

*Audited Financial Statements
and Supplementary Information*

**OKLAHOMA PHILHARMONIC
SOCIETY, INC.**

June 30, 2011

Audited Financial Statements
and Supplementary Information

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

Audited Financial Statements

Independent Auditors' Report 1
Statements of Financial Position 2
Statements of Activities 3
Statements of Cash Flows 4
Notes to Financial Statements 5

Supplementary Information

Supplementary Statements of Activities 20

Independent Auditors' Report

The Board of Directors
Oklahoma Philharmonic Society, Inc.
Oklahoma City, Oklahoma

We have audited the accompanying statements of financial position of Oklahoma Philharmonic Society, Inc. (the "Philharmonic") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Philharmonic's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Philharmonic as of June 30, 2011 and 2010, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary statements of activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. The June 30, 2011 and 2010 information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 18, 2011

STATEMENTS OF FINANCIAL POSITION

OKLAHOMA PHILHARMONIC SOCIETY, INC.

	June 30	
	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash		
Unrestricted and undesignated	\$ 1,420,569	\$ 1,368,739
Unrestricted and designated for capital reserve	321,564	318,864
Unrestricted and designated for endowment drive	21,236	20,808
	<u>1,763,369</u>	<u>1,708,411</u>
Accounts receivable	115,956	100,110
Contributions receivable - endowment drive	254,446	372,572
Annual fund pledges receivable	634,944	571,181
Prepaid expenses and other	271,225	259,130
	<u>3,039,940</u>	<u>3,011,404</u>
Contributions receivable - endowment drive (net of discount of \$12,261 and \$22,153 at June 30, 2011 and 2010, respectively)	132,740	197,848
Annual fund pledges receivable	20,000	15,000
Beneficial interest in assets held by foundations	7,429,565	6,241,327
Furniture and equipment (net of accumulated depreciation of \$814,493 and \$771,262 at June 30, 2011 and 2010, respectively)	136,479	179,658
	<u>\$ 10,758,724</u>	<u>\$ 9,645,237</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 45,023	\$ 47,119
Advance ticket sales and fees	899,707	903,962
	<u>944,730</u>	<u>951,081</u>
NET ASSETS		
Unrestricted	838,277	497,814
Temporarily restricted	2,235,225	1,678,485
Permanently restricted	6,740,492	6,517,857
	<u>9,813,994</u>	<u>8,694,156</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,758,724</u>	<u>\$ 9,645,237</u>

See notes to financial statements.

STATEMENTS OF ACTIVITIES

OKLAHOMA PHILHARMONIC SOCIETY, INC.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2011
OPERATING REVENUE				
Concert tickets and fees	\$ 1,692,651	\$ -	\$ -	\$ 1,692,651
Program advertising	64,350	-	-	64,350
TOTAL OPERATING REVENUES	1,757,001	-	-	1,757,001
DIRECT OPERATING EXPENSES				
Performance	2,887,552	-	-	2,887,552
Marketing and development	959,697	-	-	959,697
General and administrative	702,083	-	-	702,083
TOTAL DIRECT OPERATING EXPENSES	4,549,332	-	-	4,549,332
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,792,331)	-	-	(2,792,331)
CONTRIBUTIONS, INTEREST AND OTHER NONOPERATING INCOME (EXPENSE)				
Contributions:				
Unrestricted	1,415,602	-	-	1,415,602
Restricted for:				
Endowment drive and related expenses	-	64,820	-	64,820
Subsequent period	-	1,205,621	-	1,205,621
Restrictions satisfied in current period	1,086,253	(1,086,253)	-	-
Transfer of assets to the Foundations	-	(222,635)	222,635	-
Distribution of beneficial interest in assets held by the Foundations	275,663	(275,663)	-	-
Marketing and development - endowment drive	(72)	-	-	(72)
Interest income and other	9,924	-	-	9,924
TOTAL CONTRIBUTIONS, INTEREST, AND OTHER NONOPERATING INCOME (EXPENSES)	2,787,370	(314,110)	222,635	2,695,895
CHANGE IN NET ASSETS BEFORE OTHER CHANGES IN VALUE OF BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS	(4,961)	(314,110)	222,635	(96,436)
OTHER CHANGES IN BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS				
Distributions in excess of accumulated earnings	-	-	-	-
Change in value of beneficial interest in assets held by Foundations	345,424	870,850	-	1,216,274
CHANGE IN NET ASSETS	340,463	556,740	222,635	1,119,838
NET ASSETS AT BEGINNING OF YEAR	497,814	1,678,485	6,517,857	8,694,156
NET ASSETS AT END OF YEAR	\$ 838,277	\$ 2,235,225	\$ 6,740,492	\$ 9,813,994

See notes to financial statements.

