

**THE LOUISIANA PHILHARMONIC
ORCHESTRA**

Audits of Financial Statements

June 30, 2012 and 2011

Contents

| | |
|-------------------------------------|---|
| Independent Auditor's Report | 1 |
|-------------------------------------|---|

Basic Financial Statements

| | |
|--|--------|
| Statements of Financial Position | 2 |
| Statement of Activities for the Year Ended June 30, 2012 | 3 |
| Statement of Activities for the Year Ended June 30, 2011 | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 - 17 |

| | |
|--|---------|
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 18 - 19 |
|--|---------|



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Independent Auditor's Report

To the Board of Trustees and Members of
The Louisiana Philharmonic Orchestra

We have audited the accompanying statements of financial position of The Louisiana Philharmonic Orchestra (a non-profit organization) (LPO), as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the fiscal years then ended. These financial statements are the responsibility of The Louisiana Philharmonic Orchestra'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 in the first paragraph present fairly, in all material respects, the financial position of The Louisiana Philharmonic Orchestra as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2012, on our consideration of The Louisiana Philharmonic Orchestra's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

A stylized, handwritten-style signature of the word "LaPorte" in a dark grey or black ink.

A Professional Accounting Corporation
October 10, 2012

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THE LOUISIANA PHILHARMONIC ORCHESTRA
Statements of Financial Position
June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$ 696,104 | \$ 317,554 |
| Certificates of Deposit | 300,000 | - |
| Contributions Receivable, Net | 356,723 | 1,333,182 |
| Other Current Assets | 126,317 | 165,326 |
| Total Current Assets | 1,479,144 | 1,816,062 |
| Property and Equipment, Net | 294,389 | 326,423 |
| Other Assets | | |
| Contributions Receivable Greater than One Year, Net | 286,106 | 161,263 |
| Investments | 5,000 | 5,000 |
| Interest in Endowment Trust | 823,914 | 834,057 |
| Total Assets | \$ 2,888,553 | \$ 3,142,805 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Trade Accounts Payable and Accrued Liabilities | \$ 21,420 | \$ 83,175 |
| Line of Credit | - | 517,447 |
| Notes Payable, Current Portion | 223,000 | - |
| Deferred Revenue - Ticket Sales | 678,752 | 624,541 |
| Total Current Liabilities | 923,172 | 1,225,163 |
| Long-Term Liabilities | | |
| Notes Payable, Less Current Portion | 287,000 | - |
| Total Long-Term Liabilities | 287,000 | - |
| Net Assets | | |
| Unrestricted | | |
| Board Designated | 38,568 | 38,568 |
| Cumulative Operations | (651,037) | (691,695) |
| Temporarily Restricted | 900,059 | 1,169,835 |
| Permanently Restricted | 1,390,791 | 1,400,934 |
| Total Net Assets | 1,678,381 | 1,917,642 |
| Total Liabilities and Net Assets | \$ 2,888,553 | \$ 3,142,805 |

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

THE LOUISIANA PHILHARMONIC ORCHESTRA
Statement of Activities
For the Year Ended June 30, 2012

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|---------------------|
| Revenues and Other Support | | | | |
| Earned Revenue | \$ 1,656,887 | \$ - | \$ - | \$ 1,656,887 |
| Contributions | 2,678,496 | 798,065 | - | 3,476,561 |
| Other Income | 140,211 | - | - | 140,211 |
| Net Assets Released from Restrictions - Satisfaction of Purpose Restrictions for Orchestra Programs | 867,841 | (867,841) | - | - |
| Total Revenues and Other Support | 5,343,435 | (69,776) | - | 5,273,659 |
| Expenses | | | | |
| Orchestra Programs | 3,641,031 | - | - | 3,641,031 |
| Management and General | 522,986 | - | - | 522,986 |
| Marketing | 464,174 | - | - | 464,174 |
| Fundraising and Development | 345,008 | - | - | 345,008 |
| Education | 129,578 | - | - | 129,578 |
| Write-Off of Pledges | 200,000 | 200,000 | - | 400,000 |
| Total Expenses | 5,302,777 | 200,000 | - | 5,502,777 |
| Endowment Loss in Amounts Designated for Current Operations | - | - | (10,143) | (10,143) |
| Change in Net Assets | 40,658 | (269,776) | (10,143) | (239,261) |
| Net Assets, Beginning of Year | (653,127) | 1,169,835 | 1,400,934 | 1,917,642 |
| Net Assets, End of Year | \$ (612,469) | \$ 900,059 | \$ 1,390,791 | \$ 1,678,381 |

