Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013, and the related statements of activities, and cash flows for the years 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 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 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 Chamberleaf, 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 Chamberleaf, Inc. with the financial statements of the Society, as the Board of Directors of Chamberleaf, 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 Chamberleaf, Inc., which is the basis of our qualified opinion (see Note 12). If the Society consolidated Chamberleaf, Inc., this would increase the Society's assets and net assets approximately $5,064,000 and $6,500,000 and an increase its net revenues over expenses by approximately $70,000 and $1,100,000 as of and for the years ended June 30, 2014 and 2013, respectively.

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, 2014 and 2013, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Minneapolis, Minnesota
November 25, 2014

	2014	2013
Assets		
Cash and cash equivalents	$ 213,700	$ 715,506
Promises to give, net	3,304,763	3,383,154
Other receivables	59,795	70,234
Prepaid expenses	142,950	165,226
Due from endowment assets	412,104	339,473
Beneficial interest in charitable trusts	19,600	20,426
Property and equipment, net	594,773	795,471
Endowment		
Other receivables	31,306	14,086
Due to unrestricted assets	(412,104)	(339,473)
Promises to give, net	451,974	829,716
Property and equipment, net	24,000	24,000
Beneficial interest in charitable trusts	4,031,466	3,726,170
Investments	35,700,131	33,214,777
Total assets	$ 44,574,458	$ 42,958,766
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 392,904	$ 233,346
Accrued expenses	1,277,633	1,893,481
Deferred season ticket revenue and other	1,081,973	985,667
Deferred rent and gift annuities payable	393,230	442,339
Total liabilities	3,145,740	3,554,833
Net Assets		
Unrestricted - operating fund	(511,745)	(511,941)
Unrestricted - Board designated endowment fund	(99,481)	(2,149,380)
	(611,226)	(2,661,321)
Temporarily restricted - operating fund	2,506,920	2,869,406
Permanently restricted - endowment fund	39,533,024	39,195,848
Total net assets	41,428,718	39,403,933
Total liabilities and net assets	$ 44,574,458	$ 42,958,766

	Unrestricted Operating Fund	Unrestricted Endowment Fund	Temporarily Restricted - Operating Fund	Permanently Restricted - Endowment Fund	Total
Revenue from Operations					
Concerts for a fee	$ 93,597	$ -	$ -	$ -	$ 93,597
Ticket revenue	1,758,517	-	-	-	1,758,517
Restricted contributions					
Purpose restriction met - all other	1,496,370	-	(1,496,370)	-	-
Transfer from SPCO held endowment	1,597,770	-	-	-	1,597,770
Allocation from perpetual trust	183,463	-	-	-	183,463
Other revenue	63,726	-	-	-	63,726
Total revenue from operations	5,193,443	-	(1,496,370)	-	3,697,073
Support					
Grants and contributions	3,920,080	-	1,732,157	-	5,652,237
Gross special events revenue	45,642	-	-	-	45,642
Less cost of direct benefits to donors	(35,681)	-	-	-	(35,681)
Net special events revenue	9,961	-	-	-	9,961
Time restrictions met	648,787	-	(648,787)	-	-
Total support	4,578,828	-	1,083,370	-	5,662,198
Total revenue and support	9,772,271	-	(413,000)	-	9,359,271
Expenses					
Artistic and program	8,325,433	-	-	-	8,325,433
Management and general	779,614	-	-	-	779,614
Fundraising	667,028	-	-	-	667,028
Total expenses	9,772,075	-	-	-	9,772,075
Change in Net Assets - Operating	196	-	(413,000)	-	(412,804)
Change in Net Assets - Nonoperating					
Grants and contributions	-	-	-	19,003	19,003
Change in value of beneficial interest in charitable trusts	-	-	(826)	305,296	304,470
Change in value of gift annuities	-	(53,418)	-	-	(53,418)
Investment income	-	3,947,423	-	-	3,947,423
Transfer to operations	-	(1,597,770)	-	-	(1,597,770)
Change in discount on pledges receivable	-	-	91,255	12,877	104,132
Change in discount on SRP liability	-	-	(39,915)	-	(39,915)
Fundraising expenses	-	(246,336)	-	-	(246,336)
Total change in in net assets - nonoperating	-	2,049,899	50,514	337,176	2,437,589
Change in Net Assets	196	2,049,899	(362,486)	337,176	2,024,785
Net Assets, Beginning of Year	(511,941)	(2,149,380)	2,869,406	39,195,848	39,403,933
Net Assets, End of Year	$ (511,745)	$ (99,481)	$ 2,506,920	$ 39,533,024	$ 41,428,718
Total change in unrestricted net assets		$ 2,050,095			

