

**DAYTON PHILHARMONIC ORCHESTRA  
ASSOCIATION, INC.**

**(A Nonprofit Organization)**

**AUDITED FINANCIAL STATEMENTS**

**YEARS ENDED MAY 31, 2010 AND 2009**

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

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**YEARS ENDED MAY 31, 2010 AND 2009**

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**INDEPENDENT AUDITORS' REPORT**

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Board of Trustees  
**Dayton Philharmonic Orchestra Association, Inc.**  
Dayton, Ohio

We have audited the accompanying statements of financial position of **Dayton Philharmonic Orchestra Association, Inc.** (a nonprofit organization) as of May 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of **Dayton Philharmonic Orchestra Association, Inc.** Our responsibility is to express an opinion on these financial statements based upon 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 our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Dayton Philharmonic Orchestra Association, Inc.** as of May 31, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Brady, Ware & Schoenfeld, Inc.*

Dayton, Ohio  
November 18, 2010

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**MAY 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 22,119
Receivables		
Pledges, net	791,982	455,426
Interest	2,838	4,369
Other	222,134	201,653
Prepaid expenses	<u>364,056</u>	<u>375,046</u>
	1,381,010	1,058,613
LONG-TERM PLEDGES RECEIVABLE	210,286	215,497
LONG-TERM INVESTMENTS	2,491,653	2,450,297
PROPERTY AND EQUIPMENT, NET	147,410	174,685
BENEFICIAL INTEREST IN PERPETUAL TRUST	<u>1,522,399</u>	<u>1,674,379</u>
	<u>\$ 5,752,758</u>	<u>\$ 5,573,471</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Bank overdraft	\$ 48,752	\$ -
Line of credit	250,000	400,000
Long-term debt - current portion	36,667	-
Accounts payable and accrued expenses	379,182	391,087
Deferred revenue	<u>1,064,918</u>	<u>1,064,842</u>
	1,779,519	1,855,929
LONG-TERM DEBT	<u>360,000</u>	-
	<u>2,139,519</u>	<u>1,855,929</u>
<b>NET ASSETS</b>		
Unrestricted	(1,866,744)	(2,115,677)
Temporarily restricted	805,601	756,857
Permanently restricted	<u>4,674,382</u>	<u>5,076,362</u>
	<u>3,613,239</u>	<u>3,717,542</u>
	<u>\$ 5,752,758</u>	<u>\$ 5,573,471</u>

See notes to financial statements.

DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED MAY 31, 2010 AND 2009

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Concerts	\$ 1,958,775	\$ -	\$ -	\$ 1,958,775	\$ 2,026,016	\$ -	\$ -	\$ 2,026,016
Tax supported grants	113,319	-	-	113,319	175,130	-	-	175,130
Contributions and support	1,994,419	457,433	-	2,451,852	1,427,624	523,284	12,000	1,962,908
Campaign pledges, net of discount	-	-	-	-	-	-	15,945	15,945
Contributed services and materials	172,813	-	-	172,813	107,726	-	-	107,726
Investment income (loss), net	282,041	-	-	282,041	(860,845)	-	-	(860,845)
Other income	65,706	-	-	65,706	74,230	-	-	74,230
Income from perpetual trust distribution	77,789	-	-	77,789	89,426	-	-	89,426
Unrealized gain (loss) from interest in perpetual trust	-	-	90,550	90,550	-	-	(491,694)	(491,694)
Net assets released from restrictions	901,219	(408,689)	(492,530)	-	302,117	(302,117)	-	-
	<u>5,566,081</u>	<u>48,744</u>	<u>(401,980)</u>	<u>5,212,845</u>	<u>3,341,424</u>	<u>221,167</u>	<u>(463,749)</u>	<u>3,098,842</u>
Expenses								
Program services	4,541,641	-	-	4,541,641	4,532,368	-	-	4,532,368
General and administrative	429,113	-	-	429,113	526,211	-	-	526,211
Fund raising	297,719	-	-	297,719	405,163	-	76,000	481,163
Depreciation and amortization	48,675	-	-	48,675	51,636	-	-	51,636
	<u>5,317,148</u>	<u>-</u>	<u>-</u>	<u>5,317,148</u>	<u>5,515,378</u>	<u>-</u>	<u>76,000</u>	<u>5,591,378</u>
Change in net assets	248,933	48,744	(401,980)	(104,303)	(2,173,954)	221,167	(539,749)	(2,492,536)
Net assets, beginning of year	(2,115,677)	756,857	5,076,362	3,717,542	58,277	535,690	5,616,111	6,210,078
Net assets, end of year	<u>\$ (1,866,744)</u>	<u>\$ 805,601</u>	<u>\$ 4,674,382</u>	<u>\$ 3,613,239</u>	<u>\$ (2,115,677)</u>	<u>\$ 756,857</u>	<u>\$ 5,076,362</u>	<u>\$ 3,717,542</u>

