

*Audited Consolidated Financial Statements
and Supplementary Information*

**OKLAHOMA
PHILHARMONIC
SOCIETY, INC.**

June 30, 2012

Audited Consolidated Financial Statements
and Supplementary Information

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

Audited Consolidated Financial Statements

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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of Oklahoma Philharmonic Society, Inc. (the "Philharmonic") as of June 30, 2012, and the related consolidated statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Philharmonic's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2012, and the changes in its net assets and its cash flows for the year 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 information included in the *Oklahoma Philharmonic Society, Inc.--Consolidating Statement of Financial Position*, the *Oklahoma Philharmonic Society, Inc.--Consolidating Statement of Activities*, and the *Supplemental Statement of Activities* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 16, 2012



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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

ASSETS

CURRENT ASSETS

Cash:

Unrestricted and undesignated	\$ 1,401,928
Unrestricted and designated for capital reserve	322,907
Unrestricted and designated for endowment drive	<u>21,222</u>
	1,746,057

Accounts receivable	93,184
Contributions receivable - endowment drive	192,500
Annual fund pledges receivable	689,645
Prepaid expenses and other	<u>283,668</u>

TOTAL CURRENT ASSETS 3,005,054

Contributions receivable - endowment drive	80,000
Annual fund pledges receivable	32,500
Beneficial interest in assets held by the Community Foundation	2,675,711
Furniture and equipment (net of accumulated depreciation of \$856,783)	209,176
Investments	<u>6,312,212</u>

TOTAL ASSETS \$ 12,314,653

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 42,729
Advance ticket sales and fees	<u>828,491</u>

TOTAL CURRENT LIABILITIES 871,220

NET ASSETS

Unrestricted	796,408
Temporarily restricted	2,258,138
Permanently restricted	<u>8,388,887</u>

TOTAL NET ASSETS 11,443,433

TOTAL LIABILITIES AND NET ASSETS \$ 12,314,653

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

OKLAHOMA PHILHARMONIC SOCIETY, INC.

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING REVENUES				
Concert tickets and fees	\$ 1,698,624	\$ -	\$ -	\$ 1,698,624
Program advertising	80,225	-	-	80,225
TOTAL OPERATING REVENUES	1,778,849	-	-	1,778,849
DIRECT OPERATING EXPENSES				
Performance	3,039,760	-	-	3,039,760
Marketing and development	957,314	-	-	957,314
General and administrative	730,746	-	-	730,746
TOTAL DIRECT OPERATING EXPENSES	4,727,820	-	-	4,727,820
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,948,971)	-	-	(2,948,971)
CONTRIBUTIONS, INTEREST AND OTHER NONOPERATING INCOME (EXPENSES)				
Contributions:				
Unrestricted	1,382,844	-	-	1,382,844
Restricted for subsequent period	-	1,332,859	-	1,332,859
Restrictions satisfied in current period	1,457,343	(1,457,343)	-	-
Transfer of assets to the Foundations	-	(102,875)	102,875	-
Distribution of beneficial interest in assets held by the Community Foundation	112,938	(112,938)	-	-
Marketing and development - endowment drive	(14)	-	-	(14)
Realized gains and losses	-	52,877	-	52,877
Unrealized gains and losses	-	(54,831)	-	(54,831)
Interest income and other	15,111	118,837	-	133,948
TOTAL CONTRIBUTIONS, INTEREST, AND OTHER NONOPERATING INCOME (EXPENSES)	2,968,222	(223,414)	102,875	2,847,683
CHANGES IN NET ASSETS BEFORE OTHER CHANGES IN VALUE OF BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION	19,251	(223,414)	102,875	(101,288)
OTHER CHANGES IN BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION				
Change in value of beneficial interest in assets held by the Community Foundation	-	50,440	-	50,440
CHANGE IN NET ASSETS	19,251	(172,974)	102,875	(50,848)
NET ASSETS AT BEGINNING OF YEAR, restated	777,157	2,431,112	8,286,012	11,494,281
NET ASSETS AT END OF YEAR	\$ 796,408	\$ 2,258,138	\$ 8,388,887	\$ 11,443,433