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

THE LOUISIANA PHILHARMONIC ORCHESTRA
Statement of Activities
For the Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---------------------|---------------------------|---------------------------|---------------------|
| Revenues and Other Support | | | | |
| Earned Revenue | \$ 1,624,573 | \$ - | \$ - | \$ 1,624,573 |
| Contributions | 2,338,599 | 820,776 | 2,585 | 3,161,940 |
| Other Income | 161,967 | - | - | 161,967 |
| Net Assets Released from Restrictions - Satisfaction of Purpose Restrictions for Orchestra Programs | 869,288 | (719,288) | (150,000) | - |
| Total Revenues and Other Support | 4,994,427 | 101,488 | (147,435) | 4,948,480 |
| Expenses | | | | |
| Orchestra Programs | 3,588,161 | - | - | 3,588,161 |
| Management and General | 585,759 | - | - | 585,759 |
| Marketing | 406,214 | - | - | 406,214 |
| Fundraising and Development | 341,486 | - | - | 341,486 |
| Education | 65,304 | - | - | 65,304 |
| Total Expenses | 4,986,924 | - | - | 4,986,924 |
| Endowment Return in Excess of Amount Designated for Current Operations | - | - | 93,294 | 93,294 |
| Change in Net Assets | 7,503 | 101,488 | (54,141) | 54,850 |
| Net Assets, Beginning of Year | (660,630) | 1,068,347 | 1,455,075 | 1,862,792 |
| Net Assets, End of Year | \$ (653,127) | \$ 1,169,835 | \$ 1,400,934 | \$ 1,917,642 |

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

THE LOUISIANA PHILHARMONIC ORCHESTRA
Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Change in Net Assets | \$ (239,261) | \$ 54,850 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities | | |
| Depreciation and Amortization Expense | 75,142 | 69,336 |
| Net Amortization of Investment Discount | - | 5,847 |
| Endowment Loss (Gain) | 10,143 | (93,294) |
| Decrease (Increase) in Contributions Receivable | 851,616 | (501,752) |
| Decrease (Increase) in Other Current Assets | 39,009 | (78,239) |
| (Decrease) Increase in Trade Accounts Payable and Accrued Liabilities | (61,755) | 52,488 |
| Increase in Deferred Revenue - Ticket Sales | 54,211 | 52,599 |
| Net Cash Provided by (Used in) Operating Activities | 729,105 | (438,165) |
| Cash Flows from Investing Activities | | |
| Purchase of Certificates of Deposit | (300,000) | - |
| Purchase of Property and Equipment | (43,108) | (120,999) |
| Net Cash Used in Investing Activities | (343,108) | (120,999) |
| Cash Flows from Financing Activities | | |
| Net Borrowings on Notes Payable | 510,000 | - |
| Net (Payments) Borrowings on Line of Credit | (517,447) | 154,350 |
| Net Cash (Used in) Provided by Financing Activities | (7,447) | 154,350 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 378,550 | (404,814) |
| Cash and Cash Equivalents, Beginning of Year | 317,554 | 722,368 |
| Cash and Cash Equivalents, End of Year | \$ 696,104 | \$ 317,554 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash Paid for Interest | \$ 29,500 | \$ 27,185 |

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

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

The Louisiana Philharmonic Orchestra (LPO) is a non-profit entity formed to establish a symphony to perform classical and other music, to present programs, and to undertake other activities to further the enjoyment of classical and other music by the public.

Basis of Accounting

The LPO's financial statements are presented using the accrual method of accounting. Under this method, revenues are recognized in the period earned, and expenses are recognized in the period in which the benefit is realized. Revenues from ticket sales are recognized when the performances are given.

The LPO reports grants and other contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets, unless that restriction expires in the fiscal year the gifts were received. When a donor 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. The LPO reports gifts of assets as permanently restricted support if they are received with donor stipulations that permanently restrict the assets from use.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the LPO 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.

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 net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Contributions

The LPO accounts for grants and other contributions in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with FASB ASC 958-605, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the existence or nature of any donor restrictions.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

All donor-restricted contributions are reported as increases 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 a 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.

Cash and Cash Equivalents

The LPO considers all money-market investment instruments and certificates of deposit with an original maturity of three months or less to be cash equivalents.

Contributions Receivable

Contributions receivable consist of unconditional promises to give to the LPO. Unconditional promises to give are recognized as contribution revenue in the period received and are recorded at their net realizable value. At June 30, 2012 and 2011, contributions receivable were considered to be fully collectible by management.

