Financial Statements
June 30, 2013 and 2012

The Saint Paul Chamber Orchestra Society

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
The Saint Paul Chamber Orchestra Society
St. Paul, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of The Saint Paul Chamber Orchestra Society (the Society), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion
The Society is the sole beneficiary of SPCO, Inc., a separately incorporated 501(c)(3) organization established by a donor of the Society. Accounting principles generally accepted in the United States of America require consolidation of SPCO, Inc. with the financial statements of the Society, as the Board of Directors of SPCO, Inc. consists of three members who are also current members of the Board of Directors of the Society. The Society has chosen not to consolidate the financial statements of SPCO, Inc., which is the basis of our qualified opinion (see Note 13). If the Society consolidated SPCO, Inc., this would increase the Society's assets and net assets approximately $6,500,000 and increase its net revenues over expenses for the year ended June 30, 2013 by approximately $1,100,000.

Qualified Opinion
In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Saint Paul Chamber Orchestra Society as of June 30, 2013 and 2012, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Minneapolis, Minnesota
November 21, 2013

	2013	2012
Assets		
Cash and cash equivalents	$ 715,506	$ 288,259
Promises to give, net	4,212,870	1,828,142
Other receivables	84,320	139,307
Prepaid expenses	165,226	178,534
Investments and endowment cash	33,214,777	32,480,950
Property and equipment, net	819,471	1,241,524
Beneficial interest in charitable trusts	3,746,596	3,466,895
Total assets	$ 42,958,766	$ 39,623,611
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 233,346	$ 197,013
Accrued expenses	1,893,481	140,136
Deferred season ticket revenue and other	985,667	1,015,572
Deferred rent and gift annuities payable	442,339	521,785
Total liabilities	3,554,833	1,874,506
Net Assets		
Unrestricted - operating fund	(511,941)	(793,205)
Unrestricted - Board designated endowment fund	(2,149,380)	(2,595,412)
	(2,661,321)	(3,388,617)
Temporarily restricted - operating fund	2,869,406	2,382,386
Permanently restricted - endowment fund	39,195,848	38,755,336
Total net assets	39,403,933	37,749,105
Total liabilities and net assets	$ 42,958,766	$ 39,623,611

	Unrestricted Operating Fund	Unrestricted Endowment Fund	Temporarily Restricted - Operating Fund	Permanently Restricted - Endowment Fund	Total
	2013				
Revenue from Operations					
Concerts for a fee	$ 119,652	$ -	$ -	$ -	$ 119,652
Ticket revenue	502,731	-	-	-	502,731
Restricted contributions					
Purpose restriction met -					
Special Retirement Package	1,600,000	-	(1,600,000)	-	-
Purpose restriction met - all other	1,119,889	-	(1,119,889)	-	-
Transfer from SPCO held endowment	1,586,604	-	-	-	1,586,604
Allocation from perpetual trust	177,377	-	-	-	177,377
Other revenue	12,231	-	-	-	12,231
Total revenue from operations	5,118,484	-	(2,719,889)	-	2,398,595
Support					
Grants and contributions -					
Fund for Distinguished Service	-	-	1,600,000	-	1,600,000
Grants and contributions - all others	3,784,218	-	2,248,180	-	6,032,398
Special events, net of direct expenses of					
$16,657 in 2013 and $143,349 in 2012	(1,777)	-	-	-	(1,777)
Time restrictions met	598,346	-	(598,346)	-	-
Total support	4,380,787	-	3,249,834	-	7,630,621
Total revenue and support	9,499,271	-	529,945	-	10,029,216
Expenses					
Artistic and program -					
Special Retirement Package	1,878,772	-	-	-	1,878,772
Artistic and program - all other	5,923,466	-	-	-	5,923,466
Management and general	793,618	-	-	-	793,618
Fundraising	622,151	-	-	-	622,151
Total expenses	9,218,007	-	-	-	9,218,007
Change in Net Assets - Operating	281,264	-	529,945	-	811,209
Change in Net Assets - Nonoperating					
Grants and contributions	-	-	-	140,000	140,000
Change in value of beneficial interest					
in charitable trusts	-	-	(1,166)	280,871	279,705
Change in value of gift annuities	-	(78,957)	-	-	(78,957)
Investment income	-	2,290,587	-	-	2,290,587
Transfer to operations	-	(1,586,604)	-	-	(1,586,604)
Change in discount on pledges receivable	-	-	(118,671)	19,641	(99,030)
Change in discount on SRP liability			76,912	-	76,912
Other revenue	-	-	-	-	-
Fundraising expenses	-	(178,994)	-	-	(178,994)
Total change in in net assets - nonoperating	-	446,032	(42,925)	440,512	843,619
Change in Net Assets	281,264	446,032	487,020	440,512	1,654,828
Net Assets, Beginning of Year	(793,205)	(2,595,412)	2,382,386	38,755,336	37,749,105
Net Assets, End of Year	$ (511,941)	$ (2,149,380)	$ 2,869,406	$ 39,195,848	$ 39,403,933
Total change in unrestricted net assets		$ 727,296			