See notes to financial statements.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED MAY 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (104,303)	\$ (2,492,536)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	48,675	51,636
Net realized losses of long-term investments	26,223	526,186
Net unrealized (gains) losses of long-term investments	(263,859)	400,658
Realized and unrealized (gains) losses from interest in perpetual trust	(168,339)	402,268
Distributions from interest in perpetual trust	320,319	89,426
Donated property and equipment	-	(19,360)
Change in discounts on pledges receivable	579	(17,833)
	<u>(140,705)</u>	<u>(1,059,555)</u>
Changes in operating assets and liabilities:		
Receivables	(350,874)	(1,432)
Prepaid expenses	9,191	36,834
Bank overdraft	48,752	-
Accounts payable and accrued expenses	(11,905)	86,316
Deferred revenue	76	114,231
	<u>76</u>	<u>114,231</u>
Net Cash Used by Operating Activities	<u>(445,465)</u>	<u>(823,606)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(19,600)	(7,985)
Proceeds from sale of long-term investments	1,855,382	2,682,691
Purchases of long-term investments	(1,659,103)	(1,877,150)
	<u>176,679</u>	<u>797,556</u>
Net Cash Provided by Investing Activities	<u>176,679</u>	<u>797,556</u>
<b>FINANCING ACTIVITIES</b>		
Net borrowings (payments) on line of credit	(150,000)	5,000
Borrowing on long-term notes payable	396,667	-
	<u>246,667</u>	<u>5,000</u>
Net Cash Provided by Financing Activities	<u>246,667</u>	<u>5,000</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(22,119)</b>	<b>(21,050)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>22,119</u>	<u>43,169</u>
End of year	<u>\$ -</u>	<u>\$ 22,119</u>

## DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.

### NOTES TO FINANCIAL STATEMENTS

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#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of accounting policies of **Dayton Philharmonic Orchestra Association, Inc.** (the "Association") is presented to assist in understanding the Association's financial statements.

**Nature of Business** - The Association is a not-for-profit corporation primarily engaged in performing classical orchestral music, presenting educational and popular music programs, and sponsoring guest artists. The Association's concert revenues and ticket receivables are primarily generated from subscribers in metropolitan Dayton, Ohio. The Association also obtains the majority of its contributions from patrons in the Dayton area.

**Net Asset Classification** - Accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The accounting standards also improve disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds, whether or not the organization is subject to UPMIFA.

The State of Ohio adopted UPMIFA effective June 1, 2009. The Association adopted accounting standards relating to endowment funds for the year ended May 31, 2009. Management has determined that the majority of the Organization's net assets do not meet the definition of endowment under UPMIFA.

Temporarily restricted net assets consist of the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

During the years ended May 31, 2010 and 2009, the Organization has reviewed the endowment funds that are subject to UPMIFA and determined that its net assets are properly classified in accordance with UPMIFA and accounting standards.

**Financial 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Contributions** - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

NOTES TO FINANCIAL STATEMENTS

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Donated Materials and Services ("In-Kind")** - Significant services and materials are donated to the Association by various individuals and companies. Donated materials are recorded at fair market value at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Association. In addition to the recorded contributions, a substantial number of volunteers have donated significant amounts of their time to the Association's program services and fund raising activities. Since these services do not meet the requirements for recognition, the value thereof is not reflected in the accompanying financial statements.

**Cash and Cash Equivalents** - The Association classifies interest-bearing deposits and short term money market investments having original maturities of three months or less as cash and cash equivalents.

**Concentrations** - Periodically the Association has cash deposits in banks in excess of federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk with its cash on deposit with financial institutions.

**Pledges Receivable** - Pledges receivable are recorded at fair market value, net of an allowance for uncollectible pledges and a discount for present value of pledges due beyond one year. The Association provides for losses on pledges receivable using the allowance method. The allowance is based on management's evaluation of the collectibility, past experience, and other circumstances which may affect the ability of donors to meet their obligations. The allowance for uncollectible pledges was \$17,500 at May 31, 2010 and 2009. It is the Association's policy to charge off uncollectible pledges receivable when management determines the receivable will not be collected.

**Other Receivables** - Receivable balances have been adjusted for all known uncollectible accounts. Therefore no allowance for doubtful accounts was considered necessary at May 31, 2010 and 2009.

**Investments** - The Association accounts for its investments in accordance with accounting standards. Accordingly, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Net unrealized gain or loss in the fair value of investments is included in investment income in the statements of activities.

**Endowment Investment and Spending Policies** - The Association has adopted investment and spending policies for endowment assets for those assets held by a trustee.

For those assets held by a trustee, the trustee's investment policy has the objective of being a balanced investor. The balanced investor wants to preserve assets and achieve a balance between income and growth. The focus is on long-term returns, while allowing for some shorter-term volatility.

To satisfy its long-term rate-of-return objectives, the trustee relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Association has an asset allocation strategy that sets minimum and maximum parameters for each category of investments. The target investment strategy is to invest 55% in domestic equity, 10% in international equity, 30% in domestic investment grade fixed income securities, and 5% in cash and cash equivalents. The trustee is to invest within the Association's parameters.

DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

The Board of Trustees has established that the targeted annual spending rate for the Fund will be 5%, calculated as a percentage of the three-year average market value of the Fund as of the beginning of each fiscal year. The Board of Trustees, however, in its sole discretion, may increase or decrease disbursements from the Fund should circumstance warrant a change.

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Association to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. The balance of this deficiency was composed of unrealized losses and withdrawals of endowment fund principal of \$941,203 and \$1,164,327 as of May 31, 2010 and 2009, respectively. Unrealized losses resulted from unfavorable market declines.

**Property and Equipment** - Property and equipment are recorded at cost, or if donated, at the estimated fair market value at the date of receipt. In general, items capitalized are those with a cost or fair market value at time of donation of \$500 or greater. Depreciation of property and equipment is provided over the estimated useful lives of the assets using the straight-line method. Routine maintenance and repairs are charged to expense as incurred.

**Deferred Revenue** - Sales of season ticket subscriptions for programs to be performed the following fiscal year are recorded as deferred revenue. Revenues from such sales are recognized during the fiscal year the programs are presented.

**Federal Income Taxes** - The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. However, any income from certain activities not directly related to the Association's tax exempt purpose may be subject to taxation as unrelated business income.

**Advertising Expense** - Advertising costs are expensed in the same year as the performance in which they relate. Advertising expense was \$133,856 and \$149,303 for the years ended May 31, 2010 and 2009, respectively. Advertising costs for future performances are recorded as prepaid expenses. Prepaid advertising was \$70,277 and \$59,706 for the years ended May 31, 2010 and 2009, respectively.

Donated advertising is recorded separately from advertising expense, and totaled \$90,248 and \$80,070 for the years ended May 31, 2010 and 2009, respectively.

**Accounting for Uncertainty in Income Taxes** - Based on its review, management does not believe the Association has taken any material uncertain tax positions, including any position that would place the Association's exempt status in jeopardy as of May 31, 2010.

**Subsequent Events** - In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 18, 2010, the date the financial statements were available to be issued.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B - FINANCIAL VIABILITY**

The Association incurred overall losses during the years ended May 31, 2010 and 2009. The Association was able to obtain a modest operating surplus in fiscal year 2010 due to the release of permanently restricted funds from donors. Further, the Association had a deficit in working capital at May 31, 2010 and 2009. To fund its deficit, the Association invaded the corpus of its permanently restricted endowment funds and sold certain restricted long-term investments during the year ended May 31, 2009. These transactions were not authorized by the donors of the endowment funds and, as a result, the corpus of the Association's permanently restricted endowment funds exceeds the underlying fair value of the investments by \$417,800 and \$951,686 at May 31, 2010 and 2009, respectively. The Association voted to treat the invasion of the corpus as a loan to be repaid, over time, through fundraising and market appreciation. In the current fiscal year, the Association obtained permission of a donor to unrestrict \$250,000 of permanently restricted net assets which the Association used as collateral for a \$200,000 loan to fund operations. See Notes H and K. The Association also received a principal distribution of \$242,530 from the Catterton Trust. See Note L.

To secure continued operations, the Association has undertaken a special fundraising campaign to raise funds to allow the Association to balance its operating budget over the next three fiscal years. The sustainability campaign has a goal of \$1,200,000 which as of May 31, 2010 had raised \$781,180 from 94 donors. The Association has also convened a Business Model Review Group to conduct a thorough study of all programmatic and administrative expenditures and make recommendations for reductions. The success of these special fundraising efforts, coupled with the Association's ability to generate performance revenue and reduce operating costs, will be key to its ability to sustain operations in the future and restore the corpus of its permanently restricted net assets.

**NOTE C - PLEDGES RECEIVABLE**

Pledges receivable at May 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Current pledges		
Due in less than one year	\$ 809,482	\$ 472,926
Allowance for doubtful pledges	<u>(17,500)</u>	<u>(17,500)</u>
	<u>791,982</u>	<u>455,426</u>
Long-term pledges		
Due in one to five years	222,868	222,000
Due in greater than five years	10,000	15,500
Discount	<u>(22,582)</u>	<u>(22,003)</u>
	<u>210,286</u>	<u>215,497</u>
	<u>\$ 1,002,268</u>	<u>\$ 670,923</u>

An average discount rate of 4.5% for the years ended May 31, 2010 and 2009, was applied to contributions due in more than one year.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE C - PLEDGES RECEIVABLE - continued**

In addition to the above pledges, the Association has been informed by various individuals of their intentions to give to the Association in the future. Such communications are not unconditional promises to give because the individuals have not stipulated how or when they will give. Therefore, such intentions have not been recorded in the accompanying financial statements.

**NOTE D - INVESTMENTS**

The following tables reflect the cost and estimated fair values of marketable securities held at May 31, 2010 and 2009. In addition, gross unrealized gains and unrealized losses are disclosed for the years ended May 31, 2010 and 2009.