Investments

Investments are stated at fair market value. The LPO's investments at June 30, 2012 and 2011, consist of interest bearing bonds. Interest income is included as an increase in unrestricted net assets in the accompanying Statements of Activities since its use is unrestricted.

Fair Values of Financial Instruments

The LPO follows the provisions of FASB ASC 820, *Fair Value Measurements*. Under FASB ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FASB ASC 820 establishes a fair value hierarchy for inputs used in measuring fair market value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Fair Values of Financial Instruments (Continued)

Level 3 - Valuations based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (see Note 13).

The LPO's measurements of fair value are made on a recurring basis, and their valuation techniques for assets and liabilities recorded at fair value are as follows:

Endowment Fund - The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that are unobservable inputs due to the limited market activity of the investment.

Bonds - The fair value of the bonds is the amortized cost, which approximates fair value.

Contributions Receivable - The fair value of contributions is equal to the carrying value for contributions expected to be collected within one year. Contributions expected to be collected in future periods are discounted to present value based on management's assumptions.

Property and Equipment

Property and equipment, including the music library, are stated at cost, except for donated assets, which are recorded at fair market value on the date of the donation. It is the LPO's policy to capitalize all expenditures for these items. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is ten years for musical instruments and five years for all other property and equipment.

Deferred Marketing Costs / Deferred Revenue - Ticket Sales

The LPO promotes and collects season ticket sales for the subsequent season during the latter part of the current fiscal year. Costs incurred for the promotion of the following season are presented as deferred marketing costs, and revenues generated for the following season are presented as deferred revenue. Both the costs and revenues are recognized systematically throughout the next fiscal year as the season progresses and performances are held.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets totaled \$1,390,791 and \$1,400,934, as of June 30, 2012 and 2011, respectively. These net assets consist of an interest in an endowment as well as contributions received with donor stipulations that require the assets to remain in perpetuity.

Endowments

As disclosed in Note 5, the LPO has several endowments where the recipient organization has variance power over the assets. Also, as disclosed in Note 5, the LPO is the beneficiary of one endowment where the recipient organization does not have variance power. As such, the endowment is recorded as an asset in the Statements of Financial Position. Distributions from this endowment can be made twice a year at the discretion of the trustee in the amount of 4.0% of the average endowment balance for the past twelve quarters, not exceeding the expected long-term investment return of the endowment. Distributions are classified as unrestricted other income in the Statement of Activities.

Tax Status

The LPO is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Donated Services and Materials

Donated services and materials, if significant in amount, are recorded as contributions at their fair market value, provided the donor has a clearly measurable and objective basis for determining their value. No value is assigned to other donated items if there is no ascertainable basis for assigning the value. During fiscal year 2012 and 2011, the LPO has recorded both revenues and expenses of \$21,101 and \$19,117, respectively, relating primarily to management and general expenses for donated professional services.

Reclassification

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Note 2. Concentration of Financial Risk

The LPO periodically maintains cash in bank accounts in excess of insured limits. The LPO has not experienced any losses and does not believe that significant credit risk exists as a result of this practice.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 3. Contributions Receivable

Contributions receivable are as follows as of June 30th:

| | 2012 | 2011 |
|---|-------------------|---------------------|
| Unconditional Promises to Give | | |
| Receivable in Less than One Year | \$ 356,356 | \$ 1,333,182 |
| Receivable in One to Five Years | 287,545 | 162,332 |
| Total Unconditional Promises to Give | 643,901 | 1,495,514 |
| Less: Discounts to Net Present Value | (1,072) | (1,069) |
| Net Unconditional Promises to Give | \$ 642,829 | \$ 1,494,445 |

Pledges expected to be received in more than one year were discounted at 0.21%.

Note 4. Property and Equipment

Property and equipment, net is summarized as follows for June 30th:

| | 2012 | 2011 |
|-----------------------------------|-------------------|-------------------|
| Office Furniture and Equipment | \$ 381,283 | \$ 351,765 |
| Music Library | 122,569 | 108,979 |
| Instruments and Related Equipment | 339,526 | 339,526 |
| | 843,378 | 800,270 |
| Less: Accumulated Depreciation | (548,989) | (473,847) |
| Total | \$ 294,389 | \$ 326,423 |

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$75,142 and \$69,336, respectively.