See Notes to Financial Statements

2012	Unrestricted Operating Fund	Unrestricted Endowment Fund	Temporarily Restricted - Operating Fund	Permanently Restricted - Endowment Fund	Total
Revenue from Operations					
Concerts for a fee	$ 92,066	$ -	$ -	$ -	$ 92,066
Ticket revenue	1,498,174	-	-	-	1,498,174
Restricted contributions					
Purpose restriction met - Special Retirement Package	-	-	-	-	-
Purpose restriction met - All other	1,719,741	-	(1,719,741)	-	-
Transfer from SPCO held endowment	1,587,629	-	-	-	1,587,629
Allocation from perpetual trust	171,826	-	-	-	171,826
Other revenue	6,208	-	-	-	6,208
Total revenue from operations	5,075,644	-	(1,719,741)	-	3,355,903
Support					
Grants and contributions - Fund for Distinguished Service	-	-	-	-	-
Grants and contributions - All others	4,240,866	-	1,172,572	-	5,413,438
Special events, net of direct expenses of $16,657 in 2013 and $143,349 in 2012	127,769	-	-	-	127,769
Time restrictions met	712,264	-	(712,264)	-	-
Total support	5,080,899	-	460,308	-	5,541,207
Total revenue and support	10,156,543	-	(1,259,433)	-	8,897,110
Expenses					
Artistic and program - Special Retirement Package	-	-	-	-	-
Artistic and program - All other	9,309,194	-	-	-	9,309,194
Management and general	969,062	-	-	-	969,062
Fundraising	773,366	-	-	-	773,366
Total expenses	11,051,622	-	-	-	11,051,622
Change in Net Assets - Operating	(895,079)	-	(1,259,433)	-	(2,154,512)
Change in Net Assets - Nonoperating					
Grants and contributions	-	-	-	-	-
Change in value of beneficial interest in charitable trusts	-	-	2,954	(321,437)	(318,483)
Change in value of gift annuities	-	(55,855)	-	-	(55,855)
Investment income	-	(356,297)	-	-	(356,297)
Transfer to operations	-	(1,587,629)	-	-	(1,587,629)
Change in discount on pledges receivable	-	-	27,618	39,983	67,601
Change in discount on SRP liability					
Other revenue	-	1,000	-	-	1,000
Fundraising expenses	-	(161,418)	-	-	(161,418)
Total change in in net assets - nonoperating	-	(2,160,199)	30,572	(281,454)	(2,411,081)
Change in Net Assets	(895,079)	(2,160,199)	(1,228,861)	(281,454)	(4,565,593)
Net Assets, Beginning of Year	101,874	(435,213)	3,611,247	39,036,790	42,314,698
Net Assets, End of Year	$ (793,205)	$ (2,595,412)	$ 2,382,386	$ 38,755,336	$ 37,749,105
Total change in unrestricted net assets		$ (3,055,278)			

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	$ 1,654,828	$ (4,565,593)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	434,365	452,199
Unrealized gain on investments	(702,811)	(568,852)
Realized (gain) loss on investments	(1,687,508)	998,990
Change in discount on promises to give	99,030	(67,601)
Contributions restricted for endowment	(140,000)	-
Change in beneficial interest in charitable trusts	(279,701)	318,483
Changes in operating assets and liabilities		
Promises to give and other receivables	(2,493,998)	1,453,906
Prepaid expenses	13,308	57,776
Accounts payable	36,333	(13,652)
Accrued expenses	1,753,345	(150,166)
Deferred season ticket revenue	(29,905)	(86,591)
Other deferred liabilities	(79,446)	(90,990)
Net Cash used for Operating Activities	(1,422,160)	(2,262,091)
Cash Flows from Investing Activities		
Purchase of property and equipment	(12,312)	(75,237)
Purchases of investments	(29,694,165)	(31,851,073)
Proceeds from sale of investments	31,350,657	33,335,121
Principal payments received from debenture note receivable	-	50,000
Net Cash from Investing Activities	1,644,180	1,458,811
Cash Flows from Financing Activities		
Cash received from endowment contributions	205,227	239,189
Net Cash from Financing Activities	205,227	239,189
Net Change in Cash and Cash Equivalents	427,247	(564,091)
Cash and Cash Equivalents, Beginning of Year	288,259	852,350
Cash and Cash Equivalents, End of Year	$ 715,506	$ 288,259