	<b>2010</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Money market funds	\$ 200,690	\$ -	\$ -	\$ 200,690
U.S. Government obligations	441,522	19,904	-	461,426
Equity securities	<u>1,823,417</u>	<u>36,251</u>	<u>(30,131)</u>	<u>1,829,537</u>
	<b><u>\$ 2,465,629</u></b>	<b><u>\$ 56,155</u></b>	<b><u>\$ (30,131)</u></b>	<b><u>\$ 2,491,653</u></b>

	<b>2009</b>			
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
Money market funds	\$ 288,934	\$ -	\$ -	\$ 288,934
U.S. Government obligations	662,772	23,456	(3,798)	682,430
Equity securities	<u>1,736,426</u>	<u>6,563</u>	<u>(264,056)</u>	<u>1,478,933</u>
	<b><u>\$ 2,688,132</u></b>	<b><u>\$ 30,019</u></b>	<b><u>\$ (267,854)</u></b>	<b><u>\$ 2,450,297</u></b>

Unrealized gains (losses) of \$263,859 and \$(400,658) are included in investment income for the years ended May 31, 2010 and 2009, respectively. Realized losses of \$26,223 and \$526,186 from sales of investments are included in investment income for the years ended May 31, 2010 and 2009, respectively. Interest and dividend income of \$67,426 and \$95,664 are included in investment income for the years ended May 31, 2010 and 2009, respectively.

Net investment income (loss) was \$282,041 and \$(860,845) for the years ended May 31, 2010 and 2009, respectively. These amounts are net of \$23,021 and \$29,665 in management fees for the years ended May 31, 2010 and 2009, respectively.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE E - FAIR VALUE MEASUREMENTS**

In accordance with accounting standards, fair value is defined as a framework for measuring fair value (although it does not expand the required use of fair value) and details the required disclosures about fair value measurements. In the prior year, the Association adopted the accounting standard except for certain nonfinancial assets and liabilities with respect to the deferral allowed under the accounting standards. Beginning in 2009, the standards require that certain nonfinancial assets and liabilities be recognized or disclosed at fair value. At the present time, the Association does not have any nonfinancial assets or liabilities that would require fair value recognition or disclosure under this standard.

Fair values of the Association's financial assets measured on a recurring basis at May 31, 2010 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 200,690	\$ 200,690	\$ -	\$ -
U.S. Government obligations	461,426	461,426	-	-
Equity securities	<u>1,829,537</u>	<u>1,829,537</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,491,653</u>	<u>\$ 2,491,653</u>	<u>\$ -</u>	<u>\$ -</u>

Fair values of the Association's financial assets measured on a recurring basis at May 31, 2009 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets</b>				
Investments				
Money market funds	\$ 288,934	\$ 288,934	\$ -	\$ -
U.S. Government obligations	682,430	682,430	-	-
Equity securities	<u>1,478,933</u>	<u>1,478,933</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,450,297</u>	<u>\$ 2,450,297</u>	<u>\$ -</u>	<u>\$ -</u>

**Level 1** - Fair values for investments are determined by reference to quoted market prices in an active market and other relevant information generated by market transactions.

**Level 2** - Fair value of investments is based on model inputs that are observable either directly or indirectly.

**Level 3** - Fair values for investments are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE F - PROPERTY AND EQUIPMENT**

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 233,630	\$ 227,399
Musical instruments and equipment	335,684	329,954
Music library	<u>130,859</u>	<u>123,221</u>
	700,173	680,574
Less accumulated depreciation	<u>552,763</u>	<u>505,889</u>
	<u>\$ 147,410</u>	<u>\$ 174,685</u>

**NOTE G - LINE OF CREDIT**

The Association has a \$250,000 line of credit with a bank, which was temporarily increased to \$400,000 through June 1, 2009. The line of credit expires December 2010. Interest was payable monthly at the bank's prime rate, 3.25% at May 31, 2009. Interest is payable monthly at LIBOR plus 4.00%; 4.41% at May 31, 2010. The Association had \$250,000 and \$400,000 outstanding against this line of credit as of May 31, 2010 and 2009, respectively.

Interest expense on the line of credit was \$6,785 and \$14,546 for the years ended May 31, 2010 and 2009, respectively.

**NOTE H - LONG-TERM DEBT**

	<u>2010</u>
Bank note, PNC Bank, 24 interest only payments then 36 monthly installments of \$3,816 including interest at 5.381%, maturing December 2014, collateralized by certain investments.	\$ 200,000
Note payable, donor, payable in monthly installments of \$3,333 including no interest in year one and interest at prime minus one for years 2 through 5, maturing April 2015, unsecured.	<u>196,667</u>
	396,667
Less current maturities	<u>36,667</u>
	<u>\$ 360,000</u>

Current maturities of long-term liabilities over the subsequent five years are as follows:

2011	\$ 36,667
2012	54,729
2013	76,724
2014	78,749
2015	<u>149,798</u>
	<u>\$ 396,667</u>

Interest expense on the long-term debt was \$4,275 for the year ended May 31, 2010.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE I - NET ASSETS RELEASED FROM RESTRICTIONS**

Temporary restrictions on assets are released by incurring expenses that satisfy the intended purpose or the occurrence of events specified by donors.

