



Financial Statements  
June 30, 2024 and 2023

# The Saint Paul Chamber Orchestra Society

The Saint Paul Chamber Orchestra Society

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June 30, 2024 and 2023

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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 Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the Saint Paul Chamber Orchestra (the SPCO), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the SPCO as of June 30, 2024 and 2023, 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.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the SPCO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the SPCO's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SPCO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the SPCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Minneapolis, Minnesota  
November 22, 2024

# The Saint Paul Chamber Orchestra Society

Statements of Financial Position  
Years Ended June 30, 2024 and 2023

	2024	2023
<b>Assets</b>		
Cash and cash equivalents	\$ 1,975,294	\$ 1,016,252
Operating investments	2,839,551	4,127,568
Investment redemptions receivable	-	37,297
Promises to give, net	785,275	1,106,327
Other receivables	64,471	35,130
Prepaid expenses	232,139	217,308
Beneficial interest in trusts	1,043,695	936,410
Property and equipment, net	315,585	330,584
Operating lease right of use assets	5,187	612,163
Finance lease right of use assets	69,939	89,921
Long-term investments	57,845,085	52,398,333
Total assets	\$ 65,176,221	\$ 60,907,293
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 224,163	\$ 171,941
Accrued expenses	231,776	300,328
Deferred ticket revenue	784,102	893,636
Deferred grant revenue	25,000	25,000
Operating lease liabilities	15,936	625,068
Finance lease liabilities	75,105	93,829
Gift annuities payable	115,685	121,385
Total liabilities	1,471,767	2,231,187
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	37,958	37,958
Designated by the Board for Rainy Day Fund	3,344,412	3,836,136
Designated by the Board for Artistic Initiatives	500,000	-
Designated by the Board for endowment	6,772,691	5,155,112
	10,655,061	9,029,206
With donor restrictions		
Perpetual in nature	44,775,908	44,562,703
Accumulated investment gains	4,067,466	383,645
Restricted to Rainy Day Fund	-	701,748
Other purpose restrictions	1,253,435	1,183,202
Time-restricted for future periods	2,952,584	2,815,602
	53,049,393	49,646,900
Total net assets	63,704,454	58,676,106
Total liabilities and net assets	\$ 65,176,221	\$ 60,907,293

See Notes to Financial Statements

The Saint Paul Chamber Orchestra Society  
Statements of Activities  
Year Ended June 30, 2024

	Operating Fund	Artistic Initiatives and Rainy Day Fund	Endowment Fund	With Donor Restrictions	Total
<b>Revenue</b>					
Ticket office revenue	\$ 1,593,430	\$ -	\$ -	\$ -	\$ 1,593,430
Contracted services	88,187	-	-	-	88,187
Net assets released from restriction pursuant to endowment spending rate policy	2,066,678	-	(363,205)	(1,703,473)	-
Net investment return	992	195,926	555,368	5,811,798	6,564,084
Change in value of trusts	-	-	46,679	60,608	107,287
Change in value of gift annuities	-	-	(18,524)	-	(18,524)
Other revenue	10,893	-	-	-	10,893
Total revenue	<u>3,760,180</u>	<u>195,926</u>	<u>220,318</u>	<u>4,168,933</u>	<u>8,345,357</u>
<b>Support</b>					
Grants and contributions	4,489,182	500,000	1,055,700	884,875	6,929,757
Gross special events revenue	205,920	-	-	-	205,920
Less cost of direct benefits to donors	(27,837)	-	-	-	(27,837)
Net special events revenue	178,083	-	-	-	178,083
Net assets released from restriction	1,275,485	-	375,830	(1,651,315)	-
Total support	<u>5,942,750</u>	<u>500,000</u>	<u>1,431,530</u>	<u>(766,440)</u>	<u>7,107,840</u>
Total revenue and support	<u>9,702,930</u>	<u>695,926</u>	<u>1,651,848</u>	<u>3,402,493</u>	<u>15,453,197</u>
<b>Expenses</b>					
Artistic program	8,024,718	-	-	-	8,024,718
Management and general	1,412,667	-	24,469	-	1,437,136
Fundraising	953,195	-	9,800	-	962,995
Total expenses	<u>10,390,580</u>	<u>-</u>	<u>34,269</u>	<u>-</u>	<u>10,424,849</u>
Change in Net Assets Prior to Release	(687,650)	695,926	1,617,579	3,402,493	5,028,348
Release from Rainy Day Fund	687,650	(687,650)	-	-	-
Change in Net Assets	-	8,276	1,617,579	3,402,493	5,028,348
Net Assets, Beginning of Year	37,958	3,836,136	5,155,112	49,646,900	58,676,106
Net Assets, End of Year	<u>\$ 37,958</u>	<u>\$ 3,844,412</u>	<u>\$ 6,772,691</u>	<u>\$ 53,049,393</u>	<u>\$ 63,704,454</u>