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (50,848)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized investment gains	(52,877)
Net unrealized investment losses	54,831
Noncash investment income	(118,837)
Depreciation	42,290
Amortization of discount	(12,261)
Change in value of beneficial interest in assets held by Community Foundation	(50,440)
Bad debt expense	550
Changes in operating assets and liabilities:	
Accounts receivable	22,772
Annual fund pledges receivable	(67,751)
Prepaid expenses and other	12,558
Accounts payable	(2,294)
Advance ticket sales and fees	(71,216)
NET CASH USED IN OPERATING ACTIVITIES	<u>(293,523)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of equipment	(114,987)
Purchases of investments	(1,040,339)
Proceeds from sales and maturities of investments	1,191,653
Distribution from beneficial interest in assets held by the Community Foundation	112,937
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>149,264</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions restricted for endowment	126,947
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>126,947</u>

NET CHANGE IN CASH (17,312)

CASH AT BEGINNING OF YEAR 1,763,369

CASH AT END OF YEAR \$ 1,746,057

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: The Oklahoma Philharmonic Society, Inc. (the "Society") was organized on August 2, 1988. The Society's mission is to provide inspiration and joy for the community through orchestral music. The Society is dependent on ticket sales and contributions to support its operations. The concert season typically extends from September through May of each year and includes performances in a classical series, pops series, and family series. Ticket sales for the upcoming concert season are underway. Management of the Society 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 anticipated performance, marketing and development, and general and administrative expenses during the upcoming fiscal year.

The Oklahoma City Philharmonic Foundation, Inc., (the "Foundation") was organized on February 11, 2003. It is a supporting organization as defined in Section 509 of the internal revenue code and was formed for the purpose of supporting the operations and activities of the Oklahoma Philharmonic Society, Inc.

Principles of Consolidation: As of November 18, 2011, the Society is the sole member of the Foundation. Directors of the Foundation are subject to the approval of the Society. Also, the Foundation manages the endowment and other investment funds and operates to support the operations of the Society. The Foundation is considered to be an affiliated entity of the Society. In accordance with authoritative guidance regarding accounting changes and consolidations, as of July 1, 2011 in the accompanying financial statements, the Society recognized the assets and liabilities of the Foundation at their carrying amounts and, accordingly, the 2012 consolidated financial statements report the results of operations for the Society and the Foundation (collectively the "Organization"), and all inter-entity transactions between these entities are eliminated in the accompanying consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

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

Basis of Presentation: Financial statement presentation reports information regarding the Organization'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 Organization 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 statement 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 Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. The Organization 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 statement of activities as net assets released from restrictions.

The Organization accounts for assets that are contributed to the Oklahoma City Community Foundation as an asset of the Organization, as it has been specified as the beneficiary of those assets. All contributions of this type, and the activity associated with the assets held at the Community Foundation, are reported as beneficial interest in assets held by the Community Foundation in the statement of financial position, with the related changes in fair value and distributions reported in the statement of activities.

Unrestricted and Undesignated Cash: The Organization maintains a sweep account with a financial institution, which transfers excess funds into a variety of overnight investments. Such sweep accounts are not FDIC insured and totaled \$1,387,996 at June 30, 2012. The Organization'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 insured by the FDIC. The sweep account is an interest-bearing account and it is not fully insured. The Organization has not incurred any losses related to its sweep account and does not believe there are significant risks associated with it.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

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

Unrestricted and Designated Cash: Cash designated for capital reserve consists of donations received by the Organization 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 for the working capital needs of the Organization.

Cash designated for endowment drive consists of contributions received from an 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 included in investments of the Foundation or remitted to the Oklahoma City Community Foundation (see Note D), and they will be considered permanently restricted at that time.

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 Organization has completed scheduled concert performances. Operating revenues for the year ended June 30, 2012, consist of concert tickets, fees, and program advertising related to the 2011-2012 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 when they are payable to the Organization.

Contributions and other non-operating income consist primarily of gifts and grants received from corporations, individuals, foundations and others. They 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 because the possibility of not proceeding with the upcoming concert season is considered remote.

At June 30, 2012, 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>
2013	\$ 689,645	\$ 192,500
2014-2017	32,500	80,000
	<u>\$ 722,145</u>	<u>\$ 272,500</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

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

Revenue Recognition--continued: No discounts for balances due in 2014 and thereafter have been recorded at June 30, 2012 as they are not significant. In addition, the Organization has received approximately \$1,145,000 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 year 2012 totaled approximately \$189,000, which consisted principally of advertising, accounting fees, and pro-bono legal services. Bartered transactions occurring during fiscal year 2012 totaled approximately \$43,000, which consisted primarily of exchanging various services in return for program and ticket advertising. These amounts are included in the accompanying statement of activities as contributions, program advertising and related expenses, at the estimated fair value of the goods or services received or exchanged.

