



Financial Statements
June 30, 2012 and 2011

The Saint Paul Chamber Orchestra Society

The Saint Paul Chamber Orchestra Society

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June 30, 2012 and 2011

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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, 2012 and 2011, 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 Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

The Society is the sole beneficiary of SPCO, Inc., a separately incorporated 501(c)(3) organization established by a donor of the Society (see Note 14). Management has not consolidated SPCO, Inc. with the Society. Accounting principles generally accepted in the United States of America require consolidation. If the Society consolidated SPCO, Inc. this would increase the Society's assets and net assets approximately \$5,000,000.

In our opinion, except for the effects of the matter described in the preceding 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, 2012 and 2011, and the changes in its net assets 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
December 4, 2012

The Saint Paul Chamber Orchestra Society
 Statements of Financial Position
 June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 288,259	\$ 852,350
Pledges receivable, net	1,828,142	3,501,412
Other receivables (does not include interest receivable)	139,307	91,531
Prepaid expenses	178,534	236,310
Investments and endowment cash (includes interest receivable)	32,480,950	34,395,136
Notes receivable	-	50,000
Property and equipment, net	1,241,524	1,618,486
Beneficial interest in charitable trusts	3,466,895	3,785,378
	<u>\$ 39,623,611</u>	<u>\$ 44,530,603</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 197,013	\$ 210,665
Accrued expenses	140,136	290,302
Deferred season ticket revenue and other	1,015,572	1,102,163
Deferred rent and gift annuities payable	521,785	612,775
	<u>1,874,506</u>	<u>2,215,905</u>
Net Assets		
Unrestricted - operating fund	(793,205)	101,874
Unrestricted - Board designated endowment fund	(2,595,412)	(435,213)
	<u>(3,388,617)</u>	<u>(333,339)</u>
Temporarily restricted - operating fund	2,382,386	3,611,247
Permanently restricted - endowment fund	38,755,336	39,036,790
	<u>37,749,105</u>	<u>42,314,698</u>
Total net assets	<u>\$ 39,623,611</u>	<u>\$ 44,530,603</u>

	2012				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	\$ 92,066	\$ -	\$ -	\$ -	\$ 92,066
Ticket revenue	1,498,174	-	-	-	1,498,174
Restricted contributions					
Purpose restriction met	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	<u>5,075,644</u>	<u>-</u>	<u>(1,719,741)</u>	<u>-</u>	<u>3,355,903</u>
Support					
Grants and contributions	4,240,866	-	1,172,572	-	5,413,438
Special events, net of direct expenses of \$143,349 in 2012 and \$132,993 in 2011	127,769	-	-	-	127,769
Time restrictions met	712,264	-	(712,264)	-	-
Total support	<u>5,080,899</u>	<u>-</u>	<u>460,308</u>	<u>-</u>	<u>5,541,207</u>
Total revenue and support	<u>10,156,543</u>	<u>-</u>	<u>(1,259,433)</u>	<u>-</u>	<u>8,897,110</u>
Expenses					
Artistic and program	9,309,194	-	-	-	9,309,194
Management and general	969,062	-	-	-	969,062
Fundraising	773,366	-	-	-	773,366
Total expenses	<u>11,051,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,051,622</u>
Change in Net Assets - Operating	<u>(895,079)</u>	<u>-</u>	<u>(1,259,433)</u>	<u>-</u>	<u>(2,154,512)</u>
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
Other revenue	-	1,000	-	-	1,000
Fundraising expenses	-	(161,418)	-	-	(161,418)
Total change in in net assets - nonoperating	<u>-</u>	<u>(2,160,199)</u>	<u>30,572</u>	<u>(281,454)</u>	<u>(2,411,081)</u>
Total Change in Net Assets	<u>(895,079)</u>	<u>(2,160,199)</u>	<u>(1,228,861)</u>	<u>(281,454)</u>	<u>(4,565,593)</u>
Net Assets, Beginning of Year	<u>101,874</u>	<u>(435,213)</u>	<u>3,611,247</u>	<u>39,036,790</u>	<u>42,314,698</u>
Net Assets, End of Year	<u>\$ (793,205)</u>	<u>\$ (2,595,412)</u>	<u>\$ 2,382,386</u>	<u>\$ 38,755,336</u>	<u>\$ 37,749,105</u>
Total change in unrestricted net assets		<u>\$ (3,055,278)</u>			