	<u>2010</u>	<u>2009</u>
Purpose restriction - support for completed performances	<u>\$ 408,689</u>	<u>\$ 302,117</u>

Permanent restrictions on \$250,000 was released with permission of the donor for use in operations with agreement to return to permanently restricted by 2017. The Catterton Trust released principal of \$242,530 from permanent restriction for musical events.

	<u>2010</u>	<u>2009</u>
Donor released restriction	<u>\$ 492,530</u>	<u>\$ -</u>

**NOTE J - NET ASSETS**

The following is a summary of unrestricted, temporarily restricted, and permanently restricted net assets:

	<u>2010</u>	<u>2009</u>
<b>Unrestricted</b>		
Operating Fund	\$ (2,003,042)	\$ (2,015,724)
Capital Fund	(209,950)	(161,275)
Unrestricted Fund Functioning as Endowment	523,403	212,641
Development Fund	<u>(177,155)</u>	<u>(151,319)</u>
	<u>(1,866,744)</u>	<u>(2,115,677)</u>
<b>Temporarily restricted</b>		
The Future Year Fund	800,776	752,032
The David L. Pierson Young Musicians Concerto Competition Fund	<u>4,825</u>	<u>4,825</u>
	<u>805,601</u>	<u>756,857</u>
<b>Permanently restricted</b>		
Endowment Fund	1,259,570	1,259,570
Kettering Memorial Fund	650,000	900,000
Youth Orchestra Endowment Fund	281,851	281,851
Catterton Endowment Fund	1,522,399	1,674,379
Artistic Excellence Fund	405,420	405,420
Education Fund	131,052	131,052
Other Funds	<u>424,090</u>	<u>424,090</u>
	<u>4,674,382</u>	<u>5,076,362</u>
	<u>\$ 3,613,239</u>	<u>\$ 3,717,542</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE J - NET ASSETS - continued**

**Unrestricted**

Operating Fund

This fund was established to account for the primary operations of the Association.

Capital Fund

This fund was established for the purpose of acquiring property and equipment.

Unrestricted Fund Functioning as Endowment

This fund was established to maintain all unrestricted investments and related income. This fund also includes the investment income from net assets of certain permanently restricted funds. Net assets from this fund may be transferred to the Operating Fund upon approval of the Board of Trustees.

Development Fund

This fund was established to account for fundraising and other special non-operating expenses related to the transition to the Schuster Center.

**Temporarily Restricted**

The Future Year Fund

This fund consists of contributions received which are restricted for use on specific programs to be presented during future years, or restricted for use at specified future times.

The David L. Pierson Young Musicians Concerto Competition Fund

This fund was established to fund cash prizes for the Pierson Competition.

**Permanently Restricted**

Endowment Fund

This fund was established to account for endowment contributions. Earnings from this fund are unrestricted and are used to cover the costs of operations of the Association upon approval of the Board of Trustees.

Kettering Memorial Fund

This fund was established by a gift from the Kettering Fund which specified that the gift be preserved in its entirety and that the income from the fund be used by the Association for the purpose of underwriting annually the fee for a performance of a recognized guest artist in connection with the regular series concerts. The donor also provides that if the stated purpose becomes impractical at any time in the future, the funds shall be used by the Association for its general musical and cultural purposes.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE J - NET ASSETS - continued**

Youth Orchestra Endowment Fund

This fund was established by a contribution from the Dayton Philharmonic Volunteers' Association (the "Volunteers' Association"). The Volunteers' Association intends that earnings from this endowment be used for operating expenses of the Youth Orchestra, including conductors' salaries and benefits, music, promotion, and other required expenditures.

Catterton Endowment Fund

This fund was established through a bequest from Hampton W. and Erma R. Catterton and consists of a beneficial interest in a perpetual trust maintained under the provisions of Section 509(c)(3) of the Internal Revenue Code. The Trust permits interest and dividend income to be distributed annually to the Association for its unrestricted use. As described in Note L, state law also allows additional amounts to be distributed to the Association.

Artistic Excellence Fund

This fund was established to provide income that would supplement the Association's resources available both to offer a competitive compensation package to musicians, and to attract artists to perform with the orchestra.

Education Fund

This fund was established to provide income that would directly support the Association's numerous educational programs, in recognition that many of these programs cover only a small percentage of costs through program income.

Other Funds

The Other Funds consist of the following:

Musician Dinner Fund

This fund was established by a contribution from Solomon Rosenthal to provide an annual dinner for the orchestra's musicians.

Horine Memorial Endowment Fund

This fund was established by contributions from individuals in memory of David M. Horine, a former Dayton Philharmonic Orchestra member. Earnings from this fund are used to provide scholarships to Dayton Philharmonic Orchestra members for musical study.