Note 1 - Principal Activity and Significant Accounting Policies

Mission Statement

The mission of The Saint Paul Chamber Orchestra (the Society) is to present a world-class professional chamber orchestra in the Twin Cities, dedicated to superior performance, and artistic innovation and education, for the enrichment of community and world audiences.

Financial Statement Presentation

The financial statements of the Society have been prepared on the accrual basis of accounting. The Society reports information regarding its financial position and activities according to the three classes of net assets:

Unrestricted Net Assets – Resources over which the Board of Directors has discretionary control. These net assets include both an operating fund and a designated endowment fund. In the Unrestricted Board Designated Endowment Fund, the Board has designated that the amount of income earned in excess of the approved spending rate is accounted for as endowment unrestricted net assets.

Temporarily Restricted Net Assets – Net assets of the Society resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Permanently Restricted Net Assets – Net assets resulting from contributions with donor-imposed stipulations that they be maintained permanently by the Society. The contributors of these resources permit the Society to use all of the income earned, including capital appreciation, for unrestricted or temporarily restricted purposes.

Non-operating activity includes all transactions associated with endowment activities including contributions raised, and investment activities and expenses to raise those funds.

Financial Instruments

The Society's financial instruments are cash and cash equivalents, pledges receivable, other receivables, investments, notes receivable, and beneficial interest in charitable trusts and accounts payable. The recorded values of cash and cash equivalents, other receivables, and accounts payable approximate their fair values based on their short-term nature. The fair value of pledges receivable, which is based on discounted cash flows using current interest rates, approximates the carrying value at June 30, 2013 and 2012.

Cash and Cash Equivalents

The Society considers all bank and similar time deposits, demand accounts, and money market funds with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents included in the endowment fund are classified under investments.

The Society maintains its cash in a deposit account, which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits. The Society has not experienced any losses in this account.

Promises to Give

Promises to give are recorded at net realizable value. Long-term promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is received. An allowance is determined based on management's estimate of uncollectible pledges receivable, which is based on a review of each pledge individually along with historical collections.

Other Receivables

The Society provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are sold on an unsecured basis. Payment is required no later than 30 days after receipt of the invoice. The collectability of accounts past due more than 90 days is assessed individually. Accounts for which no payments have been received for six months are written-off, with no further accrual of interest. In addition, an allowance is provided for other accounts when a significant pattern of uncollectability has occurred. When all collection efforts have been exhausted, the accounts are written-off against the related allowance. At June 30, 2013 and 2012, an allowance for bad debts was not warranted.

Prepaid Expenses

Expenses associated with future performances are reported as prepaid expenses.

Investments

Investments in marketable securities are reported at fair market value by using quoted market values. Non-quoted alternative investments include real estate, commodities, energy-related assets, and hedge funds in limited-liability investment fund vehicles which have fair values determined by their respective managers or third-party fund administrators in the absence of readily ascertainable market values.

Property and Equipment

Purchased property and equipment are valued at cost. Expenditures for the acquisition of equipment greater than $1,000 and a life greater than one year are capitalized. Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the Society has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support.

Depreciation of property and equipment other than fine instruments is computed over estimated useful lives of three to ten years using the straight-line method, and is charged directly to the applicable functional expense within the operating fund. Leasehold improvements are amortized over the shorter of useful life or term of the lease.

Instruments that appreciate or hold their value over time are considered to be fine instruments. Fine instruments are not depreciated and are shown at their cost basis of $157,393 at June 30, 2013 and 2012.

Charitable Trusts

The Society has a beneficial interest in a number of charitable trusts, as shown in Note 3. Amounts are recorded at the net present value of future benefits.

Deferred Revenue

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

Gift Annuities Payable

The Society has received contributions under annuity contracts which generally provide for payments to the annuitants for life. The annuity contracts are recorded based on the present value of the future expected payments to the donors as a liability and a contribution is recognized for the difference between the liability and receipts received. The Society uses discount rates of 4% to 7% to estimate the liability. Gift annuities at June 30, 2013 and 2012 were $422,806 and $426,842, respectively.