	Unrestricted		Temporarily Restricted -	Permanently Restricted -	
	Operating Fund	Endowment Fund	Operating Fund	Endowment Fund	Total
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
Gross special events revenue	14,880	-	-	-	14,880
Less cost of direct benefits to donors	(16,657)	-	-	-	(16,657)
Net special events revenue	(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
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			

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ 2,024,785	$ 1,654,828
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	212,766	434,365
Change in discount on promises to give	(104,132)	99,030
Contributions restricted for endowment	(19,003)	(140,000)
Endowment net investment return	(3,947,423)	(2,290,587)
Change in beneficial interest trust	(304,470)	(279,701)
Changes in operating assets and liabilities		
Promises to give and other receivables	192,962	(2,493,998)
Prepaid expenses	22,276	13,308
Accounts payable	159,558	36,333
Accrued expenses	(615,848)	1,753,345
Deferred season ticket revenue	96,306	(29,905)
Other deferred liabilities	(49,109)	(79,446)
Net Cash used for Operating Activities	(2,331,332)	(1,322,428)
Cash Flows from Investing Activities		
Purchase of property and equipment	(12,068)	(12,312)
(Addition to) withdrawal from endowment	1,462,069	1,556,760
Net Cash from Investing Activities	1,450,001	1,544,448
Cash Flows from Financing Activities		
Cash received from endowment contributions	379,525	205,227
Net Cash from Financing Activities	379,525	205,227
Net Change in Cash and Cash Equivalents	(501,806)	427,247
Cash and Cash Equivalents, Beginning of Year	715,506	288,259
Cash and Cash Equivalents, End of Year	$ 213,700	$ 715,506

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, and artistic innovation and education, for the enrichment of community and world audiences.

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, and which are neither held for nor restricted by donors for long-term purposes, 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. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. The Society provides an allowance for bad debts which 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. Promises to give are written off when deemed uncollectable. At June 30, 2014 and 2013, the allowance was $45,000 and $75,000, respectively.

Other Receivables and Credit Policies

Other Receivables reflects balances due to the Society on agreements for shared use of facilities and personnel services. Use of facilities and personnel services are sold on an unsecured basis. Payment is required no later than 30 days after receipt of invoice. The Society provides an allowance for bad debts for other receivables, which is based on management judgment considering historical information. The collectability of accounts past due more than 90 days is assessed individually. Accounts for which no payments have been received after 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, 2014 and 2013, 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 recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. 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. Net investment gain (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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, 2014 and 2013.

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Beneficial Interests in Charitable Trust Held by Others

The Society has been named as an irrevocable beneficiary of two charitable trusts held and administered by independent trustees. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, the Society has neither possession nor control over the assets of the trusts. At the date the Society receives notice of a beneficial interest, a temporarily or permanently restricted contribution is recorded in the statement of activities, and a beneficial interest in charitable trust held by others is recorded in the statement of financial position at fair value using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the expected distributions to be received under the agreement. Thereafter, a beneficial interest in the trust is reported at fair value in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities. Upon receipt of trust distributions and/or expenditures in satisfaction of the restricted purpose stipulated by the donor, if any, temporarily restricted net assets are released to unrestricted net assets; permanently restricted net assets are transferred to the endowment.

