

# Wallace W. Tapia, P.C.

*Certified Public Accountants*

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## Independent Auditor's Report

Board of Directors  
Vermont Youth Orchestra Association, Inc.

We have audited the accompanying statement of financial position of the Vermont Youth Orchestra Association, Inc. as of June 30, 2003, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Association's 2002 financial statements and, in our report dated October 4, 2002, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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 Vermont Youth Orchestra Association, Inc. as of June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The supplementary information on page 10 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements referred to above and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Wallace W. Tapia, P.C.*

Burlington, Vermont  
August 12, 2003  
Vermont Registration #333

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

STATEMENT OF FINANCIAL POSITION – JUNE 30, 2003  
(With Summarized Information for 2002)

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 19,305	\$ 24,553
Grants and contributions receivable (Note 5)	25,799	70,003
Other current assets	<u>-</u>	<u>1,000</u>
Total current assets	<u>45,104</u>	<u>95,556</u>
Noncurrent assets:		
Investments (Notes 4, 9 and 10 )	422,096	548,609
Contributions receivable (Notes 5 and 10 )	5,000	21,205
Property and equipment, net of accumulated depreciation (Note 6)	<u>2,023,468</u>	<u>2,061,003</u>
Total noncurrent assets	<u>2,450,564</u>	<u>2,630,817</u>
Total assets	<u>\$ 2,495,668</u>	<u>\$ 2,726,373</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 4,084	\$ 6,361
Accrued liabilities	4,395	3,360
Deferred revenue (Note 2)	<u>37,830</u>	<u>41,476</u>
Total current liabilities	<u>46,309</u>	<u>51,197</u>
Noncurrent liabilities:		
Line of credit (Note 9)	<u>187,729</u>	<u>370,054</u>
Total noncurrent liabilities	<u>187,729</u>	<u>370,054</u>
Net assets:		
Unrestricted	1,839,170	1,895,553
Temporarily restricted	-	-
Permanently restricted	<u>422,460</u>	<u>409,569</u>
Total net assets	<u>2,261,630</u>	<u>2,305,122</u>
Total liabilities and net assets	<u>\$ 2,495,668</u>	<u>\$ 2,726,373</u>

See accompanying notes to financial statements.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2003  
 (With Summarized Information for 2002)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2003 Total</u>	<u>2002 Total</u>
Revenue:					
Contributions, grants and bequests	\$ 151,387	\$ 50,311	\$ -	\$ 201,698	\$ 329,263
Tuition, net of discounts and scholarships	208,958	-	-	208,958	211,652
Performance revenue	23,950	-	-	23,950	25,952
Special events (Note 8)	31,581	-	-	31,581	39,089
Rental income	37,175	-	-	37,175	16,425
Other income	1,634	-	-	1,634	1,464
Investment income (Note 4)	-	-	12,891	12,891	-
Net assets released from restrictions:					
Transfers to fulfill capital campaign restrictions	45,311	(45,311)	-	-	-
Transfers to defray operating expenses	5,000	(5,000)	-	-	-
 Total support and revenue	 <u>504,996</u>	 <u>-</u>	 <u>12,891</u>	 <u>517,887</u>	 <u>623,845</u>
Expenses:					
Program	357,301	-	-	357,301	356,370
Management and general	171,786	-	-	171,786	146,878
Fundraising	29,856	-	-	29,856	33,476
Investment loss (Note 4)	2,436	-	-	2,436	38,972
 Total expenses	 <u>561,379</u>	 <u>-</u>	 <u>-</u>	 <u>561,379</u>	 <u>575,696</u>
 Change in net assets	 (56,383)	 -	 12,891	 (43,492)	 48,149
 Net assets at beginning of year	 <u>1,895,553</u>	 <u>-</u>	 <u>409,569</u>	 <u>2,305,122</u>	 <u>2,256,973</u>
 Net assets at end of year	 <u>\$ 1,839,170</u>	 <u>\$ -</u>	 <u>\$ 422,460</u>	 <u>\$ 2,261,630</u>	 <u>\$ 2,305,122</u>