Contributions and Grants

The Society receives contributions and grants from individuals, corporations, foundations and government primarily in the Twin Cities.

Revenue is recorded in the fiscal year in which the pledges are made. Contributions which are purpose or time-restricted, are recorded as temporarily restricted amounts and transferred to unrestricted balances as restrictions are met. Contributions which are permanently restricted are recorded as additions to permanently restricted net assets.

Endowment Income

The majority of the endowment income (dividends, interest, and realized and unrealized gains) are unrestricted as to their use and can generally be used to offset fund management expenses, used in the operating fund as additional support, or reinvested in accordance with the Society's investment policy. Restricted endowment income is used for its intended purpose.

Other Funds Held in Trust

The Society is the beneficiary of The Saint Paul Chamber Orchestra Society Fund (the Fund) of The Saint Paul Foundation (the Foundation). The Foundation is the owner of all property in the Fund and shall have ultimate authority over all distributions from the Fund. The Society records contribution revenue when distributions are made from the Fund. For the years ended June 30, 2013 and 2012, the Society recorded $32,987 and $34,588, respectively, in the Fund distributions.

Contributed Goods and Services

Contributions of non-cash assets and professional services involving specialized skills are recorded at fair value as revenue and expense if they would have been purchased if not donated.

Functional Allocation of Expenses

The costs of providing program services and other activities are summarized on a functional basis in the statements of activities. The largest portion of compensation and other costs are charged directly to the applicable functional category. Material costs that are organization-wide in nature are allocated between program and supporting services based on their relationship to each functional area and in accordance with applicable criteria.

Marketing and Promotion Costs

The Society expenses the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is capitalized. Direct-response advertising consists primarily of season brochures that include order forms for the Society's concerts. The capitalized costs of the advertising are expensed at the beginning of the year to which the advertising expense relates.

At June 30, 2013 and 2012, $29,530 and $78,842 of advertising was reported as prepaid expenses, respectively.

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 the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Society's financial statements include amounts that are based on management's best estimates and judgments including amounts for the valuation of charitable trusts, gift annuities, contributions receivable, the functional allocations of expenses and the allowance for doubtful accounts. The Society also relies on the estimates of the fund managers regarding certain components of the alternative investments. Actual results could differ from those estimates.

Income Taxes

The Society is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Society is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Society is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purpose. The Society files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income.

The Society believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Society would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Society’s Form 990-T is no longer subject to tax examinations by tax authorities for years before 2009 and state examinations for years before 2008.

Concentration and Sources of Labor

Office, clerical and management employees of the Society are not unionized.

Substantially all of the stage employees of the Society are represented by the International Alliance of the Theatrical Stage Employees, Local 13. The collective bargaining agreement for the stage employees will expire on June 30, 2014.

Substantially all of the musicians of the Society are represented by the Twin Cities Musicians Union, Local 30-73. The collective bargaining agreement for the musicians expired on September 30, 2012. On October 17, 2012 the Society provided a voting offer to the Musicians Union that was not accepted, and the Society locked out the musicians on October 21, 2012. The lockout ended on April 29, 2013 and a new collective bargaining agreement has been executed that will expire on June 30, 2016.

Subsequent Events

The Society has evaluated subsequent events through November 21, 2013, the date which the financial statements were available to be issued.

Note 2 - Investments

A summary of endowment cash and investments at June 30, 2013 and 2012 is as follows:

	2013	2012
Fixed income securities		
Government	$ 4,920	$ 6,801
Mutual funds	3,199,901	4,452,063
Stock mutual funds		
International equities	5,928,429	3,149,301
Large cap equities	2,369,773	232,918
Absolute return strategies	13,333,262	17,000,160
Private equity	4,300,320	3,907,955
Real assets	3,423,270	3,399,854
Restricted cash and cash equivalents	492,039	177,437
Instrument loan fund	146,616	154,448
Interest receivable	16,247	14
Total	$ 33,214,777	$ 32,480,951
Income		
Interest and dividends	$ 331,456	$ 238,215
Realized gain (loss)	1,687,508	(998,990)
Unrealized gain	702,811	568,852
Investment management fees	(431,188)	(164,375)
Investment income	2,290,587	(356,298)
Transfer to operations	(1,586,604)	(1,587,629)
Change in endowment after transfer	$ 703,983	$ (1,943,927)

The Society has developed a diversified endowment investment portfolio. The Society's investment objectives are guided by its asset allocation policy which was developed in conjunction with the Society's investment advisors and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, commingled funds and limited partnerships. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statements of activity.