The Saint Paul Chamber Orchestra Society  
Statements of Activities  
Year Ended June 30, 2023

	Without Donor Restrictions			With Donor Restrictions	Total
	Operating Fund	Rainy Day Fund	Endowment Fund		
<b>Revenue</b>					
Ticket office revenue	\$ 1,356,576	\$ -	\$ -	\$ -	\$ 1,356,576
Contracted services	91,000	-	-	-	91,000
Net assets released from restriction pursuant to endowment spending rate policy	1,996,803	-	(289,506)	(1,707,297)	-
Net investment return	862	127,553	746,658	4,270,414	5,145,487
Change in value of trusts	-	-	48,868	25,924	74,792
Change in value of gift annuities	-	-	96,257	-	96,257
Other revenue	37,870	-	-	-	37,870
<b>Total revenue</b>	<b>3,483,111</b>	<b>127,553</b>	<b>602,277</b>	<b>2,589,041</b>	<b>6,801,982</b>
<b>Support</b>					
Grants and contributions	5,184,401	-	116,958	1,117,687	6,419,046
Gross special events revenue	180,775	-	-	1,250	182,025
Less cost of direct benefits to donors	(48,727)	-	-	-	(48,727)
Net special events revenue	132,048	-	-	1,250	133,298
Net assets released from restriction	1,843,402	-	353,659	(2,197,061)	-
<b>Total support</b>	<b>7,159,851</b>	<b>-</b>	<b>470,617</b>	<b>(1,078,124)</b>	<b>6,552,344</b>
<b>Total revenue and support</b>	<b>10,642,962</b>	<b>127,553</b>	<b>1,072,894</b>	<b>1,510,917</b>	<b>13,354,326</b>
<b>Expenses</b>					
Artistic program	8,470,873	-	-	-	8,470,873
Management and general	1,082,063	-	18,439	-	1,100,502
Fundraising	1,012,426	-	9,800	-	1,022,226
<b>Total expenses</b>	<b>10,565,362</b>	<b>-</b>	<b>28,239</b>	<b>-</b>	<b>10,593,601</b>
Change in Net Assets Prior to Designation	77,600	127,553	1,044,655	1,510,917	2,760,725
Designation to Rainy Day Fund	(77,600)	77,600	-	-	-
Change in Net Assets	-	205,153	1,044,655	1,510,917	2,760,725
Net Assets, Beginning of Year	37,958	3,630,983	4,110,457	48,135,983	55,915,381
Net Assets, End of Year	\$ 37,958	\$ 3,836,136	\$ 5,155,112	\$ 49,646,900	\$ 58,676,106

The Saint Paul Chamber Orchestra Society  
Statements of Functional Expenses  
Year Ended June 30, 2024