Beneficial Interests in Perpetual Trusts

The Society has been named as an irrevocable beneficiary of a perpetual trust held and administered by an independent trustee. Perpetual trusts provide for the distribution of the net income of the trust to the Society; however, the Society will never receive the assets of the trust. At the date the Society receives notice of a beneficial interest, a permanently restricted contribution is recorded in the statement of activities, and a beneficial interest in perpetual trust is recorded in the statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

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, 2014 and 2013 were $393,230 and $422,806, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

> *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.
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> *Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Society and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Society's Board of Directors.
>
> The Society reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> *Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Society. The restrictions stipulate that resources be maintained permanently but permit the Society to expend the income generated in accordance with the provisions of the agreements.

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

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, 2014 and 2013, the Society recorded $32,959 and $32,987, 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, 2014 and 2013, $71,114 and $29,530 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 and those differences could be material.

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 tax 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 2010 and state examinations for years before 2009.

Financial Instruments and Credit Risk

The Society manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Society has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, corporations, and foundations supportive of the Society’s mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Society.

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 expired on June 30, 2014. A new agreement was executed prior to that date and is in effect until June 30, 2017.

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, after a new collective bargaining agreement had been executed. The new collective bargaining agreement will expire on June 30, 2016.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent Events

The Society has evaluated subsequent events through November 25, 2014, the date which the financial statements were available to be issued.

Note 2 - Investments

A summary of endowment cash and investments at June 30, 2014 and 2013 is as follows:

	2014	2013
Fixed income securities		
Government	$ 4,239	$ 4,920
Mutual funds	3,254,662	3,199,901
Stock mutual funds		
International equities	6,141,573	5,928,429
Large cap equities	4,142,480	2,369,773
Absolute return strategies	15,733,557	13,333,262
Private equity	3,150,307	4,300,320
Real assets	1,933,395	3,423,270
Restricted cash and cash equivalents	1,182,574	492,039
Instrument loan fund	138,799	146,616
Interest receivable	18,545	16,247
Total	$ 35,700,131	$ 33,214,777

	2014	2013
Income		
Interest and dividends	$ 436,556	$ 331,456
Realized gain (loss)	762,908	1,687,508
Unrealized gain	3,087,699	702,811
Investment management fees	(339,740)	(431,188)
Investment income	3,947,423	2,290,587
Transfer to operations	(1,597,770)	(1,586,604)
Change in endowment after transfer	$ 2,349,653	$ 703,983

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, 2014, one musician had an outstanding loan. The outstanding balance was $138,799 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	$ 138,799	$ 479	3.26%	April 2028

During the year ended June 30, 2013, one musician had an outstanding loan. The outstanding balance totaled $146,616 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	$ 146,616	$ 464	2.78%	April 2028

Note 3 - Beneficial Interest in Charitable Trusts

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

	2014	2013
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.	$ 3,992,079	$ 3,686,783
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%.	58,987	59,813
Total charitable trusts	$ 4,051,066	$ 3,746,596

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

	2014	2013
Perpetual trust current year allocation	$ 183,463	$ 177,377
Perpetual trust change in value	305,296	282,106
Charitable remainder trust change in value	(826)	(2,401)
Total trust income	$ 487,933	$ 457,082

Note 4 - Fair Value of Assets and Liabilities

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

> Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Society can access at the measurement date.
>
> Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
>
> Level 3 – Unobservable inputs for the asset or liability. In these situations, the Society develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Society's assessment of the quality, risk or liquidity profile of the asset or liability.

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, 2014 and 2013.