The Society holds balances in a number of alternative investments, including real estate, commodities, energy-related assets and hedge funds in limited-liability investment fund vehicles. All alternative investment vehicles report on either a monthly or quarterly basis and are audited on an annual basis. Their balances are carried at fair value, based on estimates of the fund managers in absence of readily ascertainable values. Such values may differ significantly from the values that would have been used had a ready market existed for these investments, and these differences could be material. Unrealized gains or losses are recognized in the period in which they occur.

Instrument Loan Fund

The Society has an instrument loan fund as part of the fixed-income portion of the endowment portfolio. A maximum of $1,000,000 was approved to be used for loans to regular, full-time, tenured musicians who wish to purchase new instruments. This program was designed to enhance the artistic quality of the concerts, while helping musicians avoid the high interest costs of conventional financing. The loans can have a maximum 20-year term, and the interest rate is set 0.5% higher than the T-Bill yield, or 0.5% higher than the IRS rate for imputable income, whichever is higher, and is adjusted annually. Obtaining a loan requires a formal process, including an application, credit review and official approval by a committee. The instrument itself is the collateral on the loan.

During the year ended June 30, 2013, one musician had an outstanding loan. The outstanding balance was $160,701 and was included with the endowment investment balance. The details are shown in the following table:

	Outstanding Balance	Bi-weekly Payment Amount	Interest Rate	Maturity Date
Loan #1	$ 160,701	$ 464	2.78%	April 2028

During the year ended June 30, 2012, one musician had an outstanding loan. The outstanding balance totaled $156,422 and was included with the endowment investment balance. The details are shown in the following table:

	Outstanding Balance	Bi-weekly Payment Amount	Interest Rate	Maturity Date
Loan #1	$ 156,422	$ 517	4.29%	April 2028

Note 3 - Beneficial Interest in Charitable Trusts

The Society is the beneficiary of various charitable trusts at June 30:

	2013	2012
Perpetual Trust - One trust held by a third party. All earnings remain in the trust and the trustees determine annual withdrawals based on approved formula. The trustees can elect to terminate the trust in 2017 and distribute all assets to the Society. All assets are permanently restricted for endowment and are valued at the fair market value of the assets in the trust.	$ 3,686,783	$ 3,404,677
Charitable Remainder Trusts - The Society has been named the beneficiary of two charitable remainder trusts. Upon the death of those donors, the Society will receive the remaining assets of the trusts. The trusts are recorded based upon estimated investment earnings, when applicable, of 3%, and a present value discount of 7%.	59,813	62,218
Total charitable trusts	$ 3,746,596	$ 3,466,895

The gains (losses) on the charitable trusts were as follows for the years ended June 30:

	2013	2012
Perpetual trust current year allocation	$ 177,377	$ 171,826
Perpetual trust change in value	282,106	(317,461)
Charitable remainder trust change in value	(2,401)	(1,022)
Total trust income	$ 457,082	$ (146,657)

Note 4 - Fair Value of Assets and Liabilities

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

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

Level 2 – Inputs to the valuation methodology include:

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

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2013 and 2012.

<u>Investment Securities</u> (consisting of government securities, stocks, cash & cash equivalents, and interest receivable): Valued at net asset value (NAV) of shares held by the Society at year end based on quoted market values.

<u>Alternative Investments</u> (consisting of real estate, commodities, energy-related assets, private equity, and hedge funds in limited-liability investment fund vehicles): Valued at net asset value (NAV) of shares held by the Society at year end based on fair value as determined by their respective manager or third-party fund administrator in the absence of readily ascertainable market values.

<u>Instrument Loan Fund</u>: Valued at year end loan balance per loan amortization schedule.

<u>Beneficial Interest in Charitable Trusts</u>: Valued at year end net asset value (NAV) as determined by their respective third-party fund administrator and adjusted for a present value discount as appropriate.

