



Financial Statements
June 30, 2010 and 2009

The Saint Paul Chamber Orchestra Society

The Saint Paul Chamber Orchestra Society

Table of Contents

June 30, 2010 and 2009

Financial Statements

Independent Auditor's Report.....	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

We have audited the accompanying statements of financial position of The Saint Paul Chamber Orchestra Society (the Society), as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Saint Paul Chamber Orchestra Society, as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Minneapolis, Minnesota
November 5, 2010

The Saint Paul Chamber Orchestra Society
 Statements of Financial Position
 June 30, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 984,254	\$ 569,666
Pledges receivable, net	4,593,466	4,850,335
Other receivables	43,005	257,960
Prepaid expenses	250,227	277,058
Inventory	-	5,353
Investments and endowment cash	31,879,053	31,587,384
Notes receivable	59,000	68,000
Property and equipment, net	1,542,942	1,879,251
Beneficial interest in charitable trust	3,313,213	3,252,075
	<u>\$ 42,665,160</u>	<u>\$ 42,747,082</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 144,426	\$ 158,153
Accrued expenses	204,554	208,635
Deferred season ticket revenue and other	1,216,045	1,423,185
Deferred rent and gift annuities payable	672,756	717,598
Lease payable	-	9,680
	<u>2,237,781</u>	<u>2,517,251</u>
Net Assets		
Unrestricted - operating fund	99,611	99,611
Unrestricted - Board designated endowment fund	(2,158,381)	(2,408,780)
	<u>(2,058,770)</u>	<u>(2,309,169)</u>
Temporarily restricted - operating fund	4,499,125	4,878,255
Permanently restricted - endowment fund	37,987,024	37,660,745
	<u>40,427,379</u>	<u>40,229,831</u>
Total net assets	<u>\$ 42,665,160</u>	<u>\$ 42,747,082</u>

	2010				Total
	Unrestricted		Temporarily	Permanently	
	Operating	Endowment	Restricted -	Restricted -	
Fund	Fund	Operating	Endowment		
	Fund	Fund	Fund	Fund	
Revenue and Support					
Revenue from Operations					
Concerts for a fee	\$ 337,542	\$ -	\$ -	\$ -	\$ 337,542
Ticket revenue	1,790,771	-	-	-	1,790,771
Restricted contributions					
Purpose restriction met	1,245,698	-	(1,245,698)	-	-
Transfer from SPCO held endowment	1,627,153	-	-	-	1,627,153
Allocation from perpetual trust	184,158	-	-	-	184,158
Other revenue	20,356	-	-	-	20,356
Total revenue from operations	<u>5,205,678</u>	<u>-</u>	<u>(1,245,698)</u>	<u>-</u>	<u>3,959,980</u>
Support					
Grants and contributions	4,400,645	-	2,117,801	-	6,518,446
Special events, net of direct expenses of \$141,672 in 2010 and \$137,047 in 2009	125,381	-	-	-	125,381
Time restrictions met	1,286,171	-	(1,286,171)	-	-
Total support	<u>5,812,197</u>	<u>-</u>	<u>831,630</u>	<u>-</u>	<u>6,643,827</u>
Total revenue and support	<u>11,017,875</u>	<u>-</u>	<u>(414,068)</u>	<u>-</u>	<u>10,603,807</u>
Expenses					
Artistic and program	9,127,303	-	-	-	9,127,303
Management and general	981,132	-	-	-	981,132
Fundraising	909,440	-	-	-	909,440
Total expenses	<u>11,017,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,017,875</u>
Change in Net Assets - Operating	-	-	(414,068)	-	(414,068)
Change in Net Assets - Nonoperating					
Grants and contributions	-	-	-	149,089	149,089
Change in value of beneficial interest in charitable trusts	-	-	370	120,125	120,495
Change in value of gift annuities	-	(52,874)	-	-	(52,874)
Investment income (loss)	-	2,111,661	-	-	2,111,661
Transfer to operations	-	(1,627,153)	-	-	(1,627,153)
Change in discount on pledges receivable	-	-	34,568	57,065	91,633
Other revenue	-	5,170	-	-	5,170
Fundraising expenses	-	(186,405)	-	-	(186,405)
Total change in in net assets - nonoperating	<u>-</u>	<u>250,399</u>	<u>34,938</u>	<u>326,279</u>	<u>611,616</u>
Total Change in Net Assets	-	250,399	(379,130)	326,279	197,548
Net Assets, Beginning of Year	<u>99,611</u>	<u>(2,408,780)</u>	<u>4,878,255</u>	<u>37,660,745</u>	<u>40,229,831</u>
Net Assets, End of Year	<u>\$ 99,611</u>	<u>\$ (2,158,381)</u>	<u>\$ 4,499,125</u>	<u>\$ 37,987,024</u>	<u>\$ 40,427,379</u>
Total change in unrestricted net assets		<u>\$ 250,399</u>			