See Notes to Financial Statements

The Saint Paul Chamber Orchestra Society
 Statements of Activities and Changes in Net Assets
 Years Ended June 30, 2012 and 2011

2011					
Unrestricted		Temporarily Restricted -	Permanently Restricted -		
Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	Total	
\$ 459,241	\$ -	\$ -	\$ -	\$ 459,241	
1,526,135	-	-	-	1,526,135	
1,654,061	-	(1,654,061)	-	-	
1,617,702	-	-	-	1,617,702	
176,650	-	-	-	176,650	
20,668	-	-	-	20,668	
<u>5,454,457</u>	<u>-</u>	<u>(1,654,061)</u>	<u>-</u>	<u>3,800,396</u>	
4,605,883	-	1,475,299	-	6,081,182	
153,338	-	-	-	153,338	
737,658	-	(737,658)	-	-	
<u>5,496,879</u>	<u>-</u>	<u>737,641</u>	<u>-</u>	<u>6,234,520</u>	
<u>10,951,336</u>	<u>-</u>	<u>(916,420)</u>	<u>-</u>	<u>10,034,916</u>	
9,138,844	-	-	-	9,138,844	
968,268	-	-	-	968,268	
841,961	-	-	-	841,961	
<u>10,949,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,949,073</u>	
2,263	-	(916,420)	-	(914,157)	
-	-	-	520,000	520,000	
-	-	250	495,605	495,855	
-	(75,674)	-	-	(75,674)	
-	3,596,669	-	-	3,596,669	
-	(1,617,702)	-	-	(1,617,702)	
-	-	28,292	34,161	62,453	
-	4,450	-	-	4,450	
-	(184,575)	-	-	(184,575)	
<u>-</u>	<u>1,723,168</u>	<u>28,542</u>	<u>1,049,766</u>	<u>2,801,476</u>	
2,263	1,723,168	(887,878)	1,049,766	1,887,319	
99,611	(2,158,381)	4,499,125	37,987,024	40,427,379	
<u>\$ 101,874</u>	<u>\$ (435,213)</u>	<u>\$ 3,611,247</u>	<u>\$ 39,036,790</u>	<u>\$ 42,314,698</u>	
<u>\$ 1,725,431</u>					

The Saint Paul Chamber Orchestra Society
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ (4,565,593)	\$ 1,887,319
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	452,199	516,944
Unrealized (gain) loss on investments	(568,852)	(2,164,424)
Realized (gain) loss on investments	998,990	(1,299,616)
Loss on disposal of property and equipment	-	5,078
Change in discount on pledges receivable	(67,601)	(62,452)
Contributions restricted for endowment	-	(520,000)
Change in beneficial interest in charitable trusts	318,483	(472,165)
Changes in operating assets and liabilities		
Pledges and other receivables	1,453,906	871,243
Prepaid expenses	57,776	13,917
Accounts payable	(13,652)	66,239
Accrued expenses	(150,166)	85,748
Deferred season ticket revenue	(86,591)	(113,882)
Other deferred liabilities	(90,990)	(59,981)
Net Cash used for Operating Activities	(2,262,091)	(1,246,032)
Cash Flows from Investing Activities		
Purchase of property and equipment	(75,237)	(597,566)
Purchases of investments	(31,851,073)	(9,793,807)
Proceeds from sale of investments	33,335,121	10,741,764
Principal payments received from debenture note receivable	50,000	9,000
Net Cash from Investing Activities	1,458,811	359,391
Cash Flows from Financing Activities		
Cash received from endowment contributions	239,189	754,737
Net Cash from Financing Activities	239,189	754,737
Net Change in Cash and Cash Equivalents	(564,091)	(131,904)
Cash and Cash Equivalents, Beginning of Year	852,350	984,254
Cash and Cash Equivalents, End of Year	\$ 288,259	\$ 852,350

Note 1 - Principal Activity and Significant Accounting Policies

Mission Statement

The mission of The Saint Paul Chamber Orchestra (the Society) is to serve and enrich our community by providing world-class chamber orchestra and chamber music to the broadest possible audience, while vigorously advocating for our art form.