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

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013 and 2012, respectively, are as follows:

	2013	2012
Investment securities	$ 12,011,309	$ 8,018,534
Alternative investments	21,056,852	24,307,969
Instrument loan fund	146,615	154,447
Beneficial interest in charitable trusts	3,746,596	3,466,895
Total assets	$ 36,961,372	$ 35,947,845

The related fair values of these assets and liabilities are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2013			
Investment securities	$ 513,206	$ 11,498,103	$ -
Alternative investments	-	-	21,056,852
Instrument loan fund	-	-	146,615
Beneficial interest in charitable trusts	-	-	3,746,596
Total assets	$ 513,206	$ 11,498,103	$ 24,950,063
June 30, 2012			
Investment securities	$ 184,252	$ 7,834,282	$ -
Alternative investments	-	-	24,307,969
Instrument loan fund	-	-	154,447
Beneficial interest in charitable trusts	-	-	3,466,895
Total assets	$ 184,252	$ 7,834,282	$ 27,929,311

Following is a reconciliation of activity for fiscal years ending June 30, 2013 and 2012, for assets measured at fair value based upon significant unobservable (non-market) information. Transfers shown below may indicate a transfer from one Level 3 investment to another Level 3 investment.

	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
June 30, 2013			
Balance, beginning of year	$ 24,307,969	$ 154,447	$ 3,466,895
Net realized and unrealized gains (losses)	2,341,543	-	457,078
Fees	(348,663)	-	-
Transfers into Level 3	6,924,968	-	-
Transfers out of Level 3	(12,168,965)	(7,832)	(177,377)
Balance, end of year	$ 21,056,852	$ 146,615	$ 3,746,596

	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
June 30, 2012			
Balance, beginning of year	$ 27,792,545	$ 161,360	$ 3,785,378
Net realized and unrealized gains (losses)	(345,314)	-	(146,657)
Fees	(101,373)	-	-
Transfers into Level 3	12,777,619	-	-
Transfers out of Level 3	(15,815,508)	(6,913)	(171,826)
Balance, end of year	$ 24,307,969	$ 154,447	$ 3,466,895

The Organization’s policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer.

	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
Total amount of total gains or losses for the year ended June 30, 2013 included in net unrestricted net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 1,606,148	$ -	$ -

	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
Total amount of total gains or losses for the year ended June 30, 2012 included in net unrestricted net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (350,040)	$ -	$ -

Gains and losses (realized and unrealized) included in unrestricted net assets for the year are reported in Investment income for the year ended June 30, 2013 and 2012 are as follows:

	Investment Income
June 30, 2013	
Total gains or losses included in unrestricted net assets for the year	$ 2,290,586
Change in unrealized gains or losses relating to assets still held at year end	$ 1,754,671
June 30, 2012	
Total gains or losses included in unrestricted net assets for the year	$ (356,297)
Change in unrealized gains or losses relating to assets still held at year end	$ (346,545)

All assets have been valued using a market approach except for Level 3 assets. Level 3 assets are valued using the income approach. Fair values for assets in Level 2 are determined using observable inputs other than those quoted in active markets such as quoted market prices for similar assets in markets that are not active. Fair values for assets in Level 3 are calculated using appropriate valuation techniques, pricing models, and appraisals and are adjusted for present value discounts when appropriate. There were no changes in the valuation techniques during the current year.

Assets measured at fair value on a non-recurring basis at June 30, 2013 and 2012, are as follows:

	Unobservable Inputs (Level 3)
June 30, 2013	
Contributions and grants receivable	$ 4,212,870
June 30, 2012	
Contributions and grants receivable	$ 1,828,142

The fair value of promises to give is determined based upon discounted future cash flows, which is presented net of the allowance for uncollectible contributions of $75,000, and the discount of $431,506 and $332,476, as of June 30, 2013 and 2012, respectively.

Note 5 - Promises to Give and Concentrations of Contribution Revenue

Promises to give are estimated to be collected during the following timeframes at June 30, 2013 and 2012:

	2013	2012
Within one year	$ 1,911,876	$ 1,337,412
In one to five years	2,807,500	898,206
	4,719,376	2,235,618
Less discount to net present value (4% - 7%)	(431,506)	(332,476)
Less allowance for uncollectible promises to give	(75,000)	(75,000)
	$ 4,212,870	$ 1,828,142

Promises to give from three contributors accounted for 64% of total promises to give at June 30, 2013 and promises to give from three contributors accounted for 47% of promises to give at June 30, 2012.

Contribution revenue from one contributor accounted for 21% of total contributed revenue for the year ended June 30, 2013 and there were no concentrations in 2012.

