



Financial Statements
June 30, 2021 and 2020

The Saint Paul Chamber Orchestra Society

The Saint Paul Chamber Orchestra Society

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June 30, 2021 and 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Saint Paul Chamber Orchestra Society (the SPCO), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the SPCO as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Minneapolis, Minnesota
November 10, 2021

The Saint Paul Chamber Orchestra Society
 Statements of Financial Position
 Years Ended June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 5,068,298	\$ 3,514,579
Investment redemptions receivable	531,995	-
Promises to give, net	1,092,686	1,492,305
Other receivables	1,207,008	22,816
Prepaid expenses	126,361	149,949
Beneficial interest in trusts	1,008,478	229,032
Property and equipment, net	390,553	570,303
Investments	51,505,632	41,909,042
Total assets	\$ 60,931,011	\$ 47,888,026
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 159,628	\$ 231,794
Accrued expenses	399,086	298,039
Deferred ticket revenue	679,390	789,633
Deferred grant revenue	218,374	160,000
Paycheck Protection Program (PPP) loan	1,203,597	1,215,195
Gift annuities payable	318,672	317,491
Total liabilities	2,978,747	3,012,152
Net Assets		
Without donor restrictions		
Undesignated	37,958	-
Designated by the Board for Rainy Day Fund	3,463,022	463,022
Designated by the Board for endowment	2,897,350	1,264,825
	6,398,330	1,727,847
With donor restrictions		
Perpetual in nature	40,231,778	37,623,406
Accumulated investment gains	5,711,034	-
Restricted to Rainy Day Fund	659,163	299,262
Other purpose restrictions	1,506,644	1,795,552
Time-restricted for future periods	3,445,315	3,429,807
	51,553,934	43,148,027
Total net assets	57,952,264	44,875,874
Total liabilities and net assets	\$ 60,931,011	\$ 47,888,026

The Saint Paul Chamber Orchestra Society
Statements of Activities
Year Ended June 30, 2021

	Without Donor Restrictions			With Donor	Total
	Operating Fund	Rainy Day Fund	Endowment Fund	Restrictions	
Revenue					
Contracted services	\$ 260,000	\$ -	\$ -	\$ -	\$ 260,000
Net assets released from restriction pursuant to endowment spending rate policy	1,799,833	-	(116,367)	(1,683,466)	-
Net investment return	382	-	752,748	10,843,522	11,596,652
Change in value of trusts	-	-	39,376	54,534	93,910
Change in value of gift annuities	-	-	(91,185)	-	(91,185)
Other revenue	54,147	-	-	-	54,147
Total revenue	<u>2,114,362</u>	<u>-</u>	<u>584,572</u>	<u>9,214,590</u>	<u>11,913,524</u>
Support					
Grants and contributions	4,864,008	-	935,536	935,662	6,735,206
Government relief	2,315,523	-	-	-	2,315,523
Gross special events revenue	173,883	-	-	-	173,883
Less cost of direct benefits to donors	(17,747)	-	-	-	(17,747)
Net special events revenue	156,136	-	-	-	156,136
Net assets released from restriction	1,614,345	-	130,000	(1,744,345)	-
Total support	<u>8,950,012</u>	<u>-</u>	<u>1,065,536</u>	<u>(808,683)</u>	<u>9,206,865</u>
Total revenue and support	<u>11,064,374</u>	<u>-</u>	<u>1,650,108</u>	<u>8,405,907</u>	<u>21,120,389</u>
Expenses					
Artistic program	6,226,273	-	-	-	6,226,273
Management and general	931,237	-	16,848	-	948,085
Fundraising	868,906	-	735	-	869,641
Total expenses	<u>8,026,416</u>	<u>-</u>	<u>17,583</u>	<u>-</u>	<u>8,043,999</u>
Designation to Rainy Day Fund	(3,000,000)	3,000,000	-	-	-
Change in Net Assets	37,958	3,000,000	1,632,525	8,405,907	13,076,390
Net Assets, Beginning of Year	-	463,022	1,264,825	43,148,027	44,875,874
Net Assets, End of Year	<u>\$ 37,958</u>	<u>\$ 3,463,022</u>	<u>\$ 2,897,350</u>	<u>\$ 51,553,934</u>	<u>\$ 57,952,264</u>

The Saint Paul Chamber Orchestra Society
Statements of Activities
Year Ended June 30, 2020

	Without Donor Restrictions			With Donor Restrictions	Total
	Operating Fund	Rainy Day Fund	Endowment Fund		
Revenue					
Ticket office revenue	\$ 1,331,281	\$ -	\$ -	\$ -	\$ 1,331,281
Contracted services	88,800	-	-	-	88,800
Net assets released from restriction pursuant to endowment spending rate policy	1,862,327	-	(106,280)	(1,756,047)	-
Net investment return	8,987	-	(31,044)	(621,908)	(643,965)
Change in value of trust	-	-	-	507	507
Change in value of gift annuities	-	-	(56,768)	-	(56,768)
Other revenue	3,962	-	-	-	3,962
Total revenue from operations	<u>3,295,357</u>	<u>-</u>	<u>(194,092)</u>	<u>(2,377,448)</u>	<u>723,817</u>
Support					
Grants and contributions	4,379,630	-	272,147	1,513,536	6,165,313
Government relief	58,784	-	-	-	58,784
Gross special events revenue	166,252	-	-	-	166,252
Less cost of direct benefits to donors	(52,742)	-	-	-	(52,742)
Net special events revenue	113,510	-	-	-	113,510
Net assets released from restriction	1,905,474	-	-	(1,905,474)	-
Total support	<u>6,457,398</u>	<u>-</u>	<u>272,147</u>	<u>(391,938)</u>	<u>6,337,607</u>
Total revenue and support	<u>9,752,755</u>	<u>-</u>	<u>78,055</u>	<u>(2,769,386)</u>	<u>7,061,424</u>
Expenses					
Artistic program	7,858,784	-	-	-	7,858,784
Management and general	890,813	-	14,431	-	905,244
Fundraising	929,023	-	859	-	929,882
Total expenses	<u>9,678,620</u>	<u>-</u>	<u>15,290</u>	<u>-</u>	<u>9,693,910</u>
Designation to Rainy Day Fund	(74,135)	74,135	-	-	-
Change in Net Assets	-	74,135	62,765	(2,769,386)	(2,632,486)
Net Assets, Beginning of Year	<u>-</u>	<u>388,887</u>	<u>1,202,060</u>	<u>45,917,413</u>	<u>47,508,360</u>
Net Assets, End of Year	<u>\$ -</u>	<u>\$ 463,022</u>	<u>\$ 1,264,825</u>	<u>\$ 43,148,027</u>	<u>\$ 44,875,874</u>