Note 5. Endowments

Several endowments have been established at the Greater New Orleans Foundation (GNOF) for the benefit of the LPO over which GNOF has variance power. As of June 30, 2012 and 2011, these endowments were valued at approximately \$2,439,459 and \$2,469,485, respectively. Distributions from these endowments, which are at the discretion of the GNOF, were \$89,833 and \$91,420, during the years ended June 30, 2012 and 2011, respectively.

The LPO has, in the Statements of Financial Position, an interest in an endowment trust in the amount of \$823,914 and \$834,057, at June 30, 2012 and 2011, respectively. GNOF serves as the trustee of the trust. Distributions from the endowment trust were \$30,356 and \$30,879, for the periods ending June 30, 2012 and 2011, respectively.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 6. Line of Credit

During 2012, LPO converted the existing Line of Credit to a Note Payable. The outstanding borrowings under this line of credit amounted to \$-0-, and \$517,447 at June 30, 2012 and 2011, respectively.

Note 7. Notes Payable

Notes payable consisted of the following at June 30, 2012:

| | |
|--|--------------------------|
| Note Payable - JPMorgan Chase Bank - Due in 12 monthly payments of \$9,000 and 36 monthly payments of \$20,500, with interest at 2.743%. Secured by deposit accounts held at the bank. Matures in July 2014. | <u>\$ 510,000</u> |
| Total Notes Payable | 510,000 |
| Less: Current Portion | <u>(223,000)</u> |
| Notes Payable, Net of Current Portion | <u><u>\$ 287,000</u></u> |

Total interest expense charged to operations during the year ended June 30, 2012 and 2011, were \$24,687 and \$-0-, respectively.

On August 15, 2012, the terms of the Note Payable above were modified. As of August 15, 2012, the remaining principal balance was \$492,000. The modified agreement calls for twelve monthly payments of \$10,000, plus all accrued and unpaid interest; then twelve monthly payments of \$15,500 plus all accrued and unpaid interest. The remaining unpaid principal and accrued and unpaid interest is due and payable on July 31, 2014.

Maturities of long-term debt after the modification, are as follows:

| Year Ending | Amount |
|--------------|--------------------------|
| 2013 | \$ 110,000 |
| 2014 | 180,500 |
| 2015 | <u>201,500</u> |
| Total | <u><u>\$ 492,000</u></u> |

Note 8. Unrestricted Net Assets - Board Designations

The LPO has Unrestricted - Board Designated net assets as of June 30, 2012 and 2011, in the amount of \$38,568. This amount was received as a donation and the funds were added to the Board Designated Funds Functioning as Endowment of the LPO.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2012:

| | |
|--------------------------------|--------------------------|
| Periods after June 30, 2012 | \$ 739,426 |
| Specific Programs and Purposes | <u>160,633</u> |
| Total | \$ <u>900,059</u> |

Temporarily restricted net assets restricted for periods after June 30, 2012, consist primarily of the unreleased amount of grants received from the Mellon Foundation, Pan American Life Insurance Company, Freeport-McMoRan and various corporate and individual gifts.

Note 10. Commitments

The Company leases office space and additional storage under a lease agreement. Required minimum lease payments for the office space and additional storage space are as follows for June 30th:

| | |
|--------------|--------------------------|
| 2013 | \$ 46,572 |
| 2014 | 46,572 |
| 2015 | 46,572 |
| 2016 | <u>38,810</u> |
| Total | \$ <u>225,098</u> |

Rent expense totaled \$54,613 and \$48,519, for the years ended June 30, 2012 and 2011, respectively.

During the fiscal year ended June 30, 2011, the LPO signed an employment contract with a media and marketing consultant. The contract expired on June 30, 2012 and the total commitment was for \$3,000.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 11. Functional Expenses

The LPO's expenses classified by functional category for the years ended June 30, 2012 and 2011 are as follows:

| June 30, 2012 | Orchestra Programs | Management and General | Marketing | Fundraising and Development | Education | Total |
|--------------------------------|---------------------|------------------------|-------------------|-----------------------------|-------------------|---------------------|
| Salaries and Wages | \$ 3,000,198 | \$ 204,904 | \$ 190,038 | \$ 160,591 | \$ 48,485 | \$ 3,604,216 |
| Supplies and Travel | 76,203 | 38,924 | 163,817 | 13,723 | - | 292,667 |
| Services and Professional Fees | 52,413 | 7,787 | 2,500 | 80,741 | - | 143,441 |
| Venue, Office and Other | 512,217 | 196,229 | 107,819 | 89,953 | 81,093 | 987,311 |
| Depreciation and Amortization | - | 75,142 | - | - | - | 75,142 |
| Total | \$ 3,641,031 | \$ 522,986 | \$ 464,174 | \$ 345,008 | \$ 129,578 | \$ 5,102,777 |