NEA Challenge Grant Fund

This fund was established to meet a requirement set by the National Endowment for the Arts regarding a challenge grant received by the Association. This fund represents the aggregate amount of the challenge grant plus the required matching funds received by the Association. Earnings from this fund are unrestricted and are used to cover the costs of operations of the Association.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE K - ENDOWMENT FUNDS AND NET ASSETS**

The following is a summary of changes in endowment net assets for the year ended May 31, 2010:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ (951,686)	\$ -	\$ 3,401,983	\$ 2,450,297
Net investment gain (realized and unrealized)	578,517	-	-	578,517
Fees	-	-	-	-
Contributions to endowment fund	1,275	-	-	1,275
Transfer of permanently restricted to unrestricted	-	-	(250,000)	(250,000)
Amounts appropriated for expenditure	(45,906)	-	-	(45,906)
Endowment net assets, end of year	<u>\$ (417,800)</u>	<u>\$ -</u>	<u>\$ 3,151,983</u>	<u>\$ 2,734,183</u>

The following is a summary of endowment net asset composition by type of fund as of May 31, 2010:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor designated endowment funds	\$ (941,203)	\$ -	\$ 3,151,983	\$ 2,210,780
Board designated endowment funds	<u>523,403</u>	<u>-</u>	<u>-</u>	<u>523,403</u>
Endowment funds	<u>\$ (417,800)</u>	<u>\$ -</u>	<u>\$ 3,151,983</u>	<u>\$ 2,734,183</u>

The following is a summary of all Association net assets as of May 31, 2010:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment funds	\$ (417,800)	\$ -	\$ 3,151,983	\$ 2,734,183
Non-endowment funds:				
Operating	(1,448,944)	-	-	(1,448,944)
Catterton	-	-	1,522,399	1,522,399
Time Restrictions	-	805,601	-	805,601
	<u>\$ (1,866,744)</u>	<u>\$ 805,601</u>	<u>\$ 4,674,382</u>	<u>\$ 3,613,239</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE K - ENDOWMENT FUNDS AND NET ASSETS - continued**

The following is a summary of changes in endowment net assets for the year ended May 31, 2009:

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor designated net assets, beginning of year	\$ 1,304,701	\$ -	\$ 3,450,038	\$ 4,754,739
Net investment loss (realized and unrealized)	(1,942,322)	-	-	(1,942,322)
Contributions to endowment fund	13,435	-	27,945	41,380
Write-off of endowment pledges	(27,500)	-	(76,000)	(103,500)
Amounts appropriated for expenditure	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>(300,000)</u>
Donor designated net assets, end of year	<u>\$ (951,686)</u>	<u>\$ -</u>	<u>\$ 3,401,983</u>	<u>\$ 2,450,297</u>

The following is a summary of endowment net asset composition by type of fund as of May 31, 2009:

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Donor designated endowment funds	\$ (1,164,327)	\$ -	\$ 3,401,983	\$ 2,237,656
Board designated endowment funds	<u>212,641</u>	<u>-</u>	<u>-</u>	<u>212,641</u>
Endowment funds	<u>\$ (951,686)</u>	<u>\$ -</u>	<u>\$ 3,401,983</u>	<u>\$ 2,450,297</u>

The following is a summary of all Association net assets as of May 31, 2009:

	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment funds	\$ (951,686)	\$ -	\$ 3,401,983	\$ 2,450,297
Non-endowment funds:				
Operating	(1,163,991)	-	-	(1,163,991)
Catterton	-	-	1,674,379	1,674,379
Time Restrictions	<u>-</u>	<u>756,857</u>	<u>-</u>	<u>756,857</u>
	<u>\$ (2,115,677)</u>	<u>\$ 756,857</u>	<u>\$ 5,076,362</u>	<u>\$ 3,717,542</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE L - BENEFICIAL INTEREST IN PERPETUAL TRUST**

The Association is the beneficiary of the Dayton Philharmonic Orchestra Trust Fund (the "Trust"). The Trust was established by The Hampton W. and Erma R. Catterton Charitable Trust Fund. The assets of the Trust are maintained by an outside trustee, J.P. Morgan, and are not under the control of the Association. The Trust provides that all of the interest and dividend income from the trust assets will be distributed annually to the Association. There were income distributions from the Trust in the amount of \$77,789 and \$89,426 for the years ended May 31, 2010 and 2009, respectively.

Accounting principles generally accepted in the United States of America require the Association to record a permanently restricted net asset and related asset entitled "Beneficial interest in a perpetual trust", representing the present value of the expected future cash flows of income from the Trust. At May 31, 2010 and 2009, the present value of the expected future cash flows of income from the Trust was equal to the fair market value of the assets held in the Trust and amounted to \$1,522,399 and \$1,674,379, respectively.

The Ohio Institutional Trust Fund Act also enables beneficiary organizations of such trusts to elect to receive up to 5% of the average prior year's month end market values. The Association elected to receive the 5% annual distribution from the Trust. In addition, the Association has the right to request the distribution of trust principal under certain circumstances to fund "significant musical events consistent with the overall goal and mission of the Association." The approval of any such distribution request is at the sole discretion of the outside trustee. There was such principal distribution from the Trust during the fiscal year 2010 in the amount of \$242,530.