<u>Investment Securities</u> (consisting of government securities, stocks, cash and 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, 2014 and 2013, respectively, are as follows:

	2014	2013
Investment securities	$ 14,744,074	$ 12,011,309
Alternative investments	20,817,258	21,056,852
Instrument loan fund	138,799	146,615
Beneficial interest in charitable trusts	4,051,066	3,746,596
Total assets	$ 39,751,197	$ 36,961,372

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)	Total
June 30, 2014				
Investment securities	$ 1,205,359	$ 13,538,715	$ -	$ 14,744,074
Alternative investments	-	-	20,817,258	20,817,258
Instrument loan fund	-	-	138,799	138,799
Beneficial interest in charitable trusts	-	-	4,051,066	4,051,066
Total assets	$ 1,205,359	$ 13,538,715	$ 25,007,123	$ 39,751,197
June 30, 2013				
Investment securities	$ 513,206	$ 11,498,103	$ -	$ 12,011,309
Alternative investments	-	-	21,056,852	21,056,852
Instrument loan fund	-	-	146,615	146,615
Beneficial interest in charitable trusts	-	-	3,746,596	3,746,596
Total assets	$ 513,206	$ 11,498,103	$ 24,950,063	$ 36,961,372

Following is a reconciliation of activity for fiscal years ending June 30, 2014 and 2013, 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, 2014			
Balance, beginning of year	$ 21,056,852	$ 146,615	$ 3,746,596
Net realized and unrealized gains (losses)	2,574,082	-	487,933
Fees	(261,741)	-	-
Purchases/contributions of investments	2,435,623	-	-
Distributions	(4,987,558)	(7,816)	(183,463)
Balance, end of year	$ 20,817,258	$ 138,799	$ 4,051,066

	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)	-	-
Purchases/contributions of investments	6,924,968	-	-
Distributions	(12,168,965)	(7,832)	(177,377)
Balance, end of year	$ 21,056,852	$ 146,615	$ 3,746,596

The Society'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, 2014 included in net unrestricted net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 2,088,181	$ -	$ -

	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	$ -	$ -

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, 2014 and 2013 are as follows:

	Investment Income
June 30, 2014	
Total gains or losses included in unrestricted net assets for the year	$ 3,947,423
Change in unrealized gains or losses relating to assets still held at year end	$ 3,135,495
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

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.

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, 2014 and 2013:

	2014	2013
Within one year	$ 2,410,059	$ 1,911,876
In one to five years	1,719,052	2,807,500
	4,129,111	4,719,376
Less discount to net present value (4% - 7%)	(327,374)	(431,506)
Less allowance for uncollectible promises to give	(45,000)	(75,000)
	$ 3,756,737	$ 4,212,870

Promises to give from three contributors accounted for 68% and 64% of total promises to give at June 30, 2014 and June 30, 2013, respectively.

Contribution revenue from one contributor accounted for 21% of total contributed revenue for the year ended June 30, 2013. There were no concentrations in 2014.

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, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2014				
Donor-restricted endowment funds	$ -	$ -	$ 39,533,024	$ 39,533,024
Board-designated endowment funds	(99,481)	-	-	(99,481)
	$ (99,481)	$ -	$ 39,533,024	$ 39,433,543
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

As of June 30, 2014 and 2013, $3,992,079 and $3,686,783, 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. At June 30, 2014 and 2013, the endowment is offset by gift annuities payable of $393,230 and $422,808, respectively, offsetting asset balances.

Changes in Endowment Net Assets for the year ending June 30, 2014 and 2013 are as follows:

June 30, 2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,149,380)	$ -	$ 39,195,848	$ 37,046,468
Investment income, net	-	3,947,423	-	3,947,423
Change in value of beneficial interest in perpetual trust	-		305,296	305,296
Recovery of deficiency in original fair value of permanently restricted funds below fair value	3,947,423	(3,947,423)	-	-
Other valuation adjustments	(53,418)	-	12,877	(40,541)
Contributions	-	-	19,003	19,003
Appropriation of endowment assets for expenditure	(1,597,770)	-	-	(1,597,770)
Endowment fund expenses	(246,336)	-	-	(246,336)
Endowment net assets, end of year	$ (99,481)	$ -	$ 39,533,024	$ 39,433,543