The Saint Paul Chamber Orchestra Society
Statements of Functional Expenses
Year Ended June 30, 2021

	Artistic Program	Management and General	Fundraising	Total
Salaries and Benefits	\$ 4,672,335	\$ 625,624	\$ 637,736	\$ 5,935,695
Concert Production Expense	703,120	-	1,159	704,279
Professional Fees	94,078	92,978	8,267	195,323
Advertising and Promotion	78,330	1,870	6,870	87,070
Office Expenses	65,743	36,367	66,534	168,644
Information Technology	244,520	59,831	46,352	350,703
Occupancy	153,894	70,283	50,972	275,149
Travel, Meals, and Entertainment	3,668	1,817	4,836	10,321
Conferences, Conventions, Meetings	1,020	22,357	135	23,512
Depreciation	189,639	8,590	16,244	214,473
Insurance	19,412	35,569	6,919	61,900
Fees and Miscellaneous Expenses	514	(7,201)	41,364	34,677
	<u>6,226,273</u>	<u>948,085</u>	<u>887,388</u>	<u>8,061,746</u>
Less Expenses Included with Revenues on the Statement of Activities				
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>(17,747)</u>	<u>(17,747)</u>
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 6,226,273</u>	<u>\$ 948,085</u>	<u>\$ 869,641</u>	<u>\$ 8,043,999</u>

The Saint Paul Chamber Orchestra Society
 Statements of Functional Expenses
 Year Ended June 30, 2020

	<u>Artistic Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Benefits	\$ 5,419,275	\$ 567,525	\$ 700,945	\$ 6,687,745
Concert Production Expense	1,338,582	-	6,865	1,345,447
Professional Fees	81,202	120,016	7,614	208,832
Advertising and Promotion	185,944	832	7,671	194,447
Office Expenses	136,949	47,375	64,256	248,580
Information Technology	199,412	24,578	41,512	265,502
Occupancy	153,783	69,915	56,524	280,222
Travel, Meals, and Entertainment	36,783	20,152	49,287	106,222
Conferences, Conventions, Meetings	2,908	12,748	525	16,181
Depreciation	267,482	13,207	25,737	306,426
Insurance	35,091	17,542	7,401	60,034
Fees and Miscellaneous Expenses	1,373	11,354	14,287	27,014
	<u>7,858,784</u>	<u>905,244</u>	<u>982,624</u>	<u>9,746,652</u>
Less Expenses Included with Revenues on the Statement of Activities				
Cost of direct benefits to donors	<u>-</u>	<u>-</u>	<u>(52,742)</u>	<u>(52,742)</u>
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 7,858,784</u>	<u>\$ 905,244</u>	<u>\$ 929,882</u>	<u>\$ 9,693,910</u>

The Saint Paul Chamber Orchestra Society

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows used for Operating Activities		
Change in net assets	\$ 13,076,390	\$ (2,632,486)
Adjustments to reconcile change in net assets to net cash from operating activities		
Forgiveness of PPP loan	(1,215,195)	-
Employee retention tax credit	(1,080,672)	-
Depreciation	214,473	306,426
Net investment return	(11,596,652)	643,965
Change in beneficial interest in trusts	(779,446)	(507)
Changes in operating assets and liabilities		
Promises to give and other receivables	(235,896)	20,303
Prepaid expenses	23,588	12,788
Accounts payable	(72,166)	(74,130)
Accrued expenses	101,047	(163,080)
Deferred revenue	(110,243)	(73,014)
Gift annuities payable	1,181	(33,235)
Net Cash used for Operating Activities	<u>(1,673,591)</u>	<u>(1,992,970)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(34,723)	(78,279)
Withdrawal from investments, net of additions	2,000,062	2,642,560
Net Cash from Investing Activities	<u>1,965,339</u>	<u>2,564,281</u>
Cash Flows from Financing Activities		
Receipt of PPP loan	1,203,597	1,215,195
Net Cash from Financing Activities	<u>1,203,597</u>	<u>1,215,195</u>
Net Change in Cash and Cash Equivalents	1,495,345	1,786,506
Cash and Cash Equivalents, Beginning of Year	<u>3,514,579</u>	<u>1,728,073</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,009,924</u>	<u>\$ 3,514,579</u>

Note 1 - Principal Activity and Significant Accounting Policies

The mission of The Saint Paul Chamber Orchestra Society (the SPCO) is to sustain a world-class chamber orchestra at the highest standards of artistic excellence that enriches the Twin Cities community by sharing dynamic, distinctive, and engaging performances. We are actively committed to accessibility and intentional inclusivity in all aspects of our work and continually strive to provide all people in our community with opportunities to connect with the music we perform.

COVID-19 Pandemic

At the onset of the COVID-19 pandemic in the spring of 2020, the SPCO established three core objectives for navigating the crisis: maintaining the financial health and sustainability of the organization, maintaining employment and compensation for staff and musicians, and adding as much value as possible to the community by sharing music in a safe and responsible manner. These objectives informed operational and financial practices during the fiscal years ended June 30, 2021 and 2020.

In response to the COVID-19 pandemic and orders and guidance from U.S. federal and applicable state and local governmental authorities, the SPCO cancelled indoor concerts with audiences beginning in late March 2020 and through the fiscal year ended June 30, 2021. To continue to provide value to the community, the SPCO expanded its free livestream programming, with additional concerts and content and small ensembles to allow for social distancing onstage. In addition, the orchestra performed free outdoor concerts in the fall of 2020 and the spring of 2021 for in-person audiences. Although ticket office revenues were lost due to concert cancellations, annual giving continued, and other revenue was generated from donations of the cost of tickets purchased before the cancellations and by special contributions to support financial stability. Expenses were lower, especially in concert production, due to the limits on activity. In addition, non-essential spending was eliminated, and a hiring freeze was implemented, reducing operating costs to below the level of operating revenue (without donor restrictions) during the period. These reductions in expenses were achieved without furloughs or salary cuts for musicians or staff. During the year ended June 30, 2021, revenues included federal relief through the Paycheck Protection Program and employee retention tax credits. Throughout this period, the SPCO focused on increasing its Rainy Day Fund to weather the ongoing pandemic and recovery, while continuing to lower the endowment draw rate to maintain the purchasing power of the endowment.