Due to significant realized and unrealized losses in the market value of the Trust since the original gift, the permanently restricted net assets of this trust have been reduced to reflect these market value declines. When market valuations improve, unrealized losses totaling approximately \$378,993 at May 31, 2010 will be restored to the permanently restricted net assets to reflect the full amount of the permanently restricted gift remaining at May 31, 2010.

**NOTE M - CONTRIBUTIONS OF MATERIALS AND SERVICES**

Contributions of materials and services are as follows:

	<u>2010</u>	<u>2009</u>
Advertising	\$ 90,248	\$ 80,070
Hotels and airfare - guest artists	4,941	7,921
Professional services	<u>77,624</u>	-
	<u>\$ 172,813</u>	<u>\$ 87,991</u>

**NOTE N - RETIREMENT PLAN**

The Association participates in a defined contribution retirement plan administered by the American Federation of Musicians. Participation includes employees covered under a collectively bargained union agreement. The plan requires payments of 4.50% and 4.25% of certain components of participants' wages by the Association for the years ended May 31, 2010 and 2009, respectively. Total payments made to the plan for the years ended May 31, 2010 and 2009 were \$71,544 and \$66,393, respectively.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE N - RETIREMENT PLAN - continued**

In addition, the Association maintains a 403(b)(7) retirement plan for any employee who is not covered under a collectively bargained union agreement. The plan is funded entirely by employees contributing a portion of their salary to the plan. No contributions were made to the plan by the Association during 2010 or 2009.

**NOTE O - LEASE COMMITMENTS**

The Association leases its office space under an operating lease agreement that has been amended and extended through June 2011. The lessor and lessee share maintenance responsibilities, depending on the nature of the repair. The lessor is responsible for all real estate taxes and insurance, with the exception of liability insurance, which is the responsibility of the lessee. Rental expense under the lease for the years ended May 31, 2010 and 2009 was \$36,380.

The Association leased a copier under a lease signed in September 2008 for 60 months. Rental expense is \$385 per month. Rental expense under the lease for the year ended May 31, 2010 and 2009 was \$4,620 and \$3,080 respectively.

The Association leased its telephone system under an operating lease agreement starting in September of 2007. Rental expense is \$259 per month for 36 months. Rental expense under the lease for the years ended May 31, 2010 and 2009 was \$3,117.

Future minimum lease payments over the next four years are as follows:

2011	\$	42,039
2012		7,652
2013		4,620
2014		<u>1,540</u>
	\$	<u>55,851</u>

**NOTE P - TRANSFER OF NET ASSETS**

During the 2009 fiscal year, the Association wrote off endowment pledges receivable that were determined to be uncollectible. The transfer of net assets is the reduction in the Artistic Excellence Fund by \$74,000 and the Education Fund by \$2,000 as the result of the uncollectible pledges. Upon the discovery of these uncollectible pledges, funds were transferred to the unrestricted fund and the bad debt expense was recorded in fundraising expenses.

**NOTE Q - SUBSEQUENT EVENT**

The Association, subsequent to year end, obtained two loans. The first was a \$100,000 loan from Culture Works. The term of the loan is 60 months which includes interest only payments for the first year and interest and principal payments for the following 48 months. The monthly loan payments will be \$2,258. The interest rate is tied to the Dayton Foundation's spending rate which was 4% at the date of the agreement in June 2010. The second loan was for \$100,000 from an individual. The term of the loan is 60 months with payments of \$1,797 per month. The loan has an interest rate of 3%.

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE R - SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>2010</u>	<u>2009</u>
Noncash transactions:		
Interest paid	<u>\$ 11,060</u>	<u>\$ 14,546</u>
Property and equipment acquired by donation	<u>\$ -</u>	<u>\$ 19,360</u>



**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

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Board of Trustees  
**Dayton Philharmonic Orchestra Association, Inc.**  
Dayton, Ohio

Our report on our audits of the basic financial statements of **Dayton Philharmonic Orchestra Association, Inc.** for the years ended May 31, 2010 and 2009 appears on page one. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (shown on pages 21 to 24) is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Brady, Ware & Schoenfeld, Inc.*

Dayton, Ohio  
November 18, 2010

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**SCHEDULES OF PROGRAM SERVICES AND GENERAL AND ADMINISTRATIVE EXPENSES -  
OPERATING FUND**