	Artistic Program	Management and General	Fundraising	Total
Salaries and Benefits	\$ 5,578,904	\$ 828,980	\$ 691,864	\$ 7,099,748
Concert Production Expense	1,526,445	-	-	1,526,445
Professional Fees	166,979	402,619	20,761	590,359
Advertising and Promotion	43,110	-	-	43,110
Office Expenses	212,946	27,780	58,919	299,645
Information Technology	218,460	51,330	55,167	324,957
Occupancy	10,735	80	172	10,987
Travel, Meals, and Entertainment	14,129	11,567	19,209	44,905
Conferences, Conventions, Meetings	1,218	335	214	1,767
Depreciation and Amortization	74,105	4,056	4,528	82,689
Lease Expense	157,654	67,332	59,800	284,786
Insurance	39,117	41,538	12,924	93,579
Fees and Miscellaneous Expenses	5,518	1,519	42,672	49,709
	<u>8,049,320</u>	<u>1,437,136</u>	<u>966,230</u>	<u>10,452,686</u>
Less Expenses Included with Revenues on the Statement of Activities				
Cost of direct benefits to donors	<u>(24,602)</u>	<u>-</u>	<u>(3,235)</u>	<u>(27,837)</u>
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 8,024,718</u>	<u>\$ 1,437,136</u>	<u>\$ 962,995</u>	<u>\$ 10,424,849</u>



The Saint Paul Chamber Orchestra Society  
 Statements of Functional Expenses  
 Year Ended June 30, 2023

	Artistic Program	Management and General	Fundraising	Total
Salaries and Benefits	\$ 5,876,054	\$ 743,797	\$ 712,296	\$ 7,332,147
Concert Production Expense	1,747,638	-	1,072	1,748,710
Professional Fees	81,374	117,668	15,735	214,777
Advertising and Promotion	56,378	-	-	56,378
Office Expenses	188,198	38,625	62,805	289,628
Information Technology	267,869	53,176	69,017	390,062
Occupancy	10,286	-	-	10,286
Travel, Meals, and Entertainment	17,993	19,356	17,328	54,677
Conferences, Conventions, Meetings	1,654	129	207	1,990
Depreciation and Amortization	82,011	4,090	4,702	90,803
Lease Expense	152,409	77,632	66,293	296,334
Insurance	28,653	44,193	10,600	83,446
Fees and Miscellaneous Expenses	6,208	1,836	65,046	73,090
	<u>8,516,725</u>	<u>1,100,502</u>	<u>1,025,101</u>	<u>10,642,328</u>
Less Expenses Included with Revenues on the Statement of Activities				
Cost of direct benefits to donors	<u>(45,852)</u>	<u>-</u>	<u>(2,875)</u>	<u>(48,727)</u>
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 8,470,873</u>	<u>\$ 1,100,502</u>	<u>\$ 1,022,226</u>	<u>\$ 10,593,601</u>

The Saint Paul Chamber Orchestra Society

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows used for Operating Activities		
Change in net assets	\$ 5,028,348	\$ 2,760,725
Adjustments to reconcile change in net assets to net cash from operating activities		
Employee retention tax credit	-	626,158
Depreciation and amortization	82,689	90,803
Loss on sale of property and equipment	8,380	-
Realized and unrealized gain on operating investments	(189,669)	(125,919)
Contributions restricted to endowment	(152,597)	(350,000)
Net investment return	(5,942,662)	(5,017,072)
Change in beneficial interest in trusts	(107,285)	(74,792)
Changes in operating assets and liabilities		
Promises to give and other receivables	329,008	1,014,484
Prepaid expenses	(14,831)	(104,821)
Accounts payable	52,222	(48,055)
Accrued expenses	(68,552)	39,896
Operating lease assets and liabilities	(2,156)	12,905
Deferred revenue	(109,534)	(4,365)
Gift annuities payable	(5,700)	(151,584)
Net Cash used for Operating Activities	<u>(1,092,339)</u>	<u>(1,331,637)</u>
Cash Flows from (used for) Investing Activities		
Purchase of property and equipment	(56,088)	(28,395)
Purchases of operating investments	(6,460,663)	(9,282,293)
Proceeds from sales of operating investments	7,938,349	5,280,644
Net withdrawals from long-term investments	495,910	918,679
Net Cash from (used for) Investing Activities	<u>1,917,508</u>	<u>(3,111,365)</u>
Cash Flows from Financing Activities		
Principal payments on finance lease	(18,724)	(17,636)
Collections of contributions restricted to endowment	152,597	350,000
Net Cash from Financing Activities	<u>133,873</u>	<u>332,364</u>
Net Change in Cash and Cash Equivalents	959,042	(4,110,638)
Cash and Cash Equivalents, Beginning of Year	<u>1,016,252</u>	<u>5,126,890</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,975,294</u>	<u>\$ 1,016,252</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.