			Year Ended
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>June 30, 2010</u>
\$ 1,702,113	\$ -	\$ -	\$ 1,702,113
65,350	-	-	65,350
<u>1,767,463</u>	<u>-</u>	<u>-</u>	<u>1,767,463</u>
2,624,993	-	-	2,624,993
825,072	-	-	825,072
700,044	-	-	700,044
<u>4,150,109</u>	<u>-</u>	<u>-</u>	<u>4,150,109</u>
(2,382,646)	-	-	(2,382,646)
945,072	-	-	945,072
-	13,087	100,000	113,087
-	1,048,753	-	1,048,753
1,216,190	(1,216,190)	-	-
-	(608,464)	608,464	-
-	-	-	-
240,355	(240,355)	-	-
(74)	-	-	(74)
<u>34,712</u>	<u>-</u>	<u>-</u>	<u>34,712</u>
<u>2,436,255</u>	<u>(1,003,169)</u>	<u>708,464</u>	<u>2,141,550</u>
53,609	(1,003,169)	708,464	(241,096)
(209,592)	209,592	-	-
<u>433,250</u>	<u>107,606</u>	<u>-</u>	<u>540,856</u>
277,267	(685,971)	708,464	299,760
<u>220,547</u>	<u>2,364,456</u>	<u>5,809,393</u>	<u>8,394,396</u>
<u>\$ 497,814</u>	<u>\$ 1,678,485</u>	<u>\$ 6,517,857</u>	<u>\$ 8,694,156</u>

STATEMENTS OF CASH FLOWS

OKLAHOMA PHILHARMONIC SOCIETY, INC.

	June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,119,838	\$ 299,760
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Contributions restricted for endowment drive and related expenses	(64,820)	(113,087)
Depreciation	43,179	62,387
Change in value of beneficial interest in assets held by Foundations	(1,216,274)	(540,856)
Bad debt expense	1,250	20,031
Changes in operating assets and liabilities:		
Accounts receivable	(15,846)	14,077
Annual fund pledges receivable	(70,013)	328,385
Prepaid expenses and other	(12,094)	(54,566)
Accounts payable	(2,097)	15,977
Advance ticket sales and fees	(4,255)	126,835
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(221,132)	158,943
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment	-	(102,765)
Transfer of funds to be held by Foundations	(247,627)	(683,464)
Distribution from beneficial interest in assets held by Foundations	275,663	240,355
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	28,036	(545,874)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	248,054	683,400
NET CASH PROVIDED BY FINANCING ACTIVITIES	248,054	683,400
NET CHANGE IN CASH	54,958	296,469
CASH AT BEGINNING OF YEAR	1,708,411	1,411,942
CASH AT END OF YEAR	\$ 1,763,369	\$ 1,708,411

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Oklahoma Philharmonic Society, Inc. (the "Philharmonic") was organized on August 2, 1988. The Philharmonic's mission is to provide inspiration and joy for the community through orchestral music. The Philharmonic is dependent on ticket sales and contributions to support its operations. Ticket sales for the upcoming concert season are underway. Management of the Philharmonic anticipates receiving significant contributions in the upcoming fiscal year from foundations, corporations, individuals, and governmental agencies. In the opinion of management, these contributions, together with ticket sales, should be sufficient to meet the performance, marketing and development, and general and administrative expenses anticipated to be incurred by the Philharmonic during the upcoming fiscal year.

Basis of Accounting: The accompanying financial statements of the Philharmonic have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities. The Philharmonic follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC provides a single source of authoritative U.S. GAAP for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance.

Basis of Presentation: Financial statement presentation reports information regarding the Philharmonic's financial position and activities according to three classes of net assets, as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Philharmonic and/or the passage of time. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the same period in which the contribution is received.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Philharmonic. Generally, the donors of these assets permit the Philharmonic to use all or part of the income earned on any related investments for general or specific purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued: Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The Philharmonic reports gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied, 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 statements of activities as net assets released from restrictions.

The Philharmonic accounts for assets that are contributed to another not-for-profit organization, in which the Philharmonic has specified itself as beneficiary of those assets, as an asset of the Philharmonic. All contributions of this type, and the activity associated with the resultant assets held at the other not-for-profit organization, are reported as beneficial interest in assets held by foundations in the statements of financial position with the related changes in fair value and distributions reported in the statements of activities.