**YEARS ENDED MAY 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Program services		
Payroll and related employee benefits	\$ 2,440,484	\$ 2,402,772
Guest artist fees	347,910	377,811
Printing, publicity, and promotion	850,175	989,744
Stagehands	185,055	165,415
Rental and related expenses (hall and equipment)	290,151	294,328
Music	41,629	47,024
Other production expenses	213,424	167,283
In-kind:		
Hotels and airfare	4,941	7,921
Printing, publicity, and promotion	90,248	80,070
Professional services	<u>77,624</u>	<u>-</u>
	<u>\$ 4,541,641</u>	<u>\$ 4,532,368</u>
General and administrative expenses		
Payroll and related employee benefits	\$ 232,443	\$ 239,747
Professional services	43,838	104,574
Rent	36,380	36,380
Telephone	7,302	8,410
Postage	8,397	7,019
Travel and entertainment	4,927	15,541
Office supplies and repairs	45,322	61,929
Insurance	23,303	24,183
Other	<u>27,201</u>	<u>28,428</u>
	<u>\$ 429,113</u>	<u>\$ 526,211</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**STATEMENT OF ACTIVITIES BY FUND - UNRESTRICTED**

**YEAR ENDED MAY 31, 2010**

	<u>Operating Fund</u>	<u>Capital Fund</u>	<u>Unrestricted Fund Functioning as Endowment</u>	<u>Development Fund</u>	<u>Total</u>
<b>Revenues</b>					
Concerts	\$ 1,958,775	\$ -	\$ -	\$ -	\$ 1,958,775
Tax supported grants	113,319	-	-	-	113,319
Contributions and support	1,993,144	-	1,275	-	1,994,419
Contributed services and materials	172,813	-	-	-	172,813
Investment income, net	4,437	-	277,604	-	282,041
Other income	65,706	-	-	-	65,706
Income from perpetual trust distribution	-	-	77,789	-	77,789
Net assets released from restrictions	<u>947,125</u>	<u>-</u>	<u>(45,906)</u>	<u>-</u>	<u>901,219</u>
	<u>5,255,319</u>	<u>-</u>	<u>310,762</u>	<u>-</u>	<u>5,566,081</u>
<b>Expenses</b>					
Program services	4,541,641	-	-	-	4,541,641
General and administrative	429,113	-	-	-	429,113
Fund raising	271,883	-	-	25,836	297,719
Depreciation and amortization	<u>-</u>	<u>48,675</u>	<u>-</u>	<u>-</u>	<u>48,675</u>
	<u>5,242,637</u>	<u>48,675</u>	<u>-</u>	<u>25,836</u>	<u>5,317,148</u>
Change in net assets	12,682	(48,675)	310,762	(25,836)	248,933
Net assets (deficit), beginning of year	<u>(2,015,724)</u>	<u>(161,275)</u>	<u>212,641</u>	<u>(151,319)</u>	<u>(2,115,677)</u>
Net assets (deficit), end of year	<u>\$ (2,003,042)</u>	<u>\$ (209,950)</u>	<u>\$ 523,403</u>	<u>\$ (177,155)</u>	<u>\$ (1,866,744)</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**STATEMENT OF ACTIVITIES BY FUND - TEMPORARILY RESTRICTED**

**YEAR ENDED MAY 31, 2010**

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	<u>Future Year Fund</u>	<u>David L. Pierson Young Musicians Concerto Competition Fund</u>	<u>Total</u>
Revenues			
Contributions and support	\$ 457,433	\$ -	\$ 457,433
Net assets released from restrictions	<u>(408,689)</u>	<u>-</u>	<u>(408,689)</u>
Change in net assets	48,744	-	48,744
Net assets, beginning of year	<u>752,032</u>	<u>4,825</u>	<u>756,857</u>
Net assets, end of year	<u>\$ 800,776</u>	<u>\$ 4,825</u>	<u>\$ 805,601</u>

**DAYTON PHILHARMONIC ORCHESTRA ASSOCIATION, INC.**

**STATEMENT OF ACTIVITIES BY FUND - PERMANENTLY RESTRICTED**

**YEAR ENDED MAY 31, 2010**

	<u>Endowment Fund</u>	<u>Kettering Memorial Fund</u>	<u>Youth Orchestra Endowment Fund</u>	<u>Catterton Endowment Fund</u>	<u>Artistic Excellence Fund</u>	<u>Education Fund</u>	<u>Other Funds</u>	<u>Total</u>
Revenues								
Gain from interest in perpetual trust	\$ -	\$ -	\$ -	\$ 90,550	\$ -	\$ -	\$ -	\$ 90,550
Net assets released from restrictions	<u>-</u>	<u>(250,000)</u>	<u>-</u>	<u>(242,530)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(492,530)</u>
Change in net assets	-	(250,000)	-	(151,980)	-	-	-	(401,980)
Net assets, beginning of year	<u>1,259,570</u>	<u>900,000</u>	<u>281,851</u>	<u>1,674,379</u>	<u>405,420</u>	<u>131,052</u>	<u>424,090</u>	<u>5,076,362</u>
Net assets, end of year	<u>\$ 1,259,570</u>	<u>\$ 650,000</u>	<u>\$ 281,851</u>	<u>\$ 1,522,399</u>	<u>\$ 405,420</u>	<u>\$ 131,052</u>	<u>\$ 424,090</u>	<u>\$ 4,674,382</u>

See independent auditors' report on supplementary information.