| June 30, 2011 | Orchestra Programs | Management and General | Marketing | Fundraising and Development | Education | Total |
|--------------------------------|---------------------|------------------------|-------------------|-----------------------------|------------------|---------------------|
| Salaries and Wages | \$ 3,025,511 | \$ 281,705 | \$ 143,734 | \$ 165,299 | \$ 35,971 | \$ 3,652,220 |
| Supplies and Travel | 73,179 | 35,495 | 142,201 | 9,719 | - | 260,594 |
| Services and Professional Fees | 53,672 | 8,220 | 39,775 | 55,390 | - | 157,057 |
| Venue, Office and Other | 435,799 | 191,003 | 80,504 | 111,078 | 29,333 | 847,717 |
| Depreciation and Amortization | - | 69,336 | - | - | - | 69,336 |
| Total | \$ 3,588,161 | \$ 585,759 | \$ 406,214 | \$ 341,486 | \$ 65,304 | \$ 4,986,924 |

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 12. Pension Plan

The LPO participates in the American Federation of Musicians' and Employers' Pension Fund (the Fund). The Fund covers every musician employed by the LPO. Under the terms of the Fund, the LPO contributes 4.16% of all wages for musical services (as described in the AFM's Wage Scale Book). The amount contributed to the Fund for the years ended June 30, 2012 and 2011, totaled \$35,246 and \$34,060, respectively.

Note 13. Fair Value of Financial Instruments

The LPO's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820. See Note 1 for a description of the LPO's policies and valuation procedures.

The valuation of the LPO's assets and liabilities measured at fair value on a recurring basis are as follows:

| <u>June 30, 2012</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------------------|---------------------|-------------------|-------------------|-------------------|
| Endowment Trust | \$ 823,913 | \$ 265,663 | \$ 442,188 | \$ 116,063 |
| Long-Term Bonds | 5,000 | - | - | 5,000 |
| Contributions Receivable | 642,829 | - | - | 642,829 |
| Total | \$ 1,471,742 | \$ 265,663 | \$ 442,188 | \$ 763,892 |

| <u>June 30, 2011</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--------------------------|---------------------|-------------------|-------------------|---------------------|
| Endowment Trust | \$ 834,057 | \$ 260,716 | \$ 477,937 | \$ 95,404 |
| Long-Term Bonds | 5,000 | - | - | 5,000 |
| Contributions Receivable | 1,494,445 | - | - | 1,494,445 |
| Total | \$ 2,333,502 | \$ 260,716 | \$ 477,937 | \$ 1,594,849 |

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 13. Fair Value of Financial Instruments (Continued)

The changes in investments measured at fair value for which the LPO has used Level 3 inputs to determine fair value are as follows:

| June 30, 2012 | Level 3 Beginning Balance | Net Realized and Unrealized Gains (Losses) | Net Payments and Gifts | Net Purchases and Sales | Change in Present Value | Level 3 Ending Balance |
|-----------------------------------|---------------------------------|--|------------------------------|-------------------------------|-------------------------------|------------------------------|
| Endowment Trust | \$ 95,404 | \$ 11,433 | \$ - | \$ 9,226 | \$ - | \$ 116,063 |
| Long-Term Bonds | 5,000 | - | - | - | - | 5,000 |
| Unconditional Promises to Give | 1,494,445 | - | (851,982) | - | 366 | 642,829 |
| Total | \$ 1,594,849 | \$ 11,433 | \$ (851,982) | \$ 9,226 | \$ 366 | \$ 763,892 |

| June 30, 2011 | Level 3 Beginning Balance | Net Realized and Unrealized Gains (Losses) | Net Payments and Gifts | Net Purchases and Sales | Change in Present Value | Level 3 Ending Balance |
|-----------------------------------|---------------------------------|--|------------------------------|-------------------------------|-------------------------------|------------------------------|
| Endowment Trust | \$ 62,600 | \$ 12,055 | \$ - | \$ 20,749 | \$ - | \$ 95,404 |
| Long-Term Bonds | 10,847 | - | - | (6,000) | 153 | 5,000 |
| Unconditional Promises to Give | 992,693 | - | 504,029 | - | (2,277) | 1,494,445 |
| Total | \$ 1,066,140 | \$ 12,055 | \$ 504,029 | \$ 14,749 | \$ (2,124) | \$ 1,594,849 |

Note 14. Endowment Fund

As disclosed in Note 5, the LPO has an endowment with GNOF. The following is GNOF's policies for endowment funds.