See accompanying notes to financial statements.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2003  
(With Summarized Information for 2002)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (43,492)	\$ 48,149
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	68,876	35,121
Contributions restricted for investment in fixed assets	(45,311)	(155,419)
Non-cash contributions of fixed assets	(2,350)	(45,630)
Decrease (increase) in permanently restricted net assets	(12,891)	13,306
Realized and unrealized (gains) losses on investments	(2,212)	47,857
Changes in assets and liabilities:		
(Increase) decrease in other current assets	1,000	1,185
Increase (decrease) in accounts payable	(2,277)	(1,269)
Increase (decrease) in accrued expenses	1,035	320
Increase (decrease) in deferred revenues	(3,646)	4,038
Net cash provided by (used in) operating activities	<u>(41,268)</u>	<u>(52,342)</u>
Cash provided by (used in) investing activities:		
Purchase of property and equipment	(28,991)	(1,091,632)
Increase (decrease) in construction costs payable	-	(126,846)
Net sales (purchase) of investments	<u>128,725</u>	<u>298,353</u>
Net cash provided by (used in) investing activities	<u>99,734</u>	<u>(920,125)</u>
Cash provided by (used in) financing activities:		
Net proceeds from (paydowns on) line of credit	(182,325)	370,054
Proceeds from contributions restricted for fixed assets	105,720	452,995
Increase (decrease) in permanently restricted net assets	<u>12,891</u>	<u>(13,306)</u>
Net cash provided by (used in) financing activities	<u>(63,714)</u>	<u>809,743</u>
Net increase / (decrease) in cash and cash equivalents	(5,248)	(162,724)
Cash and cash equivalents, beginning of year	<u>24,553</u>	<u>187,277</u>
Cash and cash equivalents, end of year	<u>\$ 19,305</u>	<u>\$ 24,553</u>
Supplemental Data:		
Non-cash contributions of fixed assets	\$ 2,350	\$ 45,630
Interest paid	13,445	12,816

See accompanying notes to financial statements.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

1. Nature of Activities:

The Vermont Youth Orchestra Association, Inc. (the Association) is a non-profit organization incorporated in Burlington, Vermont in 1974. The Association is dedicated to creating opportunities for young people to appreciate and pursue excellence in music through programs focusing primarily on classical music. Its programs include several on-going orchestral groups as well as summer camps and workshops. The Association's support comes primarily from tuition, contributions, and ticket sales.

2. Summary of Significant Accounting Policies:

Basis of Presentation

The Association uses the accrual basis of accounting. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Contributions

The Association accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and / or nature of any donor-imposed restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions whose restrictions are met in the same period are shown as increases in temporarily restricted net assets with a corresponding transfer to unrestricted net assets.

Promises to Give

Unconditional promises to give are recognized as revenues in the period that the promises are received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if expected to be collected in one year and at the present value of their estimated future cash flows if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments with an initial maturity of less than three months to be cash equivalents.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

2. Summary of Significant Accounting Policies (continued):

Tax Status

The Association is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, is a publicly-supported organization as described in Section 509(a)(2) of the Code and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code.

Deferred Revenue

Deferred revenue represents tuition received prior to year-end relating to instruction provided subsequent to the end of the fiscal year.

Refundable Advances

Contributions received during a prior or current fiscal year, if any, which contain donor-imposed conditions are shown as refundable advances in the Statement of Financial Position until the conditions have been substantially met.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2002 from which the summarized information was derived.

Reclassification

Portions of the 2002 financial statements have been reclassified to conform to the 2003 financial statement presentation.