Change in Accounting Policy

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The SPCO's financial statements reflect the application of ASC 606 guidance beginning in 2019. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the SPCO's reported historical revenue.

The SPCO adopted the provisions of Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement* (Topic 820) *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU provides revisions and deletions to guidance regarding the disclosure requirements included in Topic 820, including eliminating and modifying existing disclosure requirements. The accounting change has been retrospectively applied to prior periods presented, as required.

Cash and Cash Equivalents

The SPCO considers all bank and similar time deposits, demand accounts, and money market funds with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents in the endowment fund are classified under investments. The SPCO maintains its cash in deposit accounts which may exceed Federal Deposit Insurance Corporation (FDIC) limits at times. The SPCO has not experienced any losses in these accounts.

Redemptions Receivable

The SPCO receives redemptions on certain investment securities from time to time. These redemptions are received and reinvested in other investment securities.

Promises to Give

Promises to give are recorded at net realizable value. Long-term promises to give are recorded at the present value of the amounts expected to be collected. The discounts are computed using an imputed interest rate applicable to the year in which the promise is received. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Promises to give are written off when deemed uncollectible. The SPCO provides an allowance for bad debts, which is management's estimate of uncollectible pledges receivable, based on a review of each significant pledge and historical collection rates. In the years ended June 30, 2021 and 2020, this estimate included an evaluation of the potential impact of the COVID-19 pandemic. The allowance for uncollectible pledges receivable was \$45,000 at June 30, 2021 and 2020.

Other Receivables

Other receivables include balances due from the U.S. Treasury upon review by the Internal Revenue Service for employee retention tax credits as well as balances for shared use of facilities and personnel services, stock gifts in transit, income tax refunds, and other miscellaneous items. Payments on non-government receivables are generally due no later than 30 days after receipt of an invoice. The SPCO may provide an allowance for bad debts for other receivables, based on management judgment, considering historical information and an assessment of any past-due accounts. If accounts are significantly past due, the accounts are written off after all collection efforts have been exhausted. At June 30, 2021 and 2020, an allowance for bad debts was not considered to be warranted.

Prepaid Expenses

Expenses associated with future performances, as well as prepayments on insurance and annual contracts that benefit the subsequent fiscal year, are reported as prepaid expenses. Prepaid expenses in the years ended June 30, 2021 and 2020, include some expenses associated with cancelled performances which will be rescheduled when feasible given the COVID-19 pandemic.

Property and Equipment

Purchased property and equipment are valued at cost. Expenditures for equipment costing \$5,000 or more with a life greater than one year are capitalized. Contributed property and equipment is recorded at the fair value at the date of donation.

Depreciation of property and equipment, other than fine instruments, is calculated based on estimated useful lives of three to ten years using the straight-line method and is charged to the applicable functional expense. Leasehold improvements are amortized over the shorter of useful life or term of the lease.

Instruments that appreciate or hold their value over time are considered fine instruments. Fine instruments are not depreciated and are shown at their cost basis of \$156,039 at June 30, 2021 and 2020.

When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are deducted from the accounts, and any remaining gains or losses are included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed in the period incurred.

Beneficial Interests in Trusts Held by Others

At times, the SPCO is the recipient of a beneficial interest in a trust. These trusts are created independently by donors and administered by agents designated by the donors. The SPCO has neither possession nor control over the assets of the trusts.

At the date the SPCO receives notice of a beneficial interest which is irrevocable, a contribution is recorded in the statement of activities, with donor restrictions if applicable, and a beneficial interest in trusts held by others is recorded in the statement of financial position at fair value, which is calculated as the present value of the expected distributions. This value is updated annually at the end of each fiscal year until distribution, as well as upon trust distribution, with the updated value reported in the statement of financial position, and changes in value recognized in the statement of activities.

Upon receipt of trust distributions or expenditures, or both, in satisfaction of the donor-restricted purpose, if any, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to the endowment, in which case, net assets with donor-restrictions are not released.

The SPCO is the irrevocable beneficiary of two trusts. A trust with donor-imposed restrictions that are perpetual in nature was received during the year ended June 30, 2016, and a trust without donor restrictions was received during the year ended June 30, 2021. The trust without donor restrictions was designated by the Board of Directors to the endowment. The present value of the trust received during the year ended June 30, 2021, and changes in present value in both trusts are reflected in the statement of activities for the fiscal years ended June 30, 2021 and 2020, as applicable. The year-end values for the trusts are reflected in the statement of financial position for the fiscal years ended June 30, 2021 and 2020, as applicable. The values of the trusts are based on the underlying investments less anticipated costs, discounted at a rate of 7%.

Investments

Investment purchases are recorded at cost or, if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investments include alternative investments such as real estate, commodities, energy-related assets, and hedge funds in limited-liability investment fund vehicles which lack readily-available quoted prices. In these cases, fair values are determined by their respective managers or third-party fund administrators. Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less management and custodial fees, and income taxes, if applicable.

Deferred Ticket Revenue

Advance season ticket sales are deemed to be earned and reported as revenue upon the completion of the related performance or event. Amounts received but not yet earned are reported as deferred revenue. The value of tickets sold for concerts cancelled in the fiscal years ended June 30, 2021 and 2020, due to the COVID-19 pandemic, which were not refunded or donated to the SPCO and are available for patrons to use for future ticket purchases, are also included in deferred revenue. The SPCO's deferred ticket revenue as of July 1, 2019, was \$1,002,647. The deferred ticket revenue as of June 30, 2021 and 2020, were \$679,390 and \$789,633, respectively.