**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.

**Operating Investments**

The SPCO invests part of its operating reserves from the Rainy Day Fund in U.S. Treasuries and Certificates of Deposit with original maturities greater than three months but less than one year.

**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. The allowance for uncollectible pledges receivable was \$45,000 at June 30, 2024 and 2023.

**Other Receivables**

Other receivables include balances due for shared use of facilities 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 credit losses 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. Additionally, management has determined that the current, reasonable, and supportable forecasted economic conditions are consistent with the economic conditions included in the historical information. As a result, the historical loss rates have not been adjusted for differences in current conditions or forecasted changes. At June 30, 2024 and 2023, an allowance for credit losses was not considered to be warranted and there were no additions, charge-offs or recoveries. The SPCO's other receivables balance of July 1, 2022 was \$817,576.

Effective July 1, 2023, the SPCO adopted the Accounting Standard Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including trade and loan receivables. CECL requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This standard provides financial statement users with more decision-useful information about the expected losses on financial instruments. The SPCO elected to apply the guidance as of July 1, 2023, the beginning of the adoption period. There were no material changes to the financial statements as a result of this adoption.

### **Prepaid Expenses**

Expenses associated with future performances, as well as prepayments on insurance and annual contracts that benefit the subsequent year, are reported as prepaid expenses.

### **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, 2024 and 2023.

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. The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. The SPCO has determined there were no indicators of asset impairment during the years ended June 30, 2024 and 2023.

### **Right of Use Leased Assets and Liabilities**

Right to use leased assets and the related liabilities are recognized at the lease commencement date and represent the SPCO's right to use an underlying asset and lease obligations for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or the useful life of the underlying asset using the straight-line method. The amortization period varies among the leases.

**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 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 changes in present value in both trusts are reflected in the statement of activities for the years ended June 30, 2024 and 2023. The year-end values for the trusts are reflected in the statement of financial position for the years ended June 30, 2024 and 2023. 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 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, 2022, was \$848,001.

**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 7% to determine the present value of the liability. Gift annuities payable at June 30, 2024 and 2023, were \$115,685 and \$121,385, 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, Artistic Initiative, 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) and Funds Designated for Artistic Initiatives* – Net assets designated to the RDF by the Board of Directors plus net assets restricted to the RDF by donors. The RDF was established in the year ended June 30, 2018 and includes net assets both with and without donor restrictions. During the year ended June 30, 2021, the Board established a goal for the RDF of 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. In 2024, the Board of Directors designated \$500,000 from an undesignated bequest to fund Artistic Initiatives between July 2025 and June 2028. Use of these funds is ultimately governed by the Board through its approval of the annual budget.

### **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.

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. Consequently, at June 30, 2024 and 2023, contributions approximating \$25,000, have not been recognized in the accompanying consolidated statement of activities because the conditions on which they depend have not yet been met.

The SPCO receives revenue from ticket sales and membership sales, which are included in ticket office revenue and contracted services. The SPCO recognizes revenue from ticket sales at the time of performance. Receipts from patrons who direct that their payments for tickets be donated to the SPCO due to cancelled or unattended concerts are accounted for as contributions. Membership sales, 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 sales are recognized over the course of the concert season.

Contracted services revenue is recognized at the time of performance of the contracted service.

### **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, 2024 and 2023, the SPCO recorded \$37,658 and \$37,303, respectively, in Fund distributions.

### **Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the years ended June 30, 2024 and 2023.

The policy of the SPCO is to sell contributed assets immediately upon receipt unless the asset is restricted for use in a specific program by the donor.