See Notes to Financial Statements

The Saint Paul Chamber Orchestra Society
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2010 and 2009

2009					
Unrestricted		Temporarily Restricted -	Permanently Restricted -		
Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	Total	
\$ 448,421	\$ -	\$ -	\$ -	\$ 448,421	
2,005,695	-	-	-	2,005,695	
2,216,152	-	(2,216,152)	-	-	
1,544,810	-	-	-	1,544,810	
189,470	-	-	-	189,470	
32,190	-	-	-	32,190	
<u>6,436,738</u>	<u>-</u>	<u>(2,216,152)</u>	<u>-</u>	<u>4,220,586</u>	
3,695,886	-	2,044,091	-	5,739,977	
77,430	-	-	-	77,430	
<u>3,075,534</u>	<u>-</u>	<u>(3,075,534)</u>	<u>-</u>	<u>-</u>	
<u>6,848,850</u>	<u>-</u>	<u>(1,031,443)</u>	<u>-</u>	<u>5,817,407</u>	
<u>13,285,588</u>	<u>-</u>	<u>(3,247,595)</u>	<u>-</u>	<u>10,037,993</u>	
10,966,030	-	-	-	10,966,030	
1,187,636	-	-	-	1,187,636	
1,066,412	-	-	-	1,066,412	
<u>13,220,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,220,078</u>	
<u>65,510</u>	<u>-</u>	<u>(3,247,595)</u>	<u>-</u>	<u>(3,182,085)</u>	
-	-	-	188,634	188,634	
-	-	954	(1,122,896)	(1,121,942)	
-	(54,604)	-	-	(54,604)	
-	(3,653,696)	-	-	(3,653,696)	
-	(1,544,810)	-	-	(1,544,810)	
-	-	53,437	(107,466)	(54,029)	
-	5,890	-	-	5,890	
-	(333,223)	-	-	(333,223)	
<u>-</u>	<u>(5,580,443)</u>	<u>54,391</u>	<u>(1,041,728)</u>	<u>(6,567,780)</u>	
65,510	(5,580,443)	(3,193,204)	(1,041,728)	(9,749,865)	
<u>34,101</u>	<u>3,171,663</u>	<u>8,071,459</u>	<u>38,702,473</u>	<u>49,979,696</u>	
<u>\$ 99,611</u>	<u>\$ (2,408,780)</u>	<u>\$ 4,878,255</u>	<u>\$ 37,660,745</u>	<u>\$ 40,229,831</u>	
	<u>\$ (5,514,933)</u>				