Gift Annuities Payable

The SPCO has received contributions under annuity contracts which generally provide for payments to the annuitants for life. Contributed assets are recorded at fair value at the date of receipt. The annuity contracts liability is recorded based on the present value of the future expected payments to the donors, and a contribution is recognized for the difference between the liability and funds received. Changes in the estimated value of the liability are reflected in the statement of activities. The SPCO uses discount rates of 4% to 8% to determine the present value of the liability. Gift annuities payable at June 30, 2021 and 2020, were \$318,672 and \$317,491, respectively.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for the Rainy Day Fund and Board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor-imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained into perpetuity. The SPCO reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Rainy Day Fund (RDF) – Net assets designated to the RDF by the Board of Directors plus net assets restricted to the RDF by donors. The RDF includes net assets both with and without donor restrictions. The RDF was established in the fiscal year ended June 30, 2018, with the goal of a reserve of 10% of the SPCO's average operating revenues and support. During the fiscal year ended June 30, 2021, the Board increased the goal to at least 25% of the SPCO's annual operating expenses. The RDF is intended to support stable day-to-day operations in the event of significant revenue shortfalls, particularly those caused by a recession or other economic shock which significantly reduces the SPCO's ability to generate revenues and support. The primary intended use is to provide funds to maintain salary and benefits levels for musicians and staff and to meet contractual commitments during the time affected by these impacts. The criteria for accessing and replenishing the RDF are governed by Board policy.

Revenue and Revenue Recognition

The SPCO receives contributions and grants from individuals, corporations, foundations, and government agencies primarily in the State of Minnesota. When there are neither conditions nor a right of return, the SPCO recognizes contributions upon receipt of cash, securities or other assets, a promise to give, or a notification of a beneficial interest. The SPCO records special events revenue equal to the fair value of direct benefits to donors and contribution income for the excess received when the event takes place.

Unconditional contributions, which are purpose or time-restricted, are recorded as contributions with donor restrictions and released to net assets without donor restrictions as restrictions are met. Unconditional contributions with donor restrictions which are perpetual in nature are recorded as additions to net assets with donor restrictions.

The SPCO receives revenues from ticket sales and membership dues, which are included in ticket office revenues, and contracted services. The SPCO recognizes revenue from ticket sales at the time of performance. During the COVID-19 pandemic, tickets were sold for concerts which were subsequently cancelled. Receipts from patrons who directed that their payments for tickets to cancelled concerts be donated to the SPCO were accounted for as contributions. Membership dues, which are nonrefundable, are an exchange transaction based on the value of benefits provided, which primarily consists of free or reduced tickets for in-person concerts. Membership dues are recognized upon receipt. Because no ticketed concerts were held in the year ended June 30, 2021, membership dues were accounted for as contributions during that period. Contracted services revenue is recognized at the time of performance of the contracted service.

Accounting Standard (ASU) 2018-08, *Guidance for Contributions Received and Made*, was adopted in the fiscal year ended June 30, 2020. Pursuant to this Standard, contributions, grants, or promises to give which include a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. Cash payments received prior to incurring qualifying expenditures are reported as advance payments in deferred revenue in the statement of financial position. During the fiscal years ended June 30, 2021 and 2020, the SPCO was awarded grants of \$115,745 and \$240,000, respectively, in cash and pledges which have not been recognized as revenue because a right of return exists, and qualifying expenditures have not yet been incurred. Advance payments of \$218,374 and \$160,000 for these grants were recorded in deferred grant revenue in the statement of financial position as of June 30, 2021 and 2020, respectively.

Endowment Income

The majority of the net investment return (loss) is available for general use and may be used to offset endowment management expenses, fund operations, or be reinvested in accordance with the SPCO's investment policy. Income from investments with donor restriction is used for its intended purpose.

Other Funds Held in Trust

The SPCO is the beneficiary of The Saint Paul Chamber Orchestra Society Fund (the Fund) of The Saint Paul Foundation. The Saint Paul Foundation is the owner of all property in the Fund and has ultimate authority over distributions from the Fund. The SPCO records contribution revenue when distributions are made. For the years ended June 30, 2021 and 2020, the SPCO recorded \$34,744 and \$34,781, respectively, in Fund distributions.

Contributed Goods and Services

Contributions of non-cash assets and professional services involving specialized skills are recorded at fair value as revenue and expense.

Functional Allocation of Expenses

Expenses are summarized on a functional basis in the statements of activities. Material costs that are organization-wide are allocated on a reasonable basis that is consistently applied between programs and supporting services. These costs include certain salaries and benefits, occupancy and related insurance, information technology, depreciation, and office expenses. Occupancy and related insurance are allocated based on the square footage occupied by the respective functions. Information technology, office expenses, depreciation, and salaries and benefits for facilities management and technology staff are allocated based on full-time equivalent administrative staff in each function.

Marketing and Promotion Costs

The SPCO expenses the production costs of advertising the first time the advertising takes place, except for direct-response advertising, which is recorded in prepaid expenses. Direct-response advertising consists primarily of season brochures that include order forms for the SPCO's concerts. The prepaid advertising is expensed in the fiscal year in which the concerts occur. At June 30, 2021 and 2020, \$13,006 and \$17,635 of advertising was reported as prepaid expenses, respectively.

Income Taxes

The SPCO is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The SPCO is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the SPCO is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purpose. The SPCO files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income. The SPCO believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The SPCO would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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. These affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the revenues and expenses reported as of the date of the financial statements. The SPCO's financial statements include amounts that are based on management's best estimates and judgments including amounts for the valuation of trusts, gift annuities, contributions receivable, the functional allocations of expenses, and the allowance for doubtful accounts. We believe that we have made reasonable estimates and judgments of the impact of COVID-19 within our financial statements, and there may be changes to those estimates in future periods. The SPCO also relies on the estimates of outside fund managers regarding certain components of the alternative investments. Actual results could differ from these estimates, and those differences could be material.

Financial Instruments and Credit Risk

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

Concentration and Sources of Labor

Office, clerical, and management employees of the SPCO are not unionized. Substantially all of the stage employees of the SPCO are represented by the International Alliance of Theatrical Stage Employees, Local 13. A collective bargaining agreement was in effect through November 2, 2021. Substantially all musicians of the SPCO are represented by the Twin Cities Musicians Union, Local 30-73. A collective bargaining agreement is in effect through June 30, 2024.

Reclassifications

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

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 798,256	\$ 2,202,582
Promises to give	920,562	1,120,861
Other receivables	1,207,008	21,715
Annual distribution of donor restricted investments (non-endowment)	-	338,746
Due from/(to) endowment assets for prior year	(84,923)	8,101
Endowment spending-rate distributions and appropriations for the next 12 months	1,835,448	1,786,000
	\$ 4,676,351	\$ 5,478,005

As part of the liquidity management plan, cash in excess of daily requirements may be invested in money market funds. As more fully described in Note 6, the SPCO also has a committed line of credit in the amount of \$1.5 million, which it may draw upon certain months of the year due to the timing of contribution receipts.