### **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 amortization, 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 amortization, 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 year in which the concerts occur. At June 30, 2024 and 2023, \$63,072 and \$53,775 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 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 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. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. As of June 30, 2024 and 2023, the SPCO had approximately \$1,689,000 and \$798,000, respectively, in excess of FDIC insurance limits. 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 is in effect through June 30, 2025. 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. Subsequent to year end, a new contract was entered into and will be in effect through June 30, 2027.

### Subsequent Events

The SPCO has evaluated subsequent events through November 22, 2024, the date which the financial statements were available to be issued.

### 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:

	2024	2023
Cash and cash equivalents	\$ 1,950,294	\$ 635,936
Operating investments	2,839,551	994,774
Promises to give	755,340	970,060
Other receivables	43,605	21,592
Due from/(to) endowment assets for prior year	-	9,036
Endowment spending-rate distributions and appropriations for the next 12 months	2,162,643	2,080,000
	\$ 7,751,433	\$ 4,711,398

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.

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, short-term operating investments and pledges due within one year for the RDF totaled \$3,344,412 and \$4,537,884 as of June 30, 2024 and 2023, respectively. Use of the RDF is subject to approval by the Board of Directors.

During fiscal year 2024, the SPCO Board of Directors designated \$500,000 to Artistic Initiatives; these funds will be used to augment the artistic budget beginning in fiscal year 2026. Use of these funds is ultimately governed by the Board through its approval of the annual budget.

A Board-designated endowment of \$6,772,691 and \$5,155,112 as of June 30, 2024 and 2023, respectively, is subject to the endowment spending policy as described in Note 8. 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.

### **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, 2024, no musicians had an outstanding loan. The outstanding balance at June 30, 2024 and 2023, was \$0 and \$28,260, respectively. The outstanding balance is included in the endowment investment account. The loan had an interest rate of 3.85%, compounded monthly from July 1, 2022, through June 30, 2023.

### 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, 2024 and 2023.

Investment Securities (consisting of fixed income securities, stocks, cash and cash equivalents, certificates of deposit, 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 certain real estate investments, 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 in the absence of readily ascertainable market values, as determined by their respective manager or third-party fund administrator as a practical expedient.

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, 2024 and 2023

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, 2024:

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Operating investments					
Certificates of deposit	\$ 2,839,551	\$ -	\$ 2,839,551	\$ -	\$ -
Investment securities					
Fixed income mutual funds	\$ 9,821,877	\$ 9,821,877	\$ -	\$ -	\$ -
Certificates of deposit	1,525,062	-	1,525,062	-	-
Stock mutual funds	32,104,228	32,104,228	-	-	-
Stock commingled funds	3,324,702	-	3,324,702	-	-
Restricted cash and cash equivalents (at cost)	369,577	-	-	-	-
Interest receivable	2,083	2,083	-	-	-
	<u>47,147,529</u>	<u>41,928,188</u>	<u>4,849,764</u>	<u>-</u>	<u>-</u>
Alternative investments					
Absolute return strategies	2,374,308	-	-	-	2,374,308
Private equity	4,378,271	-	-	-	4,378,271
Real assets	3,944,977	2,091,788	-	-	1,853,189
	<u>10,697,556</u>	<u>2,091,788</u>	<u>-</u>	<u>-</u>	<u>8,605,768</u>
	<u>\$ 57,845,085</u>	<u>\$ 44,019,976</u>	<u>\$ 4,849,764</u>	<u>\$ -</u>	<u>\$ 8,605,768</u>
Beneficial interest in trusts					
Remainder trusts	\$ 1,043,695	\$ -	\$ -	\$ 1,043,695	\$ -

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, 2023:

Assets	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
Operating investments					
Certificates of deposit	\$ 4,127,568	\$ -	\$ 4,127,568	\$ -	\$ -
Investment securities					
Fixed income mutual funds	\$ 8,190,015	\$ 8,190,015	\$ -	\$ -	\$ -
Certificates of deposit	1,527,977	-	1,527,977	-	-
Stock mutual funds	29,383,718	29,383,718	-	-	-
Stock commingled funds	3,063,836	-	3,063,836	-	-
Instrument loan fund	28,260	-	-	28,260	-
Restricted cash and cash equivalents (at cost)	298,684	-	-	-	-
Interest receivable	1,812	1,812	-	-	-
	<u>42,494,302</u>	<u>37,575,545</u>	<u>4,591,813</u>	<u>28,260</u>	<u>-</u>
Alternative investments					
Absolute return strategies	2,480,996	-	-	-	2,480,996
Private equity	3,439,270	-	-	-	3,439,270
Real assets	3,983,765	2,008,935	-	-	1,974,830
	<u>9,904,031</u>	<u>2,008,935</u>	<u>-</u>	<u>-</u>	<u>7,895,096</u>
	<u>\$ 52,398,333</u>	<u>\$ 39,584,480</u>	<u>\$ 4,591,813</u>	<u>\$ 28,260</u>	<u>\$ 7,895,096</u>
Beneficial interest in trusts					
Remainder trusts	\$ 936,410	\$ -	\$ -	\$ 936,410	\$ -

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2024 and 2023

Investments in certain entities that calculate NAV per share as a practical expedient are as follows for the years ended June 30, 2024 and 2023:

	<u>Number of Investments</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
June 30, 2024					
Absolute return strategies	1	\$ 2,374,308	\$ -	Quarterly	45
Private equity	5	4,378,271	787,465	Illiquid	None
Real assets	3	<u>1,853,189</u>	<u>614,072</u>	Illiquid	None
Balance, end of year		<u>\$ 8,605,768</u>	<u>\$ 1,401,537</u>		
June 30, 2023					
Absolute return strategies	2	\$ 2,480,996	\$ -	Quarterly	45, 60
Private equity	5	3,439,270	1,715,240	Illiquid	None
Real assets	4	<u>1,974,830</u>	<u>760,168</u>	Illiquid	None
Balance, end of year		<u>\$ 7,895,096</u>	<u>\$ 2,475,408</u>		

For the years ended June 30, 2024 and 2023, there were 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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 755,340	\$ 1,025,060
In one to ten years	<u>77,899</u>	<u>131,500</u>
	833,239	1,156,560
Less discount to net present value (3%)	(2,964)	(5,233)
Less allowance for uncollectible promises to give	<u>(45,000)</u>	<u>(45,000)</u>
	<u>\$ 785,275</u>	<u>\$ 1,106,327</u>

Promises to give from one contributor accounted for 11% of total promises to give at June 30, 2024 and 2023. Promises to give from three contributors accounted for 23% of total promises to give at June 30, 2023. Contributions from two contributors accounted for 26% of contribution revenue at June 30, 2024. Contributions from one contributor accounted for 17% of contribution revenue at June 30, 2023. One large contributor in the year ended June 30, 2024 was the Arts Partnership and the other was an individual. The contributor in the year ended June 30, 2023 made a one-time endowment gift to the SPCO.

**Note 5 - Property and Equipment**

A summary of property and equipment as of June 30, 2024 and 2023, is as follows:

	2024	2023
Stage equipment	\$ 116,595	\$ 116,595
Computer and video production equipment	1,311,767	1,311,767
Furniture and fixtures	407,599	407,599
Leasehold improvements	21,507	71,792
Musical instruments	423,679	423,679
Artwork	24,000	24,000
Construction in progress	56,089	-
	<u>2,361,236</u>	<u>2,355,432</u>
Less accumulated depreciation and amortization	<u>(2,045,651)</u>	<u>(2,024,848)</u>
	<u>\$ 315,585</u>	<u>\$ 330,584</u>

In June 2024, the SPCO entered into a lease agreement for office space with an anticipated move in date of December 2025. As a result of this certain expenses have been incurred and are included in construction in progress until the lease commences.