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

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

The Organization 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.

Investments: Investments consist of cash and cash equivalent funds, equity and fixed income mutual funds, and index funds. Investments are stated at fair value as determined by the fund and/or investment manager. Realized gains and losses on sales of investments are computed on the average cost basis. At June 30, 2012, investment income in the statement of activities is reported net of investment management and custodial fees which totaled \$31,870.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

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

Functional Allocation of Expenses: Costs of providing the various programs and other activities have been summarized on a functional basis in the statement 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 Organization.

Income Taxes: The Society and the Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any income that the Organization generates from an unrelated trade or business which is subject to federal corporate taxes on income.

Accounting for Uncertain Tax Positions: Management evaluated the tax positions of the Organization and concluded that no uncertain tax positions had been taken that would require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

Advertising Expense: All advertising costs, which approximated \$342,000 for the year ending June 30, 2012, are expensed as incurred or when the first time advertising takes place.

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

At June 30, 2012, 35% of the Organization's contribution revenue is from four donors, and 59% of the Organization's contributions receivable is due from three donors.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

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

Fair Value Measurements: The Organization 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 on a recurring basis include investments and beneficial interest in assets held by the Community Foundation. The Organization has no financial assets or liabilities carried at fair value on a non-recurring basis in 2012.

Recent Accounting Pronouncements: The FASB has issued additional clarification related to Topic 820, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04) that are effective for periods beginning after December 15, 2011. Early adoption of this update for the year ended June 30, 2012 is not permitted. The Organization will apply the provisions of this update prospectively beginning with the year ending June 30, 2013. The Organization does not anticipate adoption of this new guidance to have a significant impact on the financial statements.

Subsequent Events: The Organization has evaluated subsequent events through October 16, 2012, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2012 financial statements.

NOTE B--DEFERRED REVENUE

As of June 30, 2012, the Organization has recorded deferred revenue for advance ticket sales and fee engagements totaling approximately \$821,000 and approximately \$7,000 for advertising relating to the next concert season.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE C--RELATED PARTY TRANSACTIONS

The Organization leases office space and musical equipment from the Oklahoma City Orchestra League, Inc. for an annual rental of \$100. The lease requires the Organization to maintain insurance coverage of \$198,000 on the leased items. The lease automatically renews from year to year, until notice is given by either party to terminate the lease.

The Organization 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 Organization from the volunteers. Therefore, the accompanying financial statements do not include any amounts attributable to these services.

NOTE D--BENEFICIAL INTEREST IN ASSETS

In prior years, the Organization transferred funds to the Oklahoma City Community Foundation, Inc. (the "Community Foundation") and specified itself as the beneficiary of the funds. Annually, distributions from the funds are paid to the Organization according to the Community Foundation's distribution policy. The Community Foundation maintains variance power over these assets. Variance power 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. Distributions in the amount of \$112,938 for the year ending June 30, 2012 were received by the Organization 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 statement 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.

The Community Foundation maintains legal ownership of the funds. However, accounting principles generally accepted in the United States of America require that the Organization reflect its beneficial interest in these assets in its financial statements. At June 30, 2012, assets transferred to the Community Foundation by the Organization had a fair value of \$2,675,711.

In addition to the funds discussed above, the Community Foundation maintains other funds that have been contributed by various donors to the Community Foundation for the benefit of the Organization. These funds are not included as assets of the Organization. The earnings from these funds are paid to the Organization each year in accordance with the Community Foundation's spending policy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE D--BENEFICIAL INTEREST IN ASSETS--Continued

For the year ended June 30, 2012, the Organization received distributions of \$84,588 which is recorded as contributions in the accompanying consolidated statement of activities. At June 30, 2012, the fair value of the funds originally donated by third parties was approximately \$2,051,000. The Organization has no remainder interest in the corpus of these funds.