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

Substantial services, materials and facilities are donated to the Association by various individuals and organizations. Goods and services including the services of the orchestra manager, supplies, marketing and website design and maintenance are included in the financial statements at fair value at the time of contribution. In-kind revenue and related expenses have been included in the accompanying financial statements in the amounts of \$37,525 and \$38,669 for the years ended June 30, 2003 and 2002, respectively. In addition, the Association receives hundreds of hours of donated services related to its programs and administrative activities which was not recorded in the financial statements because they did not meet the criteria for recognition under SFAS No. 116.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

4. Investments:

The Association follows SFAS No. 124 *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair market value in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. The cost, fair market value, and unrealized appreciation (depreciation) of the Association's investments, by investment class, are summarized as follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized (Depreciation) Appreciation</u>
As of June 30, 2003:			
Money market funds and certificates of deposit	\$ 42,568	\$ 42,568	\$ -
Government bonds	49,590	56,340	6,750
Corporate bonds and bond funds	110,473	117,022	6,549
Equity mutual funds	198,407	206,166	7,759
	<u>\$ 401,038</u>	<u>\$ 422,096</u>	<u>\$ 21,058</u>
As of June 30, 2002:			<u>Unrealized (Depreciation) Appreciation</u>
Money market funds and certificates of deposit	\$ 36,372	\$ 36,372	\$ -
Government bonds	49,590	54,027	4,437
Corporate bonds	144,981	146,682	1,701
Equity mutual funds	362,224	311,528	(50,696)
	<u>\$ 593,167</u>	<u>\$ 548,609</u>	<u>\$ (44,558)</u>

The following schedule summarizes net investment income by type and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
For the year ended June 30, 2003:				
Interest and dividends	\$ 2,931	\$ -	\$ 10,135	\$ 13,066
Realized and unrealized gains / (losses)	(4,339)	-	6,551	2,212
Investment expenses	(1,028)	-	(3,795)	(4,823)
Net investment income	<u>\$ (2,436)</u>	<u>\$ -</u>	<u>\$ 12,891</u>	<u>\$ 10,455</u>
For the year ended June 30, 2002:				
Interest and dividends	\$ 6,573	\$ -	\$ 8,128	\$ 14,701
Realized and unrealized gains / (losses)	(30,145)	-	(17,712)	(47,857)
Investment expenses	(2,094)	-	(3,722)	(5,816)
Net investment income	<u>\$ (25,666)</u>	<u>\$ -</u>	<u>\$ (13,306)</u>	<u>\$ (38,972)</u>

In January 2003, with board approval, the Association withdrew approximately \$120,000 from investments to pay down the line of credit.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

5. Promises to Give:

Grants and contributions receivable shown as current assets represent unconditional and unrestricted promises to give that are or were expected to be received within one year. They also include capital campaign (see Note 10 below) pledges expected to be collected within one year since the funds have already been expended. Capital campaign pledges expected to be received in more than one year are shown as noncurrent. The uncollectible portion of all the unconditional promises to give is expected to be insignificant. Promises to give that are receivable in more than one year are not discounted because the amounts are immaterial.

Conditional promises to give as of June 30, 2003, included the remaining \$25,000 of a \$50,000 challenge grant earmarked for the paydown of debt. There were no conditional promises to give as of June 30, 2002. Conditional promises to give are not recorded until the conditions are substantially met.

6. Equipment and Instruments:

Equipment and instruments, which are recorded at cost if purchased and at fair market value if contributed, are being depreciated over their useful economic lives (40 years for leasehold improvements, 3-7 years for equipment, 10-15 years for instruments and 3 years for the website) using the straight-line method, and consist of the following as of June 30:

	<u>2003</u>	<u>2002</u>
Leasehold improvements	\$ 1,976,527	\$ 1,976,527
Equipment	68,809	38,568
Instruments	77,154	76,054
Website	16,144	16,144
	<u>2,138,634</u>	<u>2,107,293</u>
Less accumulated depreciation	(115,166)	(46,290)
	<u>\$ 2,023,468</u>	<u>\$ 2,061,003</u>

7. Restrictions on Net Assets:

Permanently restricted net assets have the following restrictions:

Permanent endowment - contributions and earnings permanently restricted until such time as a full-time orchestra manager is hired	\$ 376,826
Permanent endowment - all or substantially all of the income restricted for scholarships and awards	37,521
Permanent endowment - 25% of earnings permanently restricted and the balance unrestricted	8,113
	<u>\$ 422,460</u>

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

8. Special Events:

Special event revenue includes consignment income from the Association's annual used instrument sale, net income from the sales of tapes, t-shirts, and other items and proceeds from benefit concerts.