June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (2,595,412)	$ -	$ 38,755,336	$ 36,159,924
Investment loss, net	-	2,290,587	-	2,290,587
Change in value of beneficial interest in perpetual trust	-	-	280,871	280,871
Recovery of deficiency in original fair value of permanently restricted funds below fair value	2,290,587	(2,290,587)	-	-
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

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, there were no deficiencies as of June 30, 2014. Deficiencies of this nature were $1,873,582, as of June 30, 2013. 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, 2014 and 2013 is as follows:

	2014	2013
Stage equipment	$ 269,146	$ 269,146
Computer equipment	1,257,036	1,246,876
Furniture and fixtures	452,140	450,235
Leasehold improvements	2,502,668	2,502,668
Musical instruments	446,315	446,315
Artwork	24,000	24,000
	4,951,305	4,939,240
Less accumulated depreciation	(4,332,532)	(4,119,769)
	$ 618,773	$ 819,471

Note 8 - Debt

During the years ended June 30, 2014 and 2013, 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, 2014 and 2013, there was no outstanding balance on the line of credit.

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.

Defined benefit expense totaled $215,716 for union employees and $0 for eligible non-union employees for the year ended June 30, 2014, and $131,969 for union employees and $0 for eligible non-union employees for the year ended June 30, 2013. Union employee contributions are paid monthly, and non-union employee contributions are paid annually.

Note 10 - Restricted Net Assets

Temporarily Restricted

Temporarily restricted net assets at June 30, 2014 and 2013, consist of:

	2014	2013
Purpose restrictions	$ 603,211	$ 1,127,779
Time restrictions	1,903,709	1,741,627
Total	$ 2,506,920	$ 2,869,406

Permanently Restricted

Permanently restricted net assets were $39,533,024 and $39,195,848, at June 30, 2014 and 2013, respectively, and consisted of endowment funds.

Net Assets Released from Restrictions

Net assets released from restrictions during the years ended June 30, 2014 and 2013, consist of the following:

	2014	2013
Purpose restrictions	$ 1,496,370	$ 2,719,889
Time restrictions	648,787	598,346
Total	$ 2,145,157	$ 3,318,235

Note 11 - 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
2015	$ 461,336
2016	150,922
2017	33,043
2018	21,504
Thereafter	43,008
Total minimum lease payments	$ 709,813

The Society has seven capital call commitments of $3,309,513 outstanding at June 30, 2014, of which $1,221,981 relates to three subscription agreements in Private Equities investments and the other four relate to Real Asset Investments in the amount of $2,087,532 at June 30, 2014. The Society reserved funds within the current endowment fund investments to be transferred as the calls for capital contributions come due.

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

Note 12 - Related Party – Chamberleaf Inc.

Chamberleaf Inc. (formerly 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. Chamberleaf 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 Chamberleaf 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 Chamberleaf 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 Chamberleaf 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, 2014, multiple promises to give were made from Chamberleaf Inc. to the Society totaling $100,000. These amounts have been included within the Society's current year grants and contributions. As of June 30, 2014 and 2013, $1,100,000 and $1,400,000, respectively, is classified as temporarily restricted net assets.

The financial statements and activities of Chamberleaf 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 June 30, 2014

Cash	$ 28,098
Mutual funds	1,136,399
Other current assets	3,899,297
Total assets	$ 5,063,794
Current liabilities	$ 19,850
Unresticted net assets	5,043,944
Total liabilities and net assets	$ 5,063,794

Effective January 1, 2014, Chamberleaf, Inc. became the sole member of the partnership. All assets of the partnership were therefore transferred to Chamberleaf, Inc.

Note 13 - Related Party Transactions

The Society received contributions from Board members and staff. During the years ended June 30, 2014 and 2013, contribution revenue of $1,571,313 and $4,728,548, respectively, was received from Board members and staff. At June 30, 2014 and 2013, pledges receivable from Board members and staff were $704,202 and $4,173,795, respectively.