In addition to the assets listed above, the SPCO maintains a Rainy Day Fund (RDF) to support the organization if needed in the event of significant revenues shortfalls, particularly those caused by recessions or other economic shocks. When possible, the SPCO budgets for increases in operating net assets which may be designated by the Board of Directors to the RDF. In addition, the RDF includes other revenues designated by the Board of Directors and gifts which have been restricted by donors to the RDF. The cash and pledges due within one year for the RDF was \$4,082,185 and \$722,284 as of June 30, 2021 and 2020, respectively. Because these funds are available in limited circumstances and subject to Board approval after other options are exhausted, these funds are not included in the balances listed above.

A Board-designated endowment of \$2,897,350 and \$1,264,825 as of June 30, 2021 and 2020, respectively, is subject to the endowment spending policy as described in Note 9. Although the SPCO does not intend to spend from this Board-designated endowment (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

The SPCO was granted a \$1,215,195 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner in April 2020. The loan was uncollateralized and fully guaranteed by the Federal Government. The SPCO initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA in the fiscal year ended June 30, 2021. The SPCO was also granted a \$1,203,597 loan under the Paycheck Protection Program administered by an SBA approved partner in April 2021. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. Cash and cash equivalents include remaining funds from the loans outstanding as of June 30, 2021 and 2020, for use in paying eligible expenses in the first months of the fiscal years ended June 30, 2022 and 2021, respectively. See Note 7 for more information.

Note 3 - Investment Fair Value Measurements and Disclosures

Investments

The SPCO has a diversified investment portfolio. The SPCO's endowment investment objectives and policies were developed by the Board of Directors Investment Committee in conjunction with the SPCO's investment advisors and approved by the Board of Directors. Objectives are achieved through external investment managers operating with a variety of vehicles, including separate accounts, commingled funds, and limited partnerships. Investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect account balances and the amounts reported in the statements of activities.

The SPCO holds balances in alternative investments including real estate, commodities, energy-related assets, and hedge funds in limited-liability investment fund vehicles. All alternative investment vehicles report balances on a monthly or quarterly basis and are audited on an annual basis. Their balances are carried at fair value, based on estimates of the fund managers in the absence of readily ascertainable market values. Such values may differ significantly from the values that would have been derived had a ready market existed for these investments, and these differences could be material. Unrealized gains or losses are recognized in the period in which they occur.

Instrument Loan Fund

The SPCO has an instrument loan fund as part of the fixed-income portion of the endowment portfolio. A maximum of \$1,000,000 was approved to be used for loans to full-time, tenured musicians who wish to purchase new instruments. This program was designed to enhance the artistic quality of the concerts while helping musicians avoid the high costs of conventional financing. The loans can have a maximum 20-year term. The interest rate is 0.5% higher than the six-month United States Treasury Bill yield, or 0.5% higher than the IRS rate for imputed income, whichever is higher, and is adjusted annually. Obtaining a loan requires an application, credit review, and approval by the Investment Committee of the Board of Directors. The instrument itself is the collateral on the loan.

During the year ended June 30, 2021, one musician had an outstanding loan. The outstanding balance at June 30, 2021, and June 30, 2020, was \$43,291 and \$50,669, respectively. The outstanding balance is included in the endowment investment account. The loan had an interest rate of 1.67%, compounded monthly from July 1, 2020, through June 30, 2021, and 3.00%, compounded monthly from July 1, 2019, through June 30, 2020.

Fair Value Measurements

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

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the SPCO can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the SPCO develops inputs using the best information available in the circumstances.

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Investment Securities (consisting of fixed income securities, stocks, cash and cash equivalents, and interest receivable): Valued at the quoted market values for Level 1 and valued at the quoted prices of similar assets or liabilities in active markets for Level 2.

Alternative Investments (consisting of real estate, commodities, energy-related assets, private equity, and hedge funds in limited-liability investment fund vehicles): Valued at net asset value (NAV) of shares held by the SPCO at year end based on fair value as determined by their respective manager or third-party fund administrator in the absence of readily ascertainable market values.

Instrument Loan Fund: Valued at current outstanding loan balance with musicians.

Beneficial Interest in Trusts: Valued at year-end as a Level 3 investment utilizing net asset value as determined by their respective third-party fund administrator and adjusted for a present value discount.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the SPCO believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2021 and 2020

The following table presents assets and liabilities measured at fair value and those measured at NAV as a practical expedient on a recurring basis, except for those measured at cost as identified below, at June 30, 2021:

Assets	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Investments Measured at NAV
Investment securities					
Fixed income securities	\$ 9,633,898	\$ 1,067	\$ 9,632,831	\$ -	\$ -
Stock mutual funds	22,451,537	22,451,537	-	-	-
Stock commingled funds	2,717,483	-	2,717,483	-	-
Instrument loan fund	43,291	-	-	43,291	-
Restricted cash and cash equivalents (at cost)	11,392	11,392	-	-	-
Interest receivable	11	11	-	-	-
	<u>34,857,612</u>	<u>22,464,007</u>	<u>12,350,314</u>	<u>43,291</u>	<u>-</u>
Alternative investments					
Absolute return strategies	10,854,808	-	-	-	10,854,808
Private equity	2,382,260	-	-	-	2,382,260
Real assets	3,410,952	-	-	-	3,410,952
	<u>16,648,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,648,020</u>
	<u>\$ 51,505,632</u>	<u>\$ 22,464,007</u>	<u>\$ 12,350,314</u>	<u>\$ 43,291</u>	<u>\$ 16,648,020</u>
Beneficial interest in trusts					
Remainder trusts	<u>\$ 1,008,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,008,478</u>	<u>\$ -</u>

The following table presents assets and liabilities measured at fair value and those measured at NAV as a practical expedient on a recurring basis, except for those measured at cost as identified below, at June 30, 2020:

Assets	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Investments Measured at NAV
Investment securities					
Fixed income securities	\$ 9,385,747	\$ 1,293	\$ 9,384,454	\$ -	\$ -
Stock mutual funds	14,172,925	14,172,925	-	-	-
Stock commingled funds	3,178,405	-	3,178,405	-	-
Instrument loan fund	50,669	-	-	50,669	-
Restricted cash and cash equivalents (at cost)	48,820	48,820	-	-	-
Interest receivable	28,554	28,554	-	-	-
	<u>26,865,120</u>	<u>14,251,592</u>	<u>12,562,859</u>	<u>50,669</u>	<u>-</u>
Alternative investments					
Stock commingled funds	-	-	-	-	-
Absolute return strategies	10,433,162	-	-	-	10,433,162
Private equity	1,560,415	-	-	-	1,560,415
Real assets	3,050,345	-	-	-	3,050,345
	<u>15,043,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,043,922</u>
	<u>\$ 41,909,042</u>	<u>\$ 14,251,592</u>	<u>\$ 12,562,859</u>	<u>\$ 50,669</u>	<u>\$ 15,043,922</u>
Beneficial interest in trusts					
Remainder trusts	<u>\$ 229,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 229,032</u>	<u>\$ -</u>

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2021 and 2020

Investments in certain entities that calculate NAV per share as a practical expedient are as follows for the years ended June 30, 2021 and 2020:

	Number of Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
June 30, 2021					
Absolute return strategies	6	\$ 10,854,808	\$ -	Quarterly, annually	30, 45, 60, 70, 180 days, or 3/1
Private equity	4	2,382,260	1,982,762	Illiquid	
Real assets	5	<u>3,410,952</u>	<u>429,365</u>	Daily, illiquid	None
Balance, end of year		<u>\$ 16,648,020</u>	<u>\$ 2,412,127</u>		
June 30, 2020					
Absolute return strategies	7	\$ 10,433,162	\$ -	Quarterly, annually	30, 45, 60, 70, 90 or 180 days
Private equity	4	1,560,415	2,010,074	Illiquid	
Real assets	5	<u>3,050,345</u>	<u>326,384</u>	Daily, illiquid	None, 5 days
Balance, end of year		<u>\$ 15,043,922</u>	<u>\$ 2,336,458</u>		

For the years ended June 30, 2021 and 2020, no transfers in or out of level 3.

Note 4 - Promises to Give

Promises to give are estimated to be collected during the following timeframes at June 30, 2021 and 2020:

	2021	2020
Within one year	\$ 997,139	\$ 1,403,698
In one to ten years	<u>148,000</u>	<u>143,500</u>
	1,145,139	1,547,198
Less discount to net present value (3%)	(7,453)	(9,893)
Less allowance for uncollectible promises to give	<u>(45,000)</u>	<u>(45,000)</u>
	<u>\$ 1,092,686</u>	<u>\$ 1,492,305</u>

Promises to give from three contributors accounted for 30% and 36% of total promises to give at June 30, 2021 and 2020, respectively.

Note 5 - Property and Equipment

A summary of property and equipment as of June 30, 2021 and 2020, is as follows:

	2021	2020
Stage equipment	\$ 116,595	\$ 186,959
Computer and video production equipment	1,180,183	1,517,037
Furniture and fixtures	407,599	413,523
Leasehold improvements	73,137	74,343
Musical instruments	423,679	423,679
Artwork	24,000	24,000
	<u>2,225,193</u>	<u>2,639,541</u>
Less accumulated depreciation	<u>(1,834,640)</u>	<u>(2,069,238)</u>
	<u>\$ 390,553</u>	<u>\$ 570,303</u>

Note 6 - Line of Credit

During the years ended June 30, 2021 and 2020, the SPCO maintained a line of credit agreement that allowed it to borrow up to \$1,500,000. The line is secured by investments and pledges receivable without donor restrictions. Interest is accrued on any unpaid balances of the note at an annual rate equal to the one-month LIBOR plus 2.0%. As of June 30, 2021 and 2020, the expiration on the line of credit was January 31, 2022, and January 31, 2021, respectively. The line of credit is used to fund seasonal cash flow needs due to the timing of contribution receipts and is paid off in full on an annual basis. As of June 30, 2021 and 2020, the outstanding balance on the line of credit was \$0.

Note 7 - Government Relief**Paycheck Protection Program ("PPP") Loan**

The SPCO was granted a \$1,215,195 loan under the PPP administered by an SBA approved partner in the fiscal year ended June 30, 2020. The loan was uncollateralized and fully guaranteed by the Federal Government. The SPCO initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The SPCO recognized \$1,215,195 of loan forgiveness income for the year ended June 30, 2021.

The SPCO was granted a \$1,203,597 loan under the PPP administered by an SBA approved partner in the year ended June 30, 2021. The loan is uncollateralized and is fully guaranteed by the Federal Government. The SPCO is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The SPCO recorded a note payable in the fiscal year ended June 30, 2021, and will record the forgiveness during the fiscal year in which the loan is forgiven. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. The SPCO anticipates that 100% of the proceeds from the loan will be used for these expenses. The SPCO will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification if the loan is not fully forgiven.

Employee Retention Tax Credit (“ERTC”)

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided an ERTC which is a refundable tax credit against payroll taxes for employers meeting certain criteria. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 (collectively the Acts) expanded the credit, including an elimination of the exclusion of entities which had received a PPP loan and an extension of the ERTC through December 31, 2021. The ERTC is equal to 50% of up to \$10,000 of qualified wages paid to employees, or \$5,000 per employee, through December 31, 2020. The credit is equal to 70% of up to \$10,000 of qualified wages per quarter, or \$7,000 per employee per quarter, during calendar 2021. During the year ended June 30, 2021, the SPCO recorded \$1,080,672 in government relief for credits through June 30, 2021.

Unemployment Costs Relief Credit

The CARES Act also gave states the option to provide relief to reimbursing employers under the state’s employment insurance program. In response to this, the State of Minnesota implemented a program which provided the SPCO and other reimbursing employers with credits to offset unemployment expenses incurred during this time. During the years ended June 30, 2021 and 2020, the SPCO recorded \$19,656 and \$58,784, respectively, which is included in government relief on the statement of activities.

Note 8 - Commitments

The SPCO routinely enters into contracts for future concerts, tours, hall rentals, guest artists, and conductors.