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, 2012 and 2011.

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, 2012 and 2011, 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, 2012 and 2011.

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, 2012 and 2011 were \$426,842 and \$453,223, 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, 2012 and 2011, the Society recorded \$34,588 and \$36,286, 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, 2012 and 2011, \$78,842 and \$76,504 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 incorporated in the State of Minnesota, is designated as a non-profit 501(c)(3) corporation and is exempt from federal and state 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. As of June 30, 2012 and 2011, 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 2008 and state examinations for years before 2007.

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 Society cannot predict the time-frame for resolution of this matter.

Subsequent Events

The Society has evaluated subsequent events through December 4, 2012, the date which the financial statements were available to be issued.

Note 2 - Investments

A summary of endowment cash and investments at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Fixed income securities		
Government	\$ 6,801	\$ 9,390
Mutual funds	4,452,063	5,172,409
Stock mutual funds		
International equities	3,149,301	-
Large cap equities	232,918	233,068
Absolute return strategies	17,000,160	19,944,204
Private equity	3,907,955	2,504,751
Real assets	3,399,854	5,343,590
Restricted cash and cash equivalents	177,437	1,026,326
Investment loan fund	154,448	161,361
Interest receivable	14	37
	<u>\$ 32,480,951</u>	<u>\$ 34,395,136</u>
Income		
Interest and dividends	\$ 238,215	\$ 237,547
Realized gain (loss)	(998,990)	1,299,616
Unrealized gain	568,852	2,164,424
Investment management fees	(164,375)	(104,919)
Investment income	<u>(356,298)</u>	<u>3,596,668</u>
Transfer to operations	<u>(1,587,629)</u>	<u>(1,617,702)</u>
Change in endowment after transfer	<u>\$ (1,943,927)</u>	<u>\$ 1,978,966</u>

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, 2012, one musician had an outstanding loan. The outstanding balance was \$154,448 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	\$ 154,448	\$ 517	4.29%	April 2028

During the year ended June 30, 2011, one musician had an outstanding loan. The outstanding balance totaled \$161,360 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	\$ 161,360	\$ 520	4.37%	April 2028

Note 3 - Beneficial Interest in Charitable Trusts

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

	2012	2011
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.	\$ 3,404,677	\$ 3,722,138
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%.	62,218	63,240
Total charitable trusts	\$ 3,466,895	\$ 3,785,378

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

	2012	2011
Perpetual trust current year allocation	\$ 171,826	\$ 176,650
Perpetual trust change in value	(317,461)	481,691
Charitable remainder trust change in value	(1,022)	14,164
Total trust income	\$ (146,657)	\$ 672,505

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, 2012 and 2011.

Investment Securities (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.

Alternative Investments (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.

Instrument Loan Fund: Valued at year end loan balance per loan amortization schedule.

Beneficial Interest in Charitable Trusts: 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.

The Saint Paul Chamber Orchestra Society
Notes to Financial Statements
June 30, 2012 and 2011

Assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and 2011, respectively, are as follows:

	2012	2011
Investment securities	\$ 8,018,534	\$ 6,441,231
Alternative investments	24,307,969	27,792,545
Instrument loan fund	154,447	161,360
Beneficial interest in charitable trusts	3,466,895	3,785,378
Total assets	\$ 35,947,845	\$ 38,180,514

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, 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
June 30, 2011			
Investment securities	\$ 1,035,753	\$ 5,405,477	\$ -
Alternative investments	-	-	27,792,545
Instrument loan fund	-	-	161,360
Beneficial interest in charitable trusts	-	-	3,785,378
Total assets	\$ 1,035,753	\$ 5,405,477	\$ 31,739,283

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2012 and 2011

Following is a reconciliation of activity for fiscal years ending June 30, 2012 and 2011, 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.

	<u>Alternative Investments</u>	<u>Instrument Loan Fund</u>	<u>Beneficial Interest in Charitable Trusts</u>
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	<u>(15,815,508)</u>	<u>(6,913)</u>	<u>(171,826)</u>
Balance, end of year	<u>\$ 24,307,969</u>	<u>\$ 154,447</u>	<u>\$ 3,466,895</u>
June 30, 2011			
Balance, beginning of year	\$ 24,915,051	\$ 167,781	\$ 3,313,213
Net realized and unrealized gains (losses)	3,561,163	-	648,815
Fees	(86,590)	-	-
Transfers into Level 3	833,110	-	-
Transfers out of Level 3	<u>(1,430,189)</u>	<u>(6,421)</u>	<u>(176,650)</u>
Balance, end of year	<u>\$ 27,792,545</u>	<u>\$ 161,360</u>	<u>\$ 3,785,378</u>

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.