Unrestricted and Undesignated Cash: The Philharmonic maintains a sweep account which transfers excess funds into a variety of overnight investments. Such sweep accounts are not FDIC insured and totaled \$1,360,262 and \$1,368,218 at June 30, 2011 and 2010, respectively. The Philharmonic's financial institution has elected to participate in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2012, all non-interest bearing accounts are fully guaranteed by the FDIC. As the sweep account is an interest bearing account, it is not fully guaranteed. The Philharmonic has not incurred any losses related to its sweep account and does not believe there are significant risks associated with it.

Unrestricted and Designated Cash: Cash designated for capital reserve consists of donations received by the Philharmonic that have been set aside by the Board of Directors to establish a Capital Reserve Fund. The fund can only be accessed by the authorization of the finance or executive committees, and is to be utilized to support the working capital needs of the Philharmonic.

Cash designated for endowment drive consists of contributions received from the endowment campaign. The access to these funds does not require authorization of the finance or executive committee; however, these funds have been designated for expenses of the endowment drive. All funds (including outstanding endowment drive contributions receivable) not utilized for endowment drive expenses will be remitted to one of the Foundations (see Note D) and considered permanently restricted at that time.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Revenue Recognition: Revenues that have the characteristics of exchange transactions, such as concert ticket sales and fees, are not recognized until earned, which generally occurs when the Philharmonic has completed scheduled concert performances. Operating revenues for the years ended June 30, 2011 and 2010, respectively, consist of concert tickets and fees and program advertising related to the 2010-2011 and 2009-2010 concert series. Concert tickets, fees and program advertising revenues that are received prior to the concert season or other future events, are recorded as deferred revenue. Investment and interest income are recorded at the point in time they are payable to the Philharmonic.

Contributions and other non-operating income consist primarily of gifts and/or grants received from corporations, individuals, foundations and others and are recorded as revenues when received or upon receipt of an unconditional promise to give, net of estimated discounts. Contributions and promises to give that are contingent upon the occurrence of the upcoming concert season are recognized as revenues upon receipt of the contribution or promise as the possibility of the upcoming concert season not being performed is considered remote. Unconditional promises to give are considered fully collectible and are due as follows:

<u>Fiscal Year</u>	<u>Annual Fund</u>	<u>Endowment Drive</u>
2012	\$ 634,944	\$ 254,446
2013-2016	<u>20,000</u>	<u>145,001</u>
	654,944	399,447
Less discount at 5% for balances due in 2013 and thereafter	-	<u>(12,261)</u>
	<u>\$ 654,944</u>	<u>\$ 387,186</u>

In addition, the Philharmonic has received approximately \$1,321,000 of pledged contributions through interests in donors' estates which do not yet meet the criteria for revenue recognition.

Donated and Bartered Services: Donated services in fiscal years 2011 and 2010 totaled approximately \$184,000 and \$72,000, respectively, which consisted principally of advertising, accounting fees, and pro-bono legal services. Bartered transactions occurring during fiscal years 2011 and 2010 totaled approximately \$41,000 and \$34,000, respectively, which consisted primarily of exchanging various services in return for program and ticket advertising. These amounts are included in the accompanying statements of activities as contributions, program advertising and related expenses, at the estimated fair value of the goods or services received or exchanged.

Additionally, the Philharmonic's Board of Directors serves on a volunteer basis; however, no amounts have been recognized in the accompanying financial statements for these services.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Receivables and Credit Policies: Accounts receivable are uncollateralized customer obligations due in accordance with the Philharmonic's ticketing and program advertising policies. Receivables are recorded based on the face value of tickets and/or program advertising sold. Interest and delinquency fees are not assessed. Payments of accounts receivable are specifically allocated to the purchaser's account.

The Philharmonic considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If amounts are subsequently determined to be uncollectible, they will be charged to operations when that determination is made.

Furniture and Equipment: Furniture and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of furniture and equipment range from three to twenty years.

Functional Allocation of Expenses: Costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Costs are allocated between marketing and development, general and administrative, and performance based on evaluations of the related activities. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Philharmonic.

Income Taxes: The Philharmonic is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any income that the Philharmonic generates from an unrelated trade or business which is subject to federal corporate taxes on income. The Philharmonic's failure to maintain its tax-exempt status could have serious tax consequences.