Note 6 - Endowments

The Society’s endowment consists of pooled funds restricted for the long-term support of the organization including both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Society has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment (including pledges net of discount and allowance for doubtful accounts), and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of the Endowment Net Assets by fund type as of June 30, 2013 and 2012 are as follows:

	Unrestricted	Permanently Restricted	Total
June 30, 2013			
Donor-restricted endowment funds	$ -	$ 39,195,848	$ 39,195,848
Board-designated endowment funds	(2,149,380)	-	(2,149,380)
	$ (2,149,380)	$ 39,195,848	$ 37,046,468
June 30, 2012			
Donor-restricted endowment funds	$ -	$ 38,755,336	$ 38,755,336
Board-designated endowment funds	(2,595,412)	-	(2,595,412)
	$ (2,595,412)	$ 38,755,336	$ 36,159,924

As of June 30, 2013 and 2012, $3,686,783 and $3,404,677, respectively, was included in the balance of donor-restricted endowment funds, held in trust for the benefit of the Society, but not under the control of the Society for investment decision purposes.

Changes in Endowment Net Assets for the year ending June 30, 2013 and 2012 are as follows:

June 30, 2013	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,595,412)	$ 38,755,336	$ 36,159,924
Investment income, net	2,290,587	-	2,290,587
Change in value of beneficial interest in perpetual trust	-	280,871	280,871
Other valuation adjustments	(78,957)	19,641	(59,316)
Contributions	-	140,000	140,000
Appropriation of endowment assets for expenditure	(1,586,604)	-	(1,586,604)
Endowment fund expenses	(178,994)	-	(178,994)
Endowment net assets, end of year	$ (2,149,380)	$ 39,195,848	$ 37,046,468

June 30, 2012	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (435,213)	$ 39,036,791	$ 38,601,578
Investment loss, net	(356,297)	-	(356,297)
Change in value of beneficial interest in perpetual trust	-	(321,437)	(321,437)
Other valuation adjustments	(54,855)	39,982	(14,873)
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(1,587,629)	-	(1,587,629)
Endowment fund expenses	(161,418)	-	(161,418)
Endowment net assets, end of year	$ (2,595,412)	$ 38,755,336	$ 36,159,924

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 or UPMIFA requires the Society and the perpetual trust to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature were $1,873,582, as of June 30, 2013 and $2,390,252, as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred.

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to general operations supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that provide a long-term return objective that will allow for estimated spending of 5% and adjustments for inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Society 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 Society targets a diversified asset allocation of bonds, equities, marketable alternatives, real assets, absolute return, and private equity to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Society has a policy of appropriating for distribution each year 5% of its endowment fund’s average fair value over the prior 36-months ending June 30 prior to the beginning of the respective fiscal year. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects that the current spending policy will allow its endowment to maintain the purchasing power at a rate equal to the planned appropriation to support general operations. Additional real growth will be provided through new gifts and any excess investment returns.

Note 7 - Property and Equipment

A summary of property and equipment as of June 30, 2013 and 2012 is as follows:

	2013	2012
Stage equipment	$ 269,146	$ 269,146
Computer equipment	1,246,876	1,234,569
Furniture and fixtures	450,235	450,235
Leasehold improvements	2,502,668	2,502,668
Musical instruments	446,315	446,315
Artwork	24,000	24,000
	4,939,240	4,926,933
Less accumulated depreciation	(4,119,769)	(3,685,409)
	$ 819,471	$ 1,241,524

Note 8 - Debt

During the years ended June 30, 2013 and 2012, the Society entered into a line of credit agreement that allows it to borrow up to $2,000,000 on a revolving basis. The line is secured by the balances held in a mutual fund at US Bank Institutional Trust which is a component of the endowment investments. Interest is accrued on the unpaid balance of the Note at an annual rate equal to the 3.5% plus one-month LIBOR. The Society pays a loan facility fee of 0.125% per annum of the difference between the loan amount and the actual daily unpaid principal amount of the Note.

As of June 30, 2013 and 2012, there was no outstanding balance on the line of credit. During the years ended June 30, 2013 and 2012, the Society did not access their line of credit, and incurred loan facility fee expense of $2,500 and $2,209 for the years ended June 30, 2013 and 2012, respectively.

Note 9 - Retirement and Deferred Compensation

The Society maintains a defined contribution retirement plan for eligible union and non-union employees. For eligible non-union employees, the plan allows the Society at their discretion to contribute 2.5% of the employee's eligible salary and match up to 3% of the employee's salary deferral compensation, for a total of 5.5% of employer contribution.

Eligible union musicians also participate in a multi-employer defined benefit plan. Employer contributions of 10.9% or 7.63% of the employees' contract salaries are required under union employee agreements.