NOTE E--NET ASSETS RESTRICTIONS

Temporarily restricted net assets at June 30, 2012 are available for the following:

Individuals and corporate sponsorships designated for the following concert season	\$	942,089
Grants and contributions designated for the following concert seasons		418,270
Contributions designated for endowment, net of related endowment drive expenses		273,409
Funds invested by the Philharmonic Foundation		258,859
Undistributed earnings of beneficial interest in assets held by Community Foundation		365,511
	\$	<u>2,258,138</u>

In 2005, the Organization initiated an endowment campaign to assure the Organization's financial security and ability to fulfill its mission. 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 the Community Foundation or to the 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 contain restrictions that the earnings be used to subsidize Ballet Oklahoma and Canterbury Choral Society for orchestral services provided by the Society. These restricted contributions are maintained in a segregated Collaborative Fund which is managed in accordance with an Endowment Fund Account Instructions Agreement entered into between the Organization, Ballet Oklahoma, and Canterbury Choral Society.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE E--NET ASSETS RESTRICTIONS--Continued

Permanently restricted net assets at June 30, 2012, consist of the following:

Beneficial interest in assets held by Community Foundation	\$ 777,500
Beneficial interest in assets held by Community Foundation - Collaborative Fund	1,532,700
Endowment funds invested by Philharmonic Foundation	5,928,687
Youth series endowment	125,000
Youth series endowment contribution receivable	25,000
	<u>\$ 8,388,887</u>

NOTE F--ENDOWMENT DISCLOSURES

The Organization's endowment consists of endowment funds held in investments and the beneficial interest in assets held by the Community Foundation as discussed in Note D. The endowments were created through donor-restricted endowment funds. 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 Organization follows the ASC's guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). The State of Oklahoma enacted the Uniform Prudent Management of Institutional Funds Act ("OK UPMIFA") effective November 1, 2007.

The Board of Directors of the Organization has interpreted OK 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 explicit donor stipulations to the contrary. As a result of this interpretation, the Organization 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE F--ENDOWMENT DISCLOSURES--Continued

Interpretation of Relevant Law--Continued

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 the funds are appropriated for spending in accordance with spending policies. The amount of endowment funds that have fallen below the endowment corpus value are reported in unrestricted net assets.

In accordance with OK UPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds held for the benefit of the Organization.

- (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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 624,370	\$ 8,388,887	\$ 9,013,257
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 624,370</u>	<u>\$ 8,388,887</u>	<u>\$ 9,013,257</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE F--ENDOWMENT DISCLOSURES--Continued

Interpretation of Relevant Law--Continued

Changes in endowment net assets for the fiscal year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 849,207	\$ 8,286,012	\$ 9,135,219
Investment return	-	167,323	-	167,323
Contributions	-	102,875	-	102,875
Transfer of assets to Foundation		(102,875)	102,875	-
Appropriation of endowment assets for expenditure	-	(392,160)	-	(392,160)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 624,370</u>	<u>\$ 8,388,887</u>	<u>\$ 9,013,257</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 requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, if deficiencies of this nature are present, they will be reported in unrestricted net assets.

Return Objectives and Risk Parameters

The Organization 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 Organization 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 investment policies which emphasize preservation of capital, protection against inflation and a continuing source of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE F--ENDOWMENT DISCLOSURES--Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy

The endowment earnings are distributed based on a spending policy whereby the Society receives 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 Society allocates distributions received to be available for use in the Society's operations.

NOTE G--FAIR VALUE MEASUREMENTS

The following methods and assumptions were used to estimate the fair value of assets and liabilities reported at fair market value in the accompanying financial statements.

Investments: Investments are stated at fair value, and are based on quoted market prices, when available, or the best estimate of fair value as determined by the fund and/or investment manager. Generally, quoted market prices are available for mutual funds and index funds and, as such, are classified as Level 1 in the fair value hierarchy.

Beneficial interest in assets held by others: The Organization believes fair value of the future cash flows to be received from its beneficial interest in assets held by the Community Foundation approximates the fair value of the underlying assets held by the Community Foundation 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 Organization represents estimated future cash flows to be received from the Community Foundation, the Organization classifies its beneficial interest in the assets held by the Community Foundation as Level 3.

The Organization has no liabilities measured at fair value. As of June 30, 2012, assets measured at fair value on a recurring basis are classified within the fair value hierarchy is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Investments				
Cash Equivalents	\$ 256,629	\$ -	\$ -	\$ 256,629
Mutual Funds				
Equity	2,447,114	-	-	2,447,114
Fixed Income	2,246,834	-	-	2,246,834
Index Funds	1,361,635	-	-	1,361,635
Total Investments	<u>6,312,212</u>	-	-	6,312,212
Beneficial interest in assets held by community foundation	-	-	2,675,711	2,675,711
Total assets accounted for at fair value	<u>\$ 6,312,212</u>	<u>\$ -</u>	<u>\$ 2,675,711</u>	<u>\$ 8,987,923</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE G--FAIR VALUE MEASUREMENTS--Continued