9. Line of Credit:

The Association has a line of credit with a commercial bank (signed in July 2001 with an original availability of \$498,000, renewed in August 2002 with a maximum balance of \$350,000, and renewed again in August 2003 with a maximum balance of \$250,000) bearing interest at prime (4.0% at June 30, 2003) and expiring in August 2004. The line of credit is secured by substantially all of the Association's investments, which are held at the same bank. Interest expense totaled \$13,445 in 2003 and \$12,816 for 2002.

10. Capital Campaign and Facility Lease Agreement:

In the Fall of 1999, the Association embarked on a multi-year capital campaign to renovate a 20,000 square foot building owned by a college in Colchester, Vermont. In September of 2000, the Association signed a lease with the college calling for annual lease payments of \$1 and an initial term of 20 years. The Association may renew the lease for four additional twenty-year terms. However, the college has the right to terminate prior to each renewal but must reimburse the Association for the replacement cost of the renovations if it does so. \$2.1 million in renovations to the building (which includes rehearsal space, classrooms, storage and administrative offices) were completed in November 2001. Although the capital campaign has ended, the Association continues to collect capital campaign pledges and to solicit new contributions with the purpose of paying down debt incurred in the completion of the project.

11. Concentration of Cash on Deposit:

The Association has concentrated its credit risk by maintaining deposits in financial institutions that usually exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

12. Pension Plan:

On July 1, 2000, the Association established a "Savings Incentive Match Plan for Employees of Small Employers (SIMPLE)", which is open to all employees whose annual compensation exceeds \$5,000. The Association matches employee contributions up to 3% of total compensation. The total related expense under the Plan for the years ended June 30, 2003 and 2002 were \$2,791 and \$2,855, respectively.

VERMONT YOUTH ORCHESTRA ASSOCIATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2003  
 (With Summarized Information for 2002)

	Program Costs	Management and General	Fund- Raising	2003 Totals	2002 Totals
Salaries, benefits and taxes	\$ 84,343	\$ 62,260	\$ 14,572	\$ 161,175	\$ 149,890
Accounting	-	5,080	-	5,080	5,308
Advertising	-	18,257	-	18,257	8,182
Artistic and production contractors	105,848	-	-	105,848	114,886
Bank, payroll, and credit card fees	-	4,593	-	4,593	5,019
Consulting	-	9,277	-	9,277	5,210
Depreciation	51,657	13,775	3,444	68,876	35,121
Dues	422	798	-	1,220	1,421
Equipment rental and maintenance	2,908	3,964	795	7,667	6,617
Insurance	9,325	2,487	622	12,434	4,442
Instrument maintenance	2,359	-	-	2,359	1,317
Interest	-	13,445	-	13,445	12,816
Miscellaneous	500	556	-	1,056	1,181
Music rental and purchases	4,720	-	-	4,720	3,230
Occupancy	32,596	8,692	2,173	43,461	34,304
Office supplies	4,026	2,839	696	7,561	11,705
Performance space rent	11,139	-	-	11,139	8,718
Postage	-	6,332	2,944	9,276	11,767
Printing	8,097	9,372	2,462	19,931	25,122
Reception, recreation and activities	8,787	440	740	9,967	9,743
Staff development and training	-	3,165	-	3,165	982
Summer camp expenses	21,713	-	-	21,713	60,044
Telephone	3,283	2,315	567	6,165	5,776
Travel and transportation	4,779	3,576	703	9,058	9,332
Website maintenance costs	799	563	138	1,500	4,591
	<u>\$ 357,301</u>	<u>\$ 171,786</u>	<u>\$ 29,856</u>	<u>\$ 558,943</u>	<u>\$ 536,724</u>