The SPCO has lease agreements for office space and office equipment. Future minimum lease payments as of June 30, 2021, are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2022	\$ 280,269
2023	283,430
2024	286,941
2025	290,452
2026	<u>80,564</u>
Total minimum lease payments	<u><u>\$ 1,221,656</u></u>

Note 9 - Endowments

The SPCO’s endowment consists of pooled funds restricted for the long-term support of the organization including funds with donor restrictions and funds designated by the Board of Directors to function as endowments. 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 SPCO has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (the UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of June 30, 2021 and 2020, there were no such donor stipulations. As a result of this interpretation, the SPCO retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts) donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by the UPMIFA. The following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the organization; and
- The investment policies of the organization.

The composition of the endowment net assets by fund type as of June 30, 2021 and 2020, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2021			
Board-designated endowment funds	\$ 2,897,350	\$ -	\$ 2,897,350
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	40,231,778	40,231,778
Accumulated investment gains	-	5,711,034	5,711,034
	<u>\$ 2,897,350</u>	<u>\$ 45,942,812</u>	<u>\$ 48,840,162</u>

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2021 and 2020

The composition of the endowment net assets by fund type as of June 30, 2020, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2020			
Board-designated endowment funds	\$ 1,264,825	\$ -	\$ 1,264,825
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	<u>-</u>	<u>37,623,406</u>	<u>37,623,406</u>
	<u>\$ 1,264,825</u>	<u>\$ 37,623,406</u>	<u>\$ 38,888,231</u>

At June 30, 2021 and 2020, the endowment is offset by gift annuities payable of \$318,672 and \$317,491, respectively.

Changes in endowment net assets for the years ended June 30, 2021 and 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2021			
Endowment net assets, beginning of year	\$ 1,264,825	\$ 37,623,406	\$ 38,888,231
Net investment return	752,748	9,948,338	10,701,086
Grants and contributions	1,065,536	-	1,065,536
Change in value of trusts	39,376	54,534	93,910
Change in value of gift annuities	(91,185)	-	(91,185)
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,683,466)	(1,683,466)
Other changes			
Distribution from Board-designated endowment pursuant to distribution policy	(116,367)	-	(116,367)
Other expenses	<u>(17,583)</u>	<u>-</u>	<u>(17,583)</u>
Endowment net assets, end of year	<u>\$ 2,897,350</u>	<u>\$ 45,942,812</u>	<u>\$ 48,840,162</u>

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2021 and 2020

	Without Donor Restrictions	With Donor Restrictions	Total
June 30, 2020			
Endowment net assets, beginning of year	\$ 1,202,060	\$ 39,590,874	\$ 40,792,934
Net investment return	(31,044)	(411,928)	(442,972)
Grants and contributions	272,147	200,000	472,147
Change in value of trust	-	507	507
Change in value of gift annuities	(56,768)	-	(56,768)
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,756,047)	(1,756,047)
Other changes			
Distribution from Board-designated endowment pursuant to distribution policy	(106,280)	-	(106,280)
Other expenses	(15,290)	-	(15,290)
	<u>\$ 1,264,825</u>	<u>\$ 37,623,406</u>	<u>\$ 38,888,231</u>
Endowment net assets, end of year	<u>\$ 1,264,825</u>	<u>\$ 37,623,406</u>	<u>\$ 38,888,231</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or the UPMIFA requires the SPCO and the perpetual trust to retain as a fund of perpetual duration. For the year ended June 30, 2021, no deficiencies of this nature existed. For the year ended June 30, 2020, deficiencies of this nature existed in four donor-restricted endowment funds, which together had original gift values of \$39,948,211, a fair value of \$37,394,374, and a deficiency of \$2,553,837. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that were deemed prudent by the Board of Directors.

The SPCO has a policy that permits spending from underwater endowment funds unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$1,756,047 from underwater endowment funds during the year ended June 30, 2020.

Return Objectives and Risk Parameters

The SPCO has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to general operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted funds that the SPCO must hold in perpetuity or for a donor-specified period(s) as well as Board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets have been invested in a manner intended to provide a long-term return of 5% and allowing for inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the SPCO relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The SPCO targets a diversified asset allocation of bonds, equities, marketable alternatives, real assets, absolute return funds, and private equity to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The SPCO has established an endowment spending policy to maintain the purchasing power of the endowment funds. This policy was reaffirmed in the year ended June 30, 2021, and applies to funds with restrictions into perpetuity, as well as funds that have been designated by the Board of Directors as endowment funds. Real growth in the endowment is provided through new gifts and any excess investment returns. In establishing the endowment draw rate, the SPCO considers the long-term expected return on its endowment and the current and historical purchasing power of the endowment. Since the year ended June 30, 2016, the SPCO has made gradual reductions in the draw rate to a level more likely to maintain its purchasing power. The endowment draw percentage for the fiscal year ended June 30, 2020, was 4.90% of the endowment fund's average value. The endowment draw percentage for the fiscal year ended June 30, 2021, was 4.65% of the endowment fund's average value.

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2021 and 2020

Note 10 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Concert production projects	\$ 1,188,622	\$ 990,911
Digital Media initiative	216,434	366,373
New Generation initiative	76,266	76,266
Diversity and inclusion initiative	-	20,333
Rainy Day Fund	659,163	299,262
Other	25,322	341,669
	<u>2,165,807</u>	<u>2,094,814</u>
Subject to passage of time		
Annual Fund for future years	286,372	412,143
Other support	3,158,943	2,887,664
Fine instrument	-	130,000
	<u>3,445,315</u>	<u>3,429,807</u>
Endowments		
Subject to appropriation and expenditures when a specified event occurs		
Available for general use	5,482,515	-
Broadcasting, recording, touring	6,331	-
Music education and outreach	147,731	-
New music	74,457	-
	<u>5,711,034</u>	<u>-</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	39,045,821	39,045,821
Broadcasting, recording, touring	25,000	25,000
Music education and outreach	583,370	583,370
New music	294,021	294,021
Underwater endowments	-	(2,553,837)
	<u>39,948,212</u>	<u>37,394,374</u>
Perpetual in nature, not subject to spending policy or appropriation		
Beneficial interests in charitable trusts held by others	<u>283,566</u>	<u>229,032</u>
	<u>\$ 51,553,934</u>	<u>\$ 43,148,027</u>

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Notes to Financial Statements