Change in the fair value of the Organization's Level 3 financial assets, beneficial interest in assets held by the Community Foundation for the year ending June 30, 2012 are as follows:

Balance at beginning of year	\$ 2,738,209
Transfers to the Community Foundation	-
Net investment performance	50,440
Distributions to the Society	<u>(112,938)</u>
Balance at end of year	<u>\$ 2,675,711</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 Society by the Community Foundation. 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 the Community Foundation in the statement of activities. Distributions from the Community Foundation decrease the Society's beneficial interest and increase cash at the time of distribution.

The Organization'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 the Community Foundation: Beneficial interest in assets held by Community Foundation is entirely comprised of pooled investment funds held and managed by the Community Foundation. Fair value is based on the net asset value per share as determined by the Community Foundation and provided to the Society. The fund consists primarily of various common and preferred stocks, asset backed obligations, mutual and index funds, government obligations, and cash equivalent funds. The investment is directed by the Community Foundation and the portfolio is designed to achieve endowment returns consistent with the Community Foundation's adopted investment policies. Investments in this category cannot be redeemed at the current net asset value per share as the Society is only the beneficiary of the investment earnings which are distributed in accordance with the Community Foundation's spending policy. Based on the valuation method and nonredeemable nature of the assets, they are categorized as Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE H--LEASES

The Society has entered into non-cancelable lease agreements, primarily for office facilities, equipment and automobiles, under which rent expense approximated \$74,000 for the year ended June 30, 2012. Approximate minimum annual rentals as required by these leases at June 30, 2012 are as follows:

2013	\$	82,500
2014		57,900
2015		10,700
2016		10,700
2017		4,800
	\$	<u>166,600</u>

NOTE I--COMMITMENTS AND CONTINGENCIES

Employment and Musicians Contracts: The Society has entered into two employment contracts. Under the terms of the contracts, the Society 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 Society under terms specified in the contracts, the Society will be required to pay the terminated 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 Society has entered into 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 Society and the musicians. The Agreement includes an increase of approximately \$5 per principal musician and \$5 per section musician, respectively, per service for the 2012-2013 concert season over the 2011-2012 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 Society entered into contracts with 73 musicians during 2012 for the 2012-2013 concert season. Minimum commitments relating to these contracts total approximately \$965,000 for fiscal year 2013.

Guest Artists Contracts: The Society entered into agreements with guest artists for performances to be held during fiscal year 2013. Costs of performances under these agreements totaled approximately \$229,000 at June 30, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

NOTE J--RESTATEMENTS AND RECLASSIFICATIONS

As discussed in Note A; on November 18, 2011, the Philharmonic became the sole member of the Foundation. As such, the Society's net asset balances have been restated as of July 1, 2011, to include the net assets of the Foundation. In addition, the Society's beginning net assets have been reclassified to recognize endowment drive expenses reimbursed by the Society during a previous period. The impact of these restatements and reclassifications on the beginning net assets of the Society is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets at July 1, 2011, as previously reported	\$ 838,277	\$ 2,235,225	\$ 6,740,492	\$ 9,813,994
Net Assets of the Foundation as of July 1, 2011	25,000	109,767	1,545,520	1,680,287
Society reimbursement of endowment drive expenses during previous period	<u>(86,120)</u>	<u>86,120</u>	<u>-</u>	<u>-</u>
Restated Net Assets at July 1, 2011	<u>\$ 777,157</u>	<u>\$ 2,431,112</u>	<u>\$ 8,286,012</u>	<u>\$ 11,494,281</u>

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

OKLAHOMA PHILHARMONIC SOCIETY, INC.