Accounting for Uncertain Tax Positions: Management evaluated their tax positions and concluded that they had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Philharmonic is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Advertising Expense: All advertising costs, which approximated \$346,000 and \$212,000 for the years ending June 30, 2011 and 2010, respectively, are expensed as incurred or the first time advertising takes place.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Concentration of Credit Risk: The Philharmonic maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Philharmonic has not experienced any losses in such accounts, and does not believe that it is exposed to any significant credit risk on cash.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value Measurements: The Philharmonic follows ASC Topic 820, *Fair Value Measurements and Disclosures*. Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data; and
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets and liabilities carried at fair value include beneficial interest in assets held by others (see Note D and G).

Subsequent Events: The Philharmonic has evaluated subsequent events through October 18, 2011, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2011 financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE B--DEFERRED REVENUE

As of June 30, 2011 and 2010, respectively, the Philharmonic had received funds and/or pledges totaling approximately \$876,000 and \$886,000 for advance ticket sales and fee engagements and approximately \$24,000 and \$18,000 for advertising relating to the next concert season.

NOTE C--RELATED PARTY TRANSACTIONS

On January 1, 1993, the Philharmonic leased certain office and musical equipment from the Oklahoma City Orchestra League, Inc. for an annual rental of \$100. The lease required the Philharmonic to maintain insurance coverage of \$198,000 on the leased items, had an original lease of five years and expired on December 31, 1998. Subsequent to the original lease expiration, the Philharmonic renewed the lease at a rate of \$100 per annum. The renewed lease automatically renews from year to year thereafter, until notice is given by either party to terminate the lease.

On January 6, 1989, the Philharmonic and the Oklahoma City Philharmonic Foundation, Inc. ("Philharmonic Foundation") entered into an agreement under which the Philharmonic has leased a music library from the Philharmonic Foundation. The original lease term expired June 30, 1989. The agreement automatically renews from year to year thereafter, until notice is given by either party to terminate the lease. The annual rental is \$100. Under the terms of the agreement, the Philharmonic is required to maintain minimum insurance coverage of \$250,000 on the music library with insurance coverage amounts to be reviewed annually.

The Philharmonic receives the services of volunteers for various activities. In the opinion of management, it is not possible to determine a fair market value attributable to the services received by the Philharmonic from the volunteers. Therefore, the accompanying financial statements do not include any amounts attributable to these services.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE D--FUNDS HELD BY SUPPORTING FOUNDATIONS

The Philharmonic has transferred funds to the Oklahoma City Community Foundation ("OCCF") and the Philharmonic Foundation (collectively referred to as the "Foundations"), and specified itself as the beneficiary of those funds. In accordance with accounting guidance, the Philharmonic has reflected \$7,429,565 and \$6,241,327 of beneficial interest in these assets as of June 30, 2011 and 2010, respectively. Annually, distributions from these funds are paid to the Philharmonic according to the Foundations' spending policies, which is 5% of the average market value of the assets over the previous twelve quarters. Distributions of approximately \$276,000 and \$240,000 for the years ending June 30, 2011 and 2010, respectively, were received by the Philharmonic from these funds. To the extent that these distributions are returns of previously accumulated earnings, such distributions are reflected as net assets released from restrictions in the statements of activities. Distributions in excess of previously accumulated earnings reduce unrestricted net assets. Future investment earnings reestablish reductions of unrestricted net assets due to distributions in excess of accumulated earnings. Additionally, increase (decrease) in value of the beneficial interest in assets held by the Foundations of approximately \$1,216,000 and \$541,000 in 2011 and 2010, respectively, exclusive of the aforementioned distributions, are included in the statements of activities as a component of the change in net assets.

OCCF maintains variance power over the funds held at OCCF. Variance power is an authority unique to community foundations, and it assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. OCCF maintains legal ownership of the funds. In addition to the funds discussed above, OCCF and the Philharmonic Foundation hold funds contributed directly to OCCF and the Philharmonic Foundation to be held and invested for the benefit of the Philharmonic. The Philharmonic holds no beneficial interest in these funds. At June 30, 2011 and 2010, the market value of the underlying investments maintained for the Philharmonic's benefit by OCCF was approximately \$2,095,000 and \$1,796,000, respectively, and by the Philharmonic Foundation was approximately \$1,680,000 and \$1,472,000, respectively. The principal amount of these funds cannot be distributed without the approval of OCCF's or the Philharmonic Foundation's Board of Directors. The Philharmonic has not recorded the value of these investments held by OCCF or the Philharmonic Foundation in the accompanying statements of financial position as these assets were not transferred by the Philharmonic to OCCF or the Philharmonic Foundation as part of a reciprocal transfer. Income distributed to the Philharmonic by OCCF and the Philharmonic Foundation during fiscal years 2011 and 2010, totaled approximately \$136,000 and \$121,000, respectively, which is recorded as contributions in the accompanying statements of activities.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE D--FUNDS HELD BY SUPPORTING FOUNDATIONS--Continued