The Saint Paul Chamber Orchestra Society
Notes to Financial Statements
June 30, 2012 and 2011

	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	<u>\$ (350,040)</u>	<u>\$ -</u>	<u>\$ -</u>
	Alternative Investments	Instrument Loan Fund	Beneficial Interest in Charitable Trusts
Total amount of total gains or losses for the year ended June 30, 2011 included in net unrestricted net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ 2,444,682</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2012 and 2011 are as follows:

	Investment Income
June 30, 2012	
Total gains or losses included in unrestricted net assets for the year	<u>\$ (356,297)</u>
Change in unrealized gains or losses relating to assets still held at year end	<u>\$ (346,545)</u>
June 30, 2011	
Total gains or losses included in unrestricted net assets for the year	<u>\$ 3,596,669</u>
Change in unrealized gains or losses relating to assets still held at year end	<u>\$ 2,421,599</u>

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, 2012 and 2011, are as follows:

	Unobservable Inputs (Level 3)
June 30, 2012	
Contributions and grants receivable	\$ 1,828,142
June 30, 2011	
Contributions and grants receivable	\$ 3,501,412

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 \$332,476 and \$400,077, as of June 30, 2012 and 2011, respectively.

Note 5 - Pledges Receivable and Concentrations of Contribution Revenue

Pledges receivable are estimated to be collected during the following timeframes at June 30, 2012 and 2011:

	2012	2011
Within one year	\$ 1,337,412	\$ 2,233,701
In one to five years	898,206	1,742,788
	2,235,618	3,976,489
Less present value discount on pledges 4% - 7%	(332,476)	(400,077)
Less allowance for uncollectible contributions	(75,000)	(75,000)
Net pledges receivable and concentrations of contributions revenue	\$ 1,828,142	\$ 3,501,412

Pledges receivable from three contributors accounted for 47% of total pledges receivable at June 30, 2012 and pledges receivable from three contributors accounted for 46% of pledges receivable at June 30, 2011.

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, 2012 and 2011 are as follows:

	Unrestricted	Permanently Restricted	Total
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
June 30, 2011			
Donor-restricted endowment funds	\$ -	\$ 39,036,790	\$ 39,036,790
Board-designated endowment funds	(435,213)	-	(435,213)
	\$ (435,213)	\$ 39,036,790	\$ 38,601,577

As of June 30, 2012 and 2011, \$3,404,677 and \$3,722,138, 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, 2012 and 2011

Changes in Endowment Net Assets for the year ending June 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2012			
Endowment net assets, beginning of year	\$ (435,212)	\$ 39,036,791	\$ 38,601,579
Investment income, net	(356,297)	-	(356,297)
Change in value of beneficial interest in perpetual trust	-	(321,437)	(321,437)
Other valuation adjustments	(54,855)	39,983	(14,872)
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	<u>\$ (2,595,411)</u>	<u>\$ 38,755,337</u>	<u>\$ 36,159,926</u>
June 30, 2011			
Endowment net assets, beginning of year	\$ (2,158,380)	\$ 37,987,024	\$ 35,828,644
Investment loss, net	3,596,669	-	3,596,669
Change in value of beneficial interest in perpetual trust	-	495,605	495,605
Other valuation adjustments	(71,224)	34,162	(37,062)
Contributions	-	520,000	520,000
Appropriation of endowment assets for expenditure	(1,617,702)	-	(1,617,702)
Endowment fund expenses	(184,575)	-	(184,575)
Endowment net assets, end of year	<u>\$ (435,212)</u>	<u>\$ 39,036,791</u>	<u>\$ 38,601,579</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 \$2,390,252, as of June 30, 2012 and \$237,025, as of June 30, 2011. 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 - Notes Receivable

The Society had a debenture note receivable with a balance of \$0 and \$50,000, as of June 30, 2012 and 2011, respectively. Interest was paid quarterly at a rate of 8% per annum. Principal was paid quarterly from July 2001 through April 2006 at 0.25%, quarterly from July 2006 through April 2011 at 2.25%, and the final principal payment of the balance was made during the current year.