June 30, 2021 and 2020

Net assets released from restrictions during the years ended June 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	\$ 1,134,283	\$ 914,756
Satisfaction of purpose restrictions		
Concert production projects	110,905	315,136
Education programs	12,420	129,920
Digital Media initiative	438,554	432,893
New Generation initiative	-	27,053
Diversity and inclusion initiative	20,333	5,620
Other	27,850	80,096
	<u>1,744,345</u>	<u>1,905,474</u>
Restricted-purpose spending-rate distributions and appropriations		
General use	1,683,466	1,756,047
	<u>1,683,466</u>	<u>1,756,047</u>
	<u>\$ 3,427,811</u>	<u>\$ 3,661,521</u>

Note 11 - Retirement Plans

Defined Contribution Plan

The SPCO maintains a defined contribution retirement plan for eligible union and non-union employees. For non-union employees, the plan provides for a dollar-for-dollar match of the employee's deferred contribution to the retirement plan. Non-union employees who normally work 20 or more hours per week are eligible for the employer contribution. The amount of the matching contribution may vary based upon the discretion of the SPCO. For the fiscal years ended June 30, 2021 and 2020, the SPCO provided a matching contribution of up to 5.5% of each eligible employee's salary or wages. Retirement plan expense for the defined contribution plan totaled \$121,776 and \$119,523, for the years ended June 30, 2021 and 2020, respectively.

Defined Benefit Plan

For union employees classified as musicians, the SPCO participates in a multiemployer defined benefit pension plan, the American Federation of Musicians and Employers' Pension Fund ("the Plan"), EIN/Plan Number 51-6120204 with a plan year end of March 31. The Plan was 53.62% and 59.2% funded as of April 1, 2020 (most recent available) and 2019, respectively. The Plan was in "critical" status (red Pension Protection Act Zone status) prior to June 28, 2019. On that date, the Plan was certified by its actuary to be in "critical and declining" status. The Plan's Board of Trustees adopted a rehabilitation plan on April 15, 2010, which was intended to help improve its funded status through various benefit reductions and employer contributions increases. The rehabilitation plan was last updated in June 2018. The total number of employers obligated to contribute to the Plan was approximately 4,872 during the Plan year beginning April 1, 2019 (most recent available). For the Plan Years beginning April 1, 2017, 2018, and 2019, the Plan did not list on its Form 5500 any employers as having contributed more than 5% of the Plan's total contributions. The Form 5500 for Plan Year beginning April 1, 2020, has not yet been completed. The SPCO made contributions of \$211,085 and \$245,943 for years ended June 30, 2021 and 2020, respectively, which is recognized as pension cost. The SPCO's contributions as a percentage of the total contributions was less than 1% in the years beginning April 1, 2019 (most recent available) and 2018, respectively.

The Plan funding information does not take into account the financial assistance that the Plan expects to receive under the American Rescue Plan Act (ARPA). This law, enacted in March 2021, allows certain troubled multiemployer pension plans to obtain financial assistance from the federal Pension Benefit Guaranty Corporation (PBGC). The assistance is intended to provide these plans with the amount required for the Plan to pay all benefits due for the next 30 years, without reductions in already-earned benefits. The Plan qualifies for this assistance because it is in "critical and declining" status, as described above. The PBGC has begun accepting applications from different "priority groups" of qualifying plans on a staggered basis. In general, the worse a plan's financial condition, the earlier it can apply. A plan's priority group has no bearing on the amount of financial assistance it will receive. The Plan is not yet eligible to apply but will be eligible no later than March 11, 2023.

Note 12 - Related Parties**Arts Partnership**

In 2007, the Arts Partnership, a 501c(3) organization, was formed for the purpose of collaborating on activities related to the Ordway Center for the Performing Arts. The Arts Partnership is exempt from income taxes as a nonprofit organization under the applicable federal and Minnesota income tax regulations. It is governed by a Board of Directors consisting of the CEOs and Board representatives of the Minnesota Opera (MN Opera), Ordway Center for the Performing Arts (Ordway), Schubert Club (Schubert), and the SPCO. The Ordway has three representatives and the other organizations each have two representatives.

The partnership is built on a Master Agreement, which addresses scheduling, rental rates, and other operating and financial issues with respect to the Ordway building on a long-term basis. MN Opera, Ordway, Schubert, and the SPCO are “Arts Partners” as defined in the Master Agreement. An Arts Partner can withdraw from the agreement with a minimum five years’ notice.

One of the initiatives of the Arts Partnership is to carry out fundraising for enhancements and maintenance to the Ordway building as well as to support Arts Partner utilization of the Ordway building through a subsidy of annual rental charges. Additional fundraising occurred in the years ended June 30, 2021 and 2020, to support the financial stability of the Arts Partners. An earlier Arts Partnership campaign resulted in the construction of a new concert hall at the Ordway, which opened in 2015.

Under the terms of the Master Agreement, the SPCO has committed to a rental rate structure based on utilization of the Concert Hall at the Ordway. The SPCO received rent subsidy and other support of \$455,242 and \$455,413 from the Arts Partnership in the years ended June 30, 2021 and 2020, respectively.

Note 13 - Related Party Transactions

The SPCO receives contributions from Board members, and other related parties. Contributions received from Board members, staff, and other related parties were \$1,963,170 and \$2,085,452 in the years ended June 30, 2021 and 2020, respectively. Pledges receivable from Board members, staff, and other related parties were \$658,601 and \$718,331 as of June 30, 2021 and 2020, respectively.

Note 14 - Subsequent Events

IATSE Contract

The SPCO entered into a new collectible bargaining agreement with the International Alliance of Theatrical Stage Employees, Local 13 which is in effect through June 30, 2025.

COVID-19 Pandemic

The SPCO continues to monitor the COVID-19 pandemic. The SPCO has taken a cautious approach to resuming concert activities and has instituted operational protocols to comply with applicable regulatory requirements and health authority recommendations to protect the health of musicians, crew, staff, and audience members. While the ultimate impact of the COVID-19 pandemic is uncertain, the SPCO expects that its operations, including ticket sales, will be materially impacted for the foreseeable future. The SPCO is continuing to carefully manage expenses, reserves, and funds raised from special campaigns to maintain its financial strength and sustainability through the pandemic and subsequent recovery.

The SPCO has evaluated subsequent events through November 10, 2021, the date which the financial statements were available to be issued.