A summary of all amounts held at OCCF and the Philharmonic Foundation as of June 30, is as follows:

		2011					
		Reciprocal Transfers			Total	Donor	Total Assets
		Unrestricted	Temporarily	Permanently	Reciprocal	Contributions	Held by
		Net Assets	Restricted	Restricted	Transfers	Made Directly	Foundations at
			Net Assets	Net Assets		to Foundations	June 30, 2011
OCCF	\$	-	\$ 427,975	\$ 2,310,200	\$ 2,738,175	\$ 2,095,144	\$ 4,833,319
Philharmonic Foundation		--	311,098	4,380,292	4,691,390	1,680,287	6,371,677
Total	\$	-	\$ 739,073	\$ 6,690,492	\$ 7,429,565	\$ 3,775,431	\$ 11,204,996

		2010					
		Reciprocal Transfers			Total	Donor	Total Assets
		Unrestricted	Temporarily	Permanently	Reciprocal	Contributions	Held by
		Net Assets	Restricted	Restricted	Transfers	Made Directly	Foundations at
			Net Assets	Net Assets		to Foundations	June 30, 2010
OCCF	\$	(91,907)	\$ 143,894	\$ 2,310,200	\$ 2,362,187	\$ 1,796,310	\$ 4,158,497
Philharmonic Foundation		(253,517)	-	4,132,657	3,879,140	1,471,597	5,350,737
Total	\$	(345,424)	\$ 143,894	\$ 6,442,857	\$ 6,241,327	\$ 3,267,907	\$ 9,509,234

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE E--NET ASSETS RESTRICTIONS

Temporarily restricted net assets are available for the following as of June 30:

	<u>2011</u>	<u>2010</u>
Individuals and corporate sponsorships designated for the following concert season	\$ 811,725	\$ 714,193
Grants and contributions designated for the following concert seasons	394,204	372,360
Contributions designated for endowment, net of related endowment drive expenses	290,223	448,038
Undistributed earnings of beneficial interest in assets held by Foundations	<u>739,073</u>	<u>143,894</u>
	<u>\$ 2,235,225</u>	<u>\$ 1,678,485</u>

During 2005, the Philharmonic initiated an endowment campaign to further ensure the Philharmonic's financial security and ability to fulfill its mission. During the years ended June 30, 2011 and 2010, the Philharmonic received \$64,892 and \$113,161 of endowment contributions, net of present value discounts, and incurred \$72 and \$74 of related expenses, respectively. Unless specifically restricted by the donor, pledges received for the endowment are authorized to fulfill expenses related to the endowment drive with the remaining funds to be transferred to OCCF or the Philharmonic Foundation, based on the donor's request. It is the Board's intention that all expenses related to the endowment campaign will be paid by endowment pledges received. A portion of the pledge endowments have been received with restrictions that the earnings be used to subsidize the Philharmonic for orchestral services provided to Ballet Oklahoma and Canterbury Choral Society. These restricted contributions are maintained in a segregated Collaborative Fund once they are transferred to OCCF which is managed in accordance with an Endowment Fund Account Instructions Agreement entered into between the Philharmonic, Ballet Oklahoma, and Canterbury Choral Society.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE E--NET ASSETS RESTRICTIONS--Continued

Permanently restricted net assets consist of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Beneficial interest in assets held by Foundations	\$ 5,057,792	\$ 4,885,157
Beneficial interest in assets held by Foundations- Collaborative Fund	1,532,700	1,532,700
Beneficial interest in assets held by Foundations- Youth series endowment	100,000	25,000
Youth series endowment contribution receivable	50,000	75,000
	<u>\$ 6,740,492</u>	<u>\$ 6,517,857</u>

NOTE F--ENDOWMENT DISCLOSURES

The Philharmonic's endowment consists of the beneficial interest in assets held by the Foundations as discussed in Note D. That endowment was created through donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, 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 Philharmonic has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Philharmonic 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, 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 as the Philharmonic has no control over the appropriation of the funds. The amount of endowment funds that have fallen below the endowment corpus value are reported in unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE F--ENDOWMENT DISCLOSURES--Continued

Interpretation of Relevant Law--Continued

In accordance with SPMIFA, the Foundations holding the endowment assets consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds held for the benefit of the Philharmonic.

- (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.