June 30, 2012

	<u>Society</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
CURRENT ASSETS				
Cash:				
Unrestricted and undesignated	\$ 1,401,928	\$ -	\$ -	\$ 1,401,928
Unrestricted and designated for capital reserve	322,907	-	-	322,907
Unrestricted and designated for endowment drive	<u>21,222</u>	-	-	<u>21,222</u>
	1,746,057	-	-	1,746,057
Accounts receivable	93,184	-	-	93,184
Contributions receivable - endowment drive	192,500	-	-	192,500
Annual fund pledges receivable	689,645	-	-	689,645
Prepaid expenses and other	<u>258,668</u>	<u>25,000</u>	-	<u>283,668</u>
TOTAL CURRENT ASSETS	2,980,054	25,000	-	3,005,054
Contributions receivable - endowment drive	80,000	-	-	80,000
Annual fund pledges receivable	32,500	-	-	32,500
Beneficial interest in assets held by foundations	7,376,045	-	(4,700,334)	2,675,711
Furniture and equipment (net of accumulated depreciation of \$856,783)	209,176	-	-	209,176
Investment in subsidiary	1,636,878	-	(1,636,878)	-
Investments	<u>-</u>	<u>6,312,212</u>	<u>-</u>	<u>6,312,212</u>
TOTAL ASSETS	\$ 12,314,653	\$ 6,337,212	\$ (6,337,212)	\$ 12,314,653
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 42,729	\$ -	\$ -	\$ 42,729
Advance ticket sales and fees	828,491	-	-	828,491
Funds held for others	<u>-</u>	<u>4,700,334</u>	<u>(4,700,334)</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	871,220	4,700,334	(4,700,334)	871,220
NET ASSETS				
Unrestricted	796,408	25,000	(25,000)	796,408
Temporarily restricted	2,258,138	66,358	(66,358)	2,258,138
Permanently restricted	<u>8,388,887</u>	<u>1,545,520</u>	<u>(1,545,520)</u>	<u>8,388,887</u>
TOTAL NET ASSETS	11,443,433	1,636,878	(1,636,878)	11,443,433
TOTAL LIABILITIES AND NET ASSETS	\$ 12,314,653	\$ 6,337,212	\$ (6,337,212)	\$ 12,314,653

See notes to consolidated financial statements.

CONSOLIDATING STATEMENT OF ACTIVITIES

OKLAHOMA PHILHARMONIC SOCIETY, INC.

Year Ended June 30, 2012

	<u>Society</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
OPERATING REVENUES				
Concert tickets and fees	\$ 1,698,624	\$ -	\$ -	\$ 1,698,624
Program advertising	<u>80,225</u>	<u>-</u>	<u>-</u>	<u>80,225</u>
TOTAL OPERATING REVENUES	1,778,849	-	-	1,778,849
DIRECT OPERATING EXPENSES				
Performance	3,039,760	-	-	3,039,760
Marketing and development	957,314	-	-	957,314
General and administrative	<u>730,746</u>	<u>-</u>	<u>-</u>	<u>730,746</u>
TOTAL DIRECT OPERATING EXPENSES	<u>4,727,820</u>	<u>-</u>	<u>-</u>	<u>4,727,820</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(2,948,971)	-	-	(2,948,971)
CONTRIBUTIONS, INTEREST AND OTHER NONOPERATING INCOME (EXPENSES)				
Contributions:				
Unrestricted	1,382,844	-	-	1,382,844
Restricted for:				
Subsequent period	1,332,859	-	-	1,332,859
Transfer of assets between related entities	74,250	(74,250)	-	-
Marketing and development - endowment drive	(14)	-	-	(14)
Earnings from investment in subsidiary	(43,409)	-	43,409	-
Realized gains and losses	-	13,453	39,424	52,877
Unrealized gains and losses	-	(13,950)	(40,881)	(54,831)
Interest income and other	<u>15,111</u>	<u>31,338</u>	<u>87,499</u>	<u>133,948</u>
TOTAL CONTRIBUTIONS, INTEREST, AND OTHER NONOPERATING INCOME (EXPENSES)	<u>2,761,641</u>	<u>(43,409)</u>	<u>129,451</u>	<u>2,847,683</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES IN VALUE OF BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION	(187,330)	(43,409)	129,451	(101,288)
OTHER CHANGES IN BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION				
Change in value of beneficial interest in assets held by foundations	<u>136,482</u>	<u>-</u>	<u>(86,042)</u>	<u>50,440</u>
CHANGE IN NET ASSETS	(50,848)	(43,409)	43,409	(50,848)
NET ASSETS AT BEGINNING OF YEAR, <i>restated</i>	<u>11,494,281</u>	<u>1,680,287</u>	<u>(1,680,287)</u>	<u>11,494,281</u>
NET ASSETS AT END OF YEAR	<u>\$ 11,443,433</u>	<u>\$ 1,636,878</u>	<u>\$ (1,636,878)</u>	<u>\$ 11,443,433</u>

See notes to consolidated financial statements.