Note 8 - Property and Equipment

A summary of property and equipment as of June 30, 2012 and 2011 is as follows:

	2012	2011
Stage equipment	\$ 269,146	\$ 269,146
Computer equipment	1,234,569	1,199,149
Furniture and fixtures	450,235	435,050
Leasehold improvements	2,502,668	2,490,448
Musical instruments	446,315	433,903
Artwork	24,000	24,000
Subtotal	4,926,933	4,851,696
Less accumulated depreciation	(3,685,409)	(3,233,210)
Total	\$ 1,241,524	\$ 1,618,486

Note 9 - Debt

During the years ended June 30, 2012 and 2011, 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 .125% per annum of the difference between the loan amount and the actual daily unpaid principal amount of the Note.

As of June 30, 2012 and 2011, there was no outstanding balance on the line of credit. During the years ended June 30, 2012 and 2011, the Society did not access their line of credit, and incurred loan facility fee expense of \$2,209 and \$1,875 for the years ended June 30, 2012 and 2011, respectively.

Note 10 - 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 \$317,081 for union employees and \$0 for eligible non-union employees for the year ended June 30, 2012, and \$289,301 for union employees and \$0 for eligible non-union employees for the year ended June 30, 2011. Union employee contributions are paid monthly, and non-union employee contributions are paid annually.

Note 11 - Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2012 and 2011, consist of:

	2012	2011
Purpose restrictions	\$ 1,718,517	\$ 2,596,159
Time restrictions	663,869	1,015,088
Total	\$ 2,382,386	\$ 3,611,247

Permanently Restricted

Permanently restricted net assets were \$38,755,336 and \$39,036,790, at June 30, 2012 and 2011, respectively, and consisted of endowment funds.

Net Assets Released from Restrictions

Net assets released from restrictions during the years ended June 30, 2012 and 2011, consist of the following:

	2012	2011
Purpose restrictions	\$ 1,719,741	\$ 1,654,061
Time restrictions	712,264	737,658
Total	\$ 2,432,005	\$ 2,391,719

Note 12 - Donated Goods and Services

For the years ended June 30, 2012 and 2011, donated goods and services were received and expensed in the amount of \$226,170 and \$169,593, 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
2013	\$ 477,090
2014	119,934
2015	4,932
2016	4,932
Thereafter	-
Total	\$ 606,888

The Society has four capital call commitments of \$1,883,127 outstanding at June 30, 2012; \$1,615,624 relates to three subscription agreements in Private Equities investments and the other relates to a Real Asset Investment in the amount of \$267,503 at June 30, 2012. 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 – 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.

The Board of Directors of SPCO Inc. can make grants to the Society for general or specific charitable purposes. During the year ended June 30, 2012, a distribution was made to the Society from SPCO Inc. in the amount of \$905,000. This transfer was applied to previous pledges made in the amount of \$800,000 and the remaining \$105,000 was an additional unrestricted contribution for the year ended June 30, 2012.

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, 2011

Current assets, due from partnership interest	\$ 730,031
Other asset, partnership interest	4,316,873
Total assets	\$ 5,046,904
Current liabilities	\$ -
Unrestricted net assets	5,046,904
Total liabilities & net assets	\$ 5,046,904

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. The SPCO Inc. Board of Directors has full discretion to determine the amount, timing, and restrictions of any distributions to the Society.

Note 15 - Related Party Transactions

The Society received contributions from Board members and staff. During the years ended June 30, 2012 and 2011, contribution revenue of \$1,583,058 and \$2,457,787, respectively, was received from Board members and staff. At June 30, 2012 and 2011, pledges receivable from Board members and staff were \$1,686,848 and \$3,118,402, respectively.

Note 16 - Joint Costs

For the years ended June 30, 2012 and 2011, the Society allocated joint costs for its concert program books. The costs have been allocated as follows: \$8,590 to program services and \$860 to fundraising for the year ended June 30, 2012, and \$8,696 to program services and \$829 to fundraising for the year ended June 30, 2011.