The Saint Paul Chamber Orchestra Society
 Statements of Cash Flows
 Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 197,548	\$ (9,749,865)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	565,049	622,112
Unrealized (gain) loss on investments	(2,050,712)	4,481,494
Realized loss (gain) on investments	165,259	(455,268)
Loss on disposal of property and equipment	3,750	-
Change in discount on pledges receivable	(91,633)	54,029
Contributions restricted for endowment	(149,089)	(188,634)
Change in beneficial interest in charitable trusts	(61,138)	1,207,972
Changes in operating assets and liabilities		
Pledges and other receivables	557,474	1,026,234
Prepaid expenses	26,831	132,261
Inventory	5,353	303
Accounts payable	(13,727)	(94,494)
Accrued expenses	(4,081)	(22,285)
Deferred season ticket revenue	(207,140)	(146,710)
Other deferred liabilities	(44,842)	(42,367)
Net Cash used for Operating Activities	(1,101,098)	(3,175,218)
Cash Flows from Investing Activities		
Purchase of property and equipment	(232,490)	(1,879)
Purchases of investments	(6,905,839)	(60,336,955)
Proceeds from sale of investments	8,499,623	60,681,296
Principal payments received from debenture note receivable	9,000	9,000
Net Cash from Investing Activities	1,370,294	351,462
Cash Flows from Financing Activities		
Principal payments on lease	(9,680)	(7,867)
Cash received from endowment contributions	155,072	1,020,306
Net Cash from Financing Activities	145,392	1,012,439
Net Change in Cash and Cash Equivalents	414,588	(1,811,317)
Cash and Cash Equivalents, Beginning of Year	569,666	2,380,983
Cash and Cash Equivalents, End of Year	\$ 984,254	\$ 569,666

Note 1 - Principal Activity and Significant Accounting Policies

Mission Statement

The mission of The Saint Paul Chamber Orchestra Society (the Society) is to present a world-class professional chamber orchestra in the Twin Cities, dedicated to superior performance, 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.

Nonoperating activity includes all transactions associated with endowment activities including contributions raised, 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, 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, 2010 and 2009.

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.

Pledges Receivable

Pledges receivable 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, 2010 and 2009, 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, 2010 and 2009.

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, 2010 and 2009 were \$459,029 and \$459,856, 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, 2010 and 2009, the Society recorded \$38,091 and \$35,161, respectively, in the Fund distributions.

Contributed Goods and Services

Contributions of noncash 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 and functional expenses. 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, 2010 and 2009, \$88,471 and \$106,184 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, 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 incorporated in the State of Minnesota, is designated as a nonprofit 501(c)(3) corporation and is exempt from federal and state income taxes.

During 2010, the Society adopted the provisions of Accounting Standards Codification (ASC) 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The Society undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities. The implementation of this standard had no material impact on the financial statements. As of both the date of adoption and as of June 30, 2010, no amounts were recorded as a result of this analysis.

The Society is no longer subject to Federal tax examinations by tax authorities for years before 2007 and state examinations for years before 2006.

Subsequent Events

The Society has evaluated subsequent events through November 5, 2010, the date which the financial statements were available to be issued.

Reclassification

Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

Note 2 - Investments

A summary of endowment cash and investments at June 30, 2010 and 2009 is as follows:

	2010	2009
Fixed income securities		
Government	\$ 3,290,541	\$ 7,221,490
Common stocks	102,546	101,358
Stock mutual funds		
Large cap equities	202,588	192,118
Absolute return strategies	18,326,400	13,752,749
Private equity	1,321,041	600,233
Real assets	5,267,611	5,032,896
Restricted cash and cash equivalents	3,181,489	4,367,545
Investment loan fund	167,781	307,025
Interest receivable	19,056	11,970
	\$ 31,879,053	\$ 31,587,384
Income		
Interest and dividends	\$ 300,485	\$ 508,230
Realized (loss) gain	(165,259)	455,268
Unrealized gain (loss)	2,050,712	(4,481,494)
Investment management fees	(74,277)	(135,700)
Investment income	2,111,661	(3,653,696)
Transfer to operations	(1,627,153)	(1,544,810)
Increase (decrease) in endowment after transfer	\$ 484,508	\$ (5,198,506)

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 new 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 .5% higher than the T-Bill yield, or .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, 2010, one musician had an outstanding loan. The outstanding balance was \$167,781 and was included with the endowment investment balance. The details are shown in the following table:

	<u>Outstanding Balance</u>	<u>Bi-Weekly Payment Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Loan #1	\$ 167,781	\$ 538	4.77%	April 2028

During the year ended June 30, 2009, three musicians had outstanding loans. The outstanding balances totaled \$307,025 and were included with the endowment investment balance. The details are shown in the following table:

	<u>Outstanding Balance</u>	<u>Bi-Weekly Payment Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Loan #1	\$ 173,581	\$ 547	5.01%	April 2028
Loan #2	109,378	366	5.01%	July 2026
Loan #3	<u>24,066</u>	124	4.99%	September 2018
Total	<u>\$ 307,025</u>			

Note 3 - Beneficial Interest in Charitable Trusts

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

	2010	2009
<p>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.</p>	\$ 3,240,447	\$ 3,119,091
<p>Lead Trust - Following the death of the donor, this trust was established as the difference between the donor's stated intention to give and payments made on this intention prior to the donor's death. The value of this trust is based on the discounted value of the expected payments. The discount rate used to determine the contribution was 6.5%. All assets are permanently restricted for endowment.</p>	23,690	81,601
<p>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%.</p>	49,076	51,383
<p>Total charitable trusts</p>	\$ 3,313,213	\$ 3,252,075

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

	2010	2009
<p>Perpetual trust current year allocation</p>	\$ 184,158	\$ 189,470
<p>Perpetual trust change in value</p>	121,356	(1,109,584)
<p>Lead trust change in value</p>	1,446	3,623
<p>Charitable remainder trust change in value</p>	(2,307)	(15,981)
<p>Total trust income (loss)</p>	\$ 304,653	\$ (932,472)

Note 4 - Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and 2009, respectively, are as follows:

	2010	2009
Investment securities	\$ 6,796,220	\$ 11,894,481
Alternative investments	24,915,052	19,385,878
Instrument loan fund	167,781	307,025
Beneficial interest in charitable trusts	3,313,213	3,252,075
Total assets	\$ 35,192,266	\$ 34,839,459

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, 2010			
Investment securities	\$ 6,593,632	\$ 202,588	\$ -
Alternative investments	-	-	24,915,052
Instrument loan fund	-	-	167,781
Beneficial interest in charitable trusts	-	-	3,313,213
Total assets	\$ 6,593,632	\$ 202,588	\$ 28,396,046
June 30, 2009			
Investment securities	\$ 11,702,363	\$ 192,118	\$ -
Alternative investments	-	-	19,385,878
Instrument loan fund	-	-	307,025
Beneficial interest in charitable trusts	-	-	3,252,075
Total assets	\$ 11,702,363	\$ 192,118	\$ 22,944,978

The Saint Paul Chamber Orchestra Society
Notes to Financial Statements
June 30, 2010 and 2009

Following is a reconciliation of activity for fiscal year ending June 30, 2010, for assets measured at fair value based upon significant unobservable (non-market) information.

	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
June 30, 2010			
Balance, beginning of year	\$ 19,385,878	\$ 307,025	\$ 3,252,075
Realized and unrealized gains	1,797,725	-	245,296
Transfers in/out of Level 3	3,731,448	(139,244)	(184,158)
Balance, end of year	\$ 24,915,051	\$ 167,781	\$ 3,313,213
June 30, 2009			
Balance, beginning of year	\$ 11,503,866	\$ 292,281	\$ 4,460,047
Realized and unrealized gains	(3,427,822)	-	(1,207,972)
Transfers in/out of Level 3	11,309,834	14,744	-
Balance, end of year	\$ 19,385,878	\$ 307,025	\$ 3,252,075

Assets measured at fair value on a non-recurring basis at June 30, 2010 and 2009, are as follows:

	Unobservable Inputs (Level 3)
June 30, 2010	
Contributions and grants receivable	\$ 4,593,466
June 30, 2009	
Contributions and grants receivable	\$ 4,850,335

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 \$462,530 and \$554,162, as of June 30, 2010 and 2009, respectively.