Endowment net asset composition by type of fund as of June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 760,309	\$ 6,740,492	\$ 7,500,801
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 760,309</u>	<u>\$ 6,740,492</u>	<u>\$ 7,500,801</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (345,424)	\$ 164,702	\$ 6,517,857	\$ 6,337,135
Investment return	345,424	870,850	-	1,216,274
Contributions	-	223,055	-	223,055
Transfer of assets to Foundations	-	(222,635)	222,635	-
Appropriation of endowment assets for expenditure	-	(275,663)	-	(275,663)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 760,309</u>	<u>\$ 6,740,492</u>	<u>\$ 7,500,801</u>

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE F--ENDOWMENT DISCLOSURES--Continued

Endowment net asset composition by type of fund as of June 30, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (345,424)	\$ 164,702	\$ 6,517,857	\$ 6,337,135
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ (345,424)</u>	<u>\$ 164,702</u>	<u>\$ 6,517,857</u>	<u>\$ 6,337,135</u>

Changes in endowment net assets for the fiscal year ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (569,082)	\$ 87,923	\$ 5,809,393	\$ 5,328,234
Investment return	433,250	107,606	-	540,856
Contributions	-	608,400	100,000	708,400
Transfer of assets to Foundations	-	(608,464)	608,464	-
Appropriation of endowment assets for expenditure	(209,592)	(30,763)	-	(240,355)
Endowment net assets, end of year	<u>\$ (345,424)</u>	<u>\$ 164,702</u>	<u>\$ 6,517,857</u>	<u>\$ 6,337,135</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 SPMIFA requires the Philharmonic to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$0 and \$345,424 at June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters

The Philharmonic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs 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 Philharmonic must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested with the Foundations whose investment policies emphasize preservation of capital, protection against inflation and a continuing source of income.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE F--ENDOWMENT DISCLOSURES--Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundations' distribution policies to beneficiary organizations are five percent of the average market value of the endowment fund, which is calculated on a rolling quarter average of the previous twelve quarters. The Philharmonic allocates distributions received from the Foundations to be available for use in the Philharmonic's operations.

NOTE G--FAIR VALUE MEASUREMENTS

The Philharmonic has no liabilities measured at fair value. Assets measured at fair value are classified within the fair value hierarchy as follows:

	<u>As of June 30, 2011</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Beneficial interest in assets held by others	\$ -	\$ -	\$ 7,429,565	\$ 7,429,565
Total assets accounted for at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,429,565</u>	<u>\$ 7,429,565</u>
	<u>As of June 30, 2010</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Beneficial interest in assets held by others	\$ -	\$ -	\$ 6,241,327	\$ 6,241,327
Total assets accounted for at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,241,327</u>	<u>\$ 6,241,327</u>

Following is a description of methodologies used for instruments measured at fair value on a recurring basis:

Beneficial interest in assets held by others: The Philharmonic believes fair value of the future cash flows to be received from its beneficial interest in assets held by the Foundations approximates the fair value of the underlying assets held by the Foundations which primarily includes a diversified portfolio of marketable securities. Since there is no market for similar assets (i.e., beneficial interest in assets held by others), the assets are not transferrable, and the value recorded by the Philharmonic represents estimated future cash flows to be received from the Foundations, the Philharmonic classifies its beneficial interest in the assets held by the Foundations as Level 3.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE G--FAIR VALUE MEASUREMENTS--Continued

Change in the fair value of the Philharmonic's Level 3 financial assets, beneficial interest in assets held by others, for the years ending June 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 6,241,327	\$ 5,257,362
Transfers to the Foundations	247,627	683,464
Net investment performance	1,216,274	540,856
Distributions to the Philharmonic	<u>(275,663)</u>	<u>(240,355)</u>
Balance at end of year	<u>\$ 7,429,565</u>	<u>\$ 6,241,327</u>

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided to the Philharmonic by the Foundations. Net investment performance includes realized and unrealized gains (losses) on investments, investment income and administrative fees and is included in change in value of beneficial interest in assets held by others in the statement of activities. Distributions from the Foundations decrease the Philharmonic's beneficial interest and increase cash at the time of distribution.

The Philharmonic's investment in a certain entity that calculates net asset value per share which is measured at fair value includes the following:

Beneficial interest in assets held by others: Beneficial interest in assets held by OCCF is calculated based on net asset value per share and totaled \$2,738,175 and \$2,362,187 at June 30, 2011 and 2010, respectively. This investment consists of various common and preferred stocks, asset backed obligations, mutual and index funds, government obligations, and cash equivalent funds. This investment is directed by OCCF and the portfolio is designed to achieve endowment returns consistent with OCCF's adopted investment policies. Investments in this category cannot be redeemed at the current net asset value per share as the Philharmonic is only the beneficiary of the investment earnings which are distributed in accordance with OCCF's spending policy.

