hall renovation project. The contract terms are September 1, 2008 through October 31, 2013. Included in the contract is the option for the Association to terminate the agreement at any time upon written notice. The fee is based on a fixed percentage of the total project cost. The estimated future commitment is approximately $1,250,000 as of August 31, 2012.

The Association leases office space and certain equipment under operating leases. Rent expense for these leases totaled approximately $283,358 in 2012 and $285,310 in 2011. Future non-cancellable lease payments are as follows for the years ending August 31:

| Year | Amount |
|---|---|
| 2013 | $ 229,036 |
| 2014 | 168,954 |
| 2015 | 165,631 |
| 2016 | 128,781 |
| 2017 | 130,092 |
| Thereafter | 641,444 |
| Total | $ 1,463,938 |