GNOF follows a Total Return Spending Policy for its endowment funds. Endowment funds are invested for maximum total return (within acceptable risk parameters), without distinction between income and capital gains. The market value of the fund is measured over the past 12 quarters, and a percentage of the average of those values is made available for grants. This method appropriately puts the focus on the long-term growth of the fund. This, in turn, encourages the appropriate use of equities in the fund, helping the fund to grow at a rate greater than inflation. The annual percentage for 2011 distributions is 4%. This percentage is evaluated each year and adjusted as necessary.

The primary financial objective for GNOF is to increase the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of investment management. Endowment assets are invested in a well diversified asset mix, which includes equity securities, fixed income securities and alternative investments, which is intended to meet this objective. GNOF has established a 5% real rate of return objective for GNOF's portfolio. Actual returns in any given year may vary from this amount. Investment assets and allocation between asset classes and strategies are managed to not expose the endowment assets to unacceptable levels of risk.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 14. Endowment Fund (Continued)

The permanently restricted net assets also consist of contributions received which are held in a savings account and then subsequently transferred to GNOF at the board's designation.

Composition of and changes in endowment net assets were as follows:

| | GNOF Endowment | Donor Designated | Total Permanently Restricted |
|---|-------------------|---------------------|------------------------------------|
| June 30, 2012 | | | |
| Permanently Restricted Endowment Net Assets, Beginning of Year | \$ 834,057 | \$ 566,877 | \$ 1,400,934 |
| Contributions / Donor Release, Net | - | - | - |
| Net Depreciation in Endowment | (10,143) | - | (10,143) |
| Permanently Restricted Endowment Net Assets, End of Year | \$ 823,914 | \$ 566,877 | \$ 1,390,791 |
| June 30, 2011 | | | |
| Permanently Restricted Endowment Net Assets, Beginning of Year | \$ 740,763 | \$ 714,312 | \$ 1,455,075 |
| Contributions / Donor Release, Net | - | (147,435) | (147,435) |
| Net Appreciation in Endowment | 93,294 | - | 93,294 |
| Permanently Restricted Endowment Net Assets, End of Year | \$ 834,057 | \$ 566,877 | \$ 1,400,934 |

Note 15. Uncertain Tax Positions

The LPO follows the provisions of FASB ASC 740, *Accounting for Uncertainty in Income Taxes*. The implementation of FASB ASC 740 had no impact on the Statements of Financial Position and the Statement of Activities.

All tax returns have been appropriately filed by the LPO. LPO recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The LPO's tax filings are subject to audit by various taxing authorities, and its open audit periods are 2009 through 2012. Management evaluated the LPO's tax position and concluded that the LPO has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

THE LOUISIANA PHILHARMONIC ORCHESTRA

Notes to Financial Statements

Note 16. Pledge Write-Off

In January of 2012, a donor informed the LPO that it would not honor the remaining installments of a multi-year grant that had been awarded in March of 2010. As a result, the LPO wrote off the remaining two installments during the fiscal year, which totaled \$400,000. The pledge write-offs are included in the financial statements for the year ending June 30, 2012.

Note 17. Capital Campaign

The LPO is engaged in a capitalization campaign to become debt-free. In June of 2012, a donor made a personal pledge within that campaign in the form of a one-to-one challenge grant of \$600,000. The donor disbursed to LPO \$100,000 of the \$600,000 without recourse. That \$100,000 was recorded upon receipt as an unrestricted gift in the year ended June 30, 2012. The donor specified that once LPO had raised \$100,000 of new (subsequent to the donor's initial gift) capitalization, they would disburse on a quarterly basis amounts matching new capitalization gifts beyond that first \$100,000 to a cumulative maximum of \$500,000 without any limit on the time required to achieve that goal.

Note 18. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 10, 2012, and determined that no events, other than the one stated in Note 7, have occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees and Members of
The Louisiana Philharmonic Orchestra

We have audited the financial statements of The Louisiana Philharmonic Orchestra (a non-profit organization) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Louisiana Philharmonic Orchestra is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Louisiana Philharmonic Orchestra's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Philharmonic Orchestra's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Louisiana Philharmonic Orchestra's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Louisiana Philharmonic Orchestra's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of The Louisiana Philharmonic Orchestra, management, and the Legislative Auditor of the State of Louisiana, and it is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in cursive script that reads "LaForte".

A Professional Accounting Corporation
October 10, 2012