Note 5 - Pledges Receivable and Concentrations of Contribution Revenue

Pledges receivable are estimated to be collected during the following timeframes at June 30, 2010 and 2009:

	2010	2009
Within one year	\$ 2,829,170	\$ 2,958,222
In one to five years	2,301,825	2,521,275
	5,130,995	5,479,497
Less present value discount on pledges 4% - 7%	(462,529)	(554,162)
Less allowance for uncollectible contributions	(75,000)	(75,000)
Net pledges receivable and concentrations of contributions revenue	\$ 4,593,466	\$ 4,850,335

Pledges receivable from three contributors accounted for 48% of total pledges receivable at June 30, 2010, and pledges receivable from three contributors accounted for 45% of pledges receivable at June 30, 2009.

Contribution revenue from one contributor accounted for 15% of total contribution revenue for the year ended June 30, 2010, and contribution revenue from one contributor accounted for 13% of total contribution revenue for the year ended June 30, 2009.

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, 2010 and 2009, are as follows:

	Unrestricted	Permanently Restricted	Total
June 30, 2010			
Donor-restricted endowment funds	\$ -	\$ 37,987,024	\$ 37,987,024
Board-designated endowment funds	(2,158,381)	-	(2,158,381)
	\$ (2,158,381)	\$ 37,987,024	\$ 35,828,643
June 30, 2009			
Donor-restricted endowment funds	\$ -	\$ 37,660,745	\$ 37,660,745
Board-designated endowment funds	(2,408,780)	-	(2,408,780)
	\$ (2,408,780)	\$ 37,660,745	\$ 35,251,965

As of June 30, 2010 and 2009, \$3,240,447 and \$3,119,091, 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.

The Saint Paul Chamber Orchestra Society
Notes to Financial Statements
June 30, 2010 and 2009

Changes in Endowment Net Assets for the year ending June 30, 2010 and 2009 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2010			
Endowment net assets, beginning of year	\$ (2,408,780)	\$ 37,660,745	\$ 35,251,965
Investment income, net	2,111,662	-	2,111,662
Change in value of beneficial interest in perpetual trust	-	120,125	120,125
Other valuation adjustments	(47,704)	57,065	9,361
Contributions	-	149,089	149,089
Appropriation of endowment assets for expenditure	(1,627,153)	-	(1,627,153)
Endowment fund expenses	<u>(186,405)</u>	<u>-</u>	<u>(186,405)</u>
Endowment net assets, end of year	<u><u>\$ (2,158,380)</u></u>	<u><u>\$ 37,987,024</u></u>	<u><u>\$ 35,828,644</u></u>
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2009			
Endowment net assets, beginning of year	\$ 3,171,663	\$ 38,702,473	\$ 41,874,136
Investment loss, net	(3,653,696)	-	(3,653,696)
Change in value of beneficial interest in perpetual trust	-	(1,122,896)	(1,122,896)
Other valuation adjustments	(48,714)	(107,466)	(156,180)
Contributions	-	188,634	188,634
Appropriation of endowment assets for expenditure	(1,544,810)	-	(1,544,810)
Endowment fund expenses	<u>(333,223)</u>	<u>-</u>	<u>(333,223)</u>
Endowment net assets, end of year	<u><u>\$ (2,408,780)</u></u>	<u><u>\$ 37,660,745</u></u>	<u><u>\$ 35,251,965</u></u>

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 \$1,944,201 as of June 30, 2010 and \$1,984,672 as of June 30, 2009. 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 estimated spending of 5% and an anticipated inflation of 2% to 4% per annum, and have a long-term return objective of 8% to 10%, net of fees and expenses. 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 - Notes Receivable

The Society has a debenture note receivable with a balance of \$59,000 and \$68,000, as of June 30, 2010 and 2009, respectively. Interest is paid quarterly at a rate of 8% per annum. Principal will be paid quarterly from July 2001 through April 2006 at 0.25%, quarterly from July 2006 through April 2011 at 2.25%, and a final principal payment of the balance in July 2011.