NOTES TO FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2011

NOTE H--LEASES

The Philharmonic has entered into non-cancelable lease agreements, primarily for office facilities, equipment and automobiles, under which rent expense approximated \$75,000 and \$71,000 for the years ended June 30, 2011 and 2010, respectively. Approximate minimum annual rentals as required by these leases at June 30, 2011 are as follows:

2012	\$	76,500
2013		56,200
2014		45,400
	\$	<u>178,100</u>

NOTE I--COMMITMENT AND CONTINGENCIES

Employment and Musicians Contracts: The Philharmonic has entered into two employment contracts. Under the terms of the contracts, the Philharmonic has agreed to pay the Executive Director and the Music Director annual salaries for the performance of their duties and responsibilities, as specified in the contracts. If the agreements are terminated by the Philharmonic under terms specified in the contracts, the Philharmonic will be required to pay the respective employee a cash sum equal to one-half of their salary for that season. If the agreements are terminated by the employee, the employee will not be entitled to receive compensation following termination.

The Philharmonic has an agreement with the American Federation of Musicians, Local 375/703 (the "Agreement") extending through August 31, 2015, which specifies minimum amounts of compensation and number of services during future concert seasons that will be included in contracts entered into between the Philharmonic and the musicians. The Agreement includes an increase of approximately \$0 per principal musician and \$2 per section musician, respectively, per service for the 2011-2012 concert season over the 2010-2011 rates. A service may include a concert, rehearsal or education program, among other things. Under this Agreement, the musicians will not be allowed to strike, slow-down or otherwise cause a reduction in work. In accordance with the Agreement, the Philharmonic entered into contracts with 74 musicians during 2011 for the 2011-2012 concert season. Minimum commitments relating to these contracts total approximately \$937,000 for fiscal year 2012.

Guest Artists Contracts: The Philharmonic entered into agreements with guest artists for performances to be held during fiscal year 2012. Commitments under these agreements totaled approximately \$381,000 at June 30, 2011.

SUPPLEMENTARY STATEMENTS OF ACTIVITIES

OKLAHOMA PHILHARMONIC SOCIETY, INC.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended June 30, 2011
OPERATIONS				
Operating revenue				
Concert tickets and fees	\$ 1,692,651	\$ -	\$ -	\$ 1,692,651
Program advertising	64,350	-	-	64,350
TOTAL OPERATING REVENUE	1,757,001	-	-	1,757,001
Operating expenses				
Performance				
Salaries and benefits	1,339,055	-	-	1,339,055
Guest artists	502,044	-	-	502,044
Technical and backstage personnel	181,407	-	-	181,407
Box office	90,868	-	-	90,868
Equipment rental	244,607	-	-	244,607
Music hall rental	123,274	-	-	123,274
Musician travel	32,042	-	-	32,042
Other	374,255	-	-	374,255
TOTAL PERFORMANCE EXPENSES	2,887,552	-	-	2,887,552
Marketing and development				
Salaries and benefits	306,950	-	-	306,950
Advertising	346,039	-	-	346,039
Telemarketing	36,515	-	-	36,515
Season campaign	98,533	-	-	98,533
Program printing	66,366	-	-	66,366
Postage	36,379	-	-	36,379
Other	68,915	-	-	68,915
TOTAL MARKETING AND DEVELOPMENT EXPENSES	959,697	-	-	959,697
General and administrative				
Salaries and benefits	447,949	-	-	447,949
Legal and professional	27,216	-	-	27,216
Insurance	46,467	-	-	46,467
Rent	47,441	-	-	47,441
Telephone	13,948	-	-	13,948
Bank fees	43,949	-	-	43,949
Office supplies	22,920	-	-	22,920
Other	52,193	-	-	52,193
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	702,083	-	-	702,083
TOTAL DIRECT OPERATING EXPENSES	4,549,332	-	-	4,549,332
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,792,331)	-	-	(2,792,331)

See independent auditors' report.