SUPPLEMENTARY STATEMENT OF ACTIVITIES

OKLAHOMA PHILHARMONIC SOCIETY, INC.

Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATIONS				
Operating revenues:				
Concert tickets and fees	\$ 1,698,624	\$ -	\$ -	\$ 1,698,624
Program advertising	80,225	-	-	80,225
TOTAL OPERATING REVENUES	<u>1,778,849</u>	-	-	<u>1,778,849</u>
Operating expenses:				
Performance:				
Salaries and benefits	1,346,124	-	-	1,346,124
Guest artists	586,724	-	-	586,724
Technical and backstage personnel	189,559	-	-	189,559
Box office	86,720	-	-	86,720
Equipment rental	251,546	-	-	251,546
Music hall rental	157,061	-	-	157,061
Musician travel	33,402	-	-	33,402
Other	388,624	-	-	388,624
TOTAL PERFORMANCE EXPENSES	<u>3,039,760</u>	-	-	<u>3,039,760</u>
Marketing and development:				
Salaries and benefits	305,605	-	-	305,605
Advertising	342,394	-	-	342,394
Telemarketing	41,257	-	-	41,257
Season campaign	107,447	-	-	107,447
Program printing	63,606	-	-	63,606
Postage	44,950	-	-	44,950
Other	52,055	-	-	52,055
TOTAL MARKETING AND DEVELOPMENT EXPENSES	<u>957,314</u>	-	-	<u>957,314</u>
General and administrative:				
Salaries and benefits	480,072	-	-	480,072
Legal and professional	38,150	-	-	38,150
Insurance	51,019	-	-	51,019
Rent	45,317	-	-	45,317
Telephone	12,626	-	-	12,626
Bank fees	39,525	-	-	39,525
Office supplies	4,455	-	-	4,455
Other	59,582	-	-	59,582
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>730,746</u>	-	-	<u>730,746</u>
TOTAL DIRECT OPERATING EXPENSES	<u>4,727,820</u>	-	-	<u>4,727,820</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	<u>(2,948,971)</u>	-	-	<u>(2,948,971)</u>

See Independent Auditors' Report.

SUPPLEMENTARY STATEMENT OF ACTIVITIES--Continued

OKLAHOMA PHILHARMONIC SOCIETY, INC.

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CONTRIBUTIONS, INTEREST AND OTHER NONOPERATING INCOME (EXPENSES)				
Contributions:				
Corporations, individuals, and foundations	\$ 1,004,286	\$ 947,089	\$ -	\$ 1,951,375
Allied Arts Foundation, Inc.	-	385,770	-	385,770
Oklahoma City Community Foundation distribution	84,588	-	-	84,588
Oklahoma City Orchestra League, Inc.	175,000	-	-	175,000
Oklahoma Arts Council	106,766	-	-	106,766
Associate Board	12,204	-	-	12,204
TOTAL CONTRIBUTION INCOME	<u>1,382,844</u>	<u>1,332,859</u>	<u>-</u>	<u>2,715,703</u>
Marketing and development- endowment drive	(14)	-	-	(14)
Interest income	15,111	118,837	-	133,948
Realized gains and losses	-	52,877	-	52,877
Unrealized gains and losses	-	(54,831)	-	(54,831)
Distribution of beneficial interest in assets held by the Community Foundation	112,938	(112,938)	-	-
Transfer of assets to the Foundations	-	(102,875)	102,875	-
Net assets released from restrictions	<u>1,457,343</u>	<u>(1,457,343)</u>	<u>-</u>	<u>-</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES IN VALUE OF BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS				
	<u>19,251</u>	<u>(223,414)</u>	<u>102,875</u>	<u>(101,288)</u>
OTHER CHANGES IN BENEFICIAL INTEREST IN ASSETS HELD BY FOUNDATIONS				
Change in value of beneficial interest in assets held by the Community Foundation	<u>-</u>	<u>50,440</u>	<u>-</u>	<u>50,440</u>
CHANGE IN NET ASSETS	19,251	(172,974)	102,875	(50,848)
NET ASSETS AT BEGINNING OF YEAR, <i>restated</i>	<u>777,157</u>	<u>2,431,112</u>	<u>8,286,012</u>	<u>11,494,281</u>
NET ASSETS AT END OF YEAR	<u>\$ 796,408</u>	<u>\$ 2,258,138</u>	<u>\$ 8,388,887</u>	<u>\$ 11,443,433</u>

See Independent Auditors' Report.

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