Note 8 - Property and Equipment

A summary of property and equipment as of June 30, 2010 and 2009 is as follows:

	2010	2009
Stage equipment	\$ 269,146	\$ 254,823
Computer equipment	1,266,135	1,179,790
Furniture and fixtures	221,373	247,193
Leasehold improvements	2,401,935	2,333,835
Musical instruments	380,726	321,183
Artwork	24,000	24,000
Subtotal	4,563,315	4,360,824
Less accumulated depreciation	(3,020,373)	(2,481,573)
Total	\$ 1,542,942	\$ 1,879,251

Note 9 - Debt

During the years ended June 30, 2010 and 2009, the Society entered into a line of credit agreement that allows it to borrow up to \$1,500,000 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 .125% per annum of the difference between the Loan Amount and the actual daily unpaid principal amount of the Note.

As of June 30, 2010 and 2009, there was no outstanding balance on the line of credit. During the years ended June 30, 2010 and 2009, the Society did not access their line of credit, and incurred Loan Facility Fee expense of \$1,875 and \$1,272, respectively.

Note 10 - Retirement and Deferred Compensation

The Society maintains a defined contribution retirement plan for eligible union and nonunion employees. For eligible nonunion 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 approximately 10% or 7% of the employees' contract salaries are required under union employee agreements.

Pension contribution expense totaled \$289,934 for union employees and \$0 for eligible nonunion employees for the year ended June 30, 2010, and \$309,526 for union employees and \$49,935 for eligible nonunion employees for the year ended June 30, 2009. Union employee contributions are paid monthly, and nonunion employee contributions are paid annually.

Note 11 - Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2010 and 2009, consist of:

	2010	2009
Purpose restrictions	\$ 3,328,473	\$ 2,901,832
Time restrictions	1,170,652	1,976,423
Total	\$ 4,499,125	\$ 4,878,255

Permanently Restricted

Permanently restricted net assets were \$37,987,024 and \$37,660,745, at June 30, 2010 and 2009, respectively, and consisted of endowment funds.

Net Assets Released from Restrictions

Net assets released from restrictions during the years ended June 30, 2010 and 2009, consist of the following:

	2010	2009
Purpose restrictions	\$ 1,245,698	\$ 2,216,152
Time restrictions	1,286,171	3,075,534
Total	\$ 2,531,869	\$ 5,291,686

Note 12 - Donated Goods and Services

For the years ended June 30, 2010 and 2009, donated goods and services were received and expensed in the amount of \$177,661 and \$136,129, respectively.

Note 13 - 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
2011	\$ 460,914
2012	453,843
2013	454,112
2014	110,639
Total	\$ 1,479,508

The Society has three capital call commitments of \$2,646,243 outstanding at June 30, 2010; \$2,172,434 relates to two subscription agreements in Absolute Return Strategies investments and the other relates to a Real Asset Investment in the amount of \$473,809 at June 30, 2010. The Society has reserved funds within the current endowment fund investments to be transferred as the calls for capital contributions come due.

Note 14 - Related Party Transactions

The Society received contributions from Board members and staff. During the years ended June 30, 2010 and 2009, contribution revenue of \$1,691,423 and \$1,252,357, respectively, was received from Board members and staff. At June 30, 2010 and 2009, pledges receivable from Board members and staff were \$3,120,626 and \$3,833,058, respectively.

Note 15 - Joint Costs

For the years ended June 30, 2010 and 2009, the Society allocated joint costs for its concert program books and ticket sales mailing. The costs have been allocated as follows: \$15,732 to program services and \$2,268 to fundraising for the year ended June 30, 2010, and \$32,350 to program services and \$3,823 to fundraising for the year ended June 30, 2009.

Note 16 - Conditional Grants

The Society had a conditional grant in the amount of \$70,000 as of June 30, 2009. This conditional grant requires a match of support raised from new donors or increased contributions from current donors. Since this grant represents a conditional promise to give, it is not recognized as support until the match condition is met.