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Year Ended June 30, 2010</u>
\$ 1,702,113	\$ -	\$ -	\$ 1,702,113
65,350	-	-	65,350
<u>1,767,463</u>	<u>-</u>	<u>-</u>	<u>1,767,463</u>
1,292,493	-	-	1,292,493
375,233	-	-	375,233
181,216	-	-	181,216
87,915	-	-	87,915
159,035	-	-	159,035
112,554	-	-	112,554
34,008	-	-	34,008
382,539	-	-	382,539
<u>2,624,993</u>	<u>-</u>	<u>-</u>	<u>2,624,993</u>
297,571	-	-	297,571
212,012	-	-	212,012
41,011	-	-	41,011
89,975	-	-	89,975
65,757	-	-	65,757
40,166	-	-	40,166
78,580	-	-	78,580
<u>825,072</u>	<u>-</u>	<u>-</u>	<u>825,072</u>
409,743	-	-	409,743
28,960	-	-	28,960
43,025	-	-	43,025
48,029	-	-	48,029
17,008	-	-	17,008
44,073	-	-	44,073
17,796	-	-	17,796
91,410	-	-	91,410
<u>700,044</u>	<u>-</u>	<u>-</u>	<u>700,044</u>
<u>4,150,109</u>	<u>-</u>	<u>-</u>	<u>4,150,109</u>
<u>(2,382,646)</u>	<u>-</u>	<u>-</u>	<u>(2,382,646)</u>

SUPPLEMENTARY STATEMENTS OF ACTIVITIES--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total for Year Ended June 30, 2011</u>
CONTRIBUTIONS, INTEREST AND OTHER NONOPERATING INCOME (EXPENSE)				
Contributions				
Corporations, individuals, and foundations	\$ 979,257	\$ 838,920	\$ -	\$ 1,818,177
Allied Arts Foundation, Inc.	-	366,701	-	366,701
Endowment drive	-	64,820	-	64,820
Oklahoma Philharmonic Foundation distribution	67,200	-	-	67,200
Oklahoma City Community Foundation distribution	68,563	-	-	68,563
Oklahoma City Orchestra League, Inc.	175,000	-	-	175,000
Oklahoma Arts Council	117,325	-	-	117,325
Associate Board	8,257	-	-	8,257
TOTAL CONTRIBUTION INCOME	<u>1,415,602</u>	<u>1,270,441</u>	<u>-</u>	<u>2,686,043</u>
Marketing and development-endowment drive	(72)	-	-	(72)
Interest income	9,924	-	-	9,924
Transfer of assets to the Foundations	-	(222,635)	222,635	-
Net assets released from restrictions	<u>1,361,916</u>	<u>(1,361,916)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES IN VALUE OF BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS	<u>(4,961)</u>	<u>(314,110)</u>	<u>222,635</u>	<u>(96,436)</u>
OTHER CHANGES IN BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS				
Distributions in excess of accumulated earnings	-	-	-	-
Change in value of beneficial interest in assets held by Foundations	<u>345,424</u>	<u>870,850</u>	<u>-</u>	<u>1,216,274</u>
CHANGE IN NET ASSETS	<u>340,463</u>	<u>556,740</u>	<u>222,635</u>	<u>1,119,838</u>
NET ASSETS AT BEGINNING OF YEAR	<u>497,814</u>	<u>1,678,485</u>	<u>6,517,857</u>	<u>8,694,156</u>
NET ASSETS AT END OF YEAR	<u>\$ 838,277</u>	<u>\$ 2,235,225</u>	<u>\$ 6,740,492</u>	<u>\$ 9,813,994</u>

See Independent Auditors' Report

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total for Year Ended June 30, 2010</u>
\$ 524,013	\$ 693,393	\$ -	\$ 1,217,406
-	355,360	-	355,360
-	13,087	100,000	113,087
70,950	-	-	70,950
50,195	-	-	50,195
175,000	-	-	175,000
120,413	-	-	120,413
4,501	-	-	4,501
<u>945,072</u>	<u>1,061,840</u>	<u>100,000</u>	<u>2,106,912</u>
(74)	-	-	(74)
34,712	-	-	34,712
-	(608,464)	608,464	-
<u>1,456,545</u>	<u>(1,456,545)</u>	<u>-</u>	<u>-</u>
<u>53,609</u>	<u>(1,003,169)</u>	<u>708,464</u>	<u>(241,096)</u>
(209,592)	209,252	-	(340)
<u>433,250</u>	<u>107,606</u>	<u>-</u>	<u>540,856</u>
277,267	(685,971)	708,464	299,760
<u>220,547</u>	<u>2,364,456</u>	<u>5,809,393</u>	<u>8,394,396</u>
<u>\$ 497,814</u>	<u>\$ 1,678,485</u>	<u>\$ 6,517,857</u>	<u>\$ 8,694,156</u>