Pension contribution expense totaled $131,969 for union employees and $0 for eligible non-union employees for the year ended June 30, 2013, and $317,081 for union employees and $0 for eligible non-union employees for the year ended June 30, 2012. Union employee contributions are paid monthly, and non-union employee contributions are paid annually.

Note 10 - Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2013 and 2012, consist of:

	2013	2012
Purpose restrictions	$ 1,127,779	$ 1,718,517
Time restrictions	1,741,627	663,869
Total	$ 2,869,406	$ 2,382,386

Permanently Restricted

Permanently restricted net assets were $39,195,848 and $38,755,336, at June 30, 2013 and 2012, respectively, and consisted of endowment funds.

Net Assets Released from Restrictions

Net assets released from restrictions during the years ended June 30, 2013 and 2012, consist of the following:

	2013	2012
Purpose restrictions	$ 2,719,889	$ 1,719,741
Time restrictions	598,346	712,264
Total	$ 3,318,235	$ 2,432,005

Note 11 - Donated Goods and Services

For the years ended June 30, 2013 and 2012, donated goods and services were received and expensed in the amount of $13,084 and $226,170, respectively.

Note 12 - Commitments

The Society routinely enters into contracts for future concerts and tours and related hall rentals, and for guest artists and conductors.

The Society has a lease agreement for office space, vehicles, and office equipment. Future minimum lease payments are as follows:

Years Ending June 30,	Amount
2014	$ 463,037
2015	447,490
2016	115,571
Total minimum lease payments	$ 1,026,098

The Society has six capital call commitments of $2,505,276 outstanding at June 30, 2013; $1,409,434 relates to three subscription agreements in Private Equities investments and the other three relate to Real Asset Investments in the amount of $1,095,842 at June 30, 2013. The Society has reserved funds within the current endowment fund investments to be transferred as the calls for capital contributions come due.

Note 13 - Related Party – SPCO Inc.

SPCO Inc., is a separately incorporated, Type I Supporting Organization exempt from income tax under IRC 501(c)(3). It was established by a donor of the Society to provide support to the Society. The Saint Paul Chamber Orchestra Society is the only permissible beneficiary. SPCO Inc.'s Board of Directors consists of three individuals, all of whom are current donors and members of the Board of Directors of the Society.

Because the SPCO Inc. Board of Directors consists of three individuals, Andrew Redleaf, Lowell Noteboom, and Erwin Kelen, all of whom are current members of the Board of Directors of the Society, generally accepted accounting principles requires consolidation of the financial statements of the two entities. However, the Society has chosen not to consolidate the financial statements of SPCO Inc. with those of the Society because those assets are not managed by the Society and are not under the control of the Society. Management believes that consolidation would overstate the Society's assets. The SPCO Inc. Board of Directors has full discretion to determine the amount, timing, and restrictions of any contributions to the Society.

During the year ended June 30, 2013, multiple promises to give were made from SPCO Inc. to the Society totaling $1,500,000. These amounts have been included within the Society's current year grants and contributions. As of June 30, 2013, $1,400,000 is classified as temporarily restricted net assets.

The financial statements and activities of SPCO Inc. have not been consolidated with the Society. The assets, liabilities, and net assets were not audited, but are presented here for informational purposes.

Financial Position as of December 31, 2012

Cash	$	203,186
Current assets, due from partnership interest		54,765
Other asset, partnership interest		6,232,548
Total assets	$	6,490,499
Current liabilities	$	17,100
Unresticted net assets		6,473,399
Total liabilities and net assets	$	6,490,499

The partnership interest represents a 99% ownership interest in a partnership, which in turn owns a 42% interest in a second partnership. This second partnership owns farmland in Minnesota and Iowa which it leases out until such time that it sells. Upon the sale of the farmland, the resulting cash will be used to make contributions to the Society.

Note 14 - Related Party Transactions

The Society received contributions from Board members and staff. During the years ended June 30, 2013 and 2012, contribution revenue of $4,728,548 and $1,583,058, respectively, was received from Board members and staff. At June 30, 2013 and 2012, pledges receivable from Board members and staff were $4,173,795 and $1,686,848, respectively.

Note 15 - Joint Costs

For the years ended June 30, 2013 and 2012, the Society allocated joint costs for its concert program books. The costs have been allocated as follows: $8,924 to program services and $1,477 to fundraising for the year ended June 30, 2013, and $8,590 to program services and $860 to fundraising for the year ended June 30, 2012.