**Note 6 - Line of Credit**

During the years ended June 30, 2024 and 2023, the SPCO maintained a line of credit agreement that allowed it to borrow up to \$1,500,000. The line is secured by investments without donor restrictions. Borrowings under the line bear interest at Secured Overnight Financing Rate Data (SOFR) plus 2.12% (7.46% and 7.26% at June 30, 2024 and 2023, respectively). Accrued interest and principal are due at maturity. As of June 30, 2024 and 2023, the expiration on the line of credit was January 31, 2025, and January 31, 2024, 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, 2024 and 2023, the outstanding balance on the line of credit was \$0. Subsequent to year end, the line of credit was renewed for \$1,500,000 to expire on January 31, 2026.

**Note 7 - Commitments and Leases**

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

**Employer Retention Tax Credits**

The SPCO's credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government. The SPCO does not believe they are at risk for disallowed claims and that they have properly recognized the revenue.

**Leases**

The SPCO leases an office facility and equipment, and one vehicle, for various terms under long-term, non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 2027 and provide for renewal options ranging from one to five years, with the exception of one lease with no renewal option. The SPCO included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The office facility lease provides for increases in future minimum annual rental payments based upon contracted rates.

The SPCO has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The SPCO has applied the risk-free rate option to the office facilities and equipment classes of assets.

If applicable, the lease payments used to determine the lease liability and right-of-use assets would include residual value guarantees the SPCO is probable of paying at the termination of the lease term. There are no applicable residual value guarantees. The lease agreements do not include requirements that the SPCO comply with certain covenants or maintain certain financial ratios.

The SPCO has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases. As a result, assets and liabilities for these leases are not recognized. Lease payments for short-term leases are recognized on straight-line basis.

The SPCO elected the practical expedient to not separate lease and non-lease components except for operating lease assets.

Total lease costs for the years ended June 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 284,786	\$ 296,334
Finance lease cost		
Interest expense	5,120	6,208
Amortization of right of use assets	<u>19,982</u>	<u>19,982</u>
Total lease cost	<u>\$ 309,888</u>	<u>\$ 322,524</u>

The following summarizes the supplemental cash flow information for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash paid for amounts included in measurement of lease liabilities		
Operating cash flows from operating leases	\$ 286,941	\$ 283,429
Operating cash flows from finance leases	5,120	6,208
Financing cash flows from finance leases	18,724	17,636



The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2024 and 2023

The following summarizes the weighted-average remaining lease term and weighted-average discount rate for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term		
Operating leases	1.25 years	2.25 years
Finance leases	3.5 years	4.5 years
Weighted-average discount rate		
Operating leases	2.99%	2.99%
Finance leases	6.00%	6.00%

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of June 30, 2024.

<u>Years Ending June 30,</u>	<u>Financing Leases</u>	<u>Operating Leases</u>
2025	\$ 23,844	\$ 11,597
2026	23,844	4,339
2027	23,844	-
2028	<u>11,922</u>	<u>-</u>
Total minimum lease payments	83,454	<u>\$ 15,936</u>
Less amount representing interest	<u>(8,349)</u>	
Financing lease obligation	<u>\$ 75,105</u>	

Amortization of assets under capital leases is included in depreciation and amortization expense.

**Note 8 - 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, 2024 and 2023, 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, 2024, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 6,772,691	\$ -	\$ 6,772,691
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	44,775,908	44,775,908
Accumulated investment gains	-	4,067,466	4,067,466
	\$ 6,772,691	\$ 48,843,374	\$ 55,616,065

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2024 and 2023

The composition of the endowment net assets by fund type as of June 30, 2023, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 5,155,112	\$ -	\$ 5,155,112
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	44,562,703	44,562,703
Accumulated investment gains	-	383,645	383,645
	<u>\$ 5,155,112</u>	<u>\$ 44,946,348</u>	<u>\$ 50,101,460</u>

At June 30, 2024 and 2023, the endowment is offset by gift annuities payable of \$115,685 and \$121,385, respectively.

Changes in endowment net assets for the year ended June 30, 2024, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,155,112	\$ 44,946,348	\$ 50,101,460
Net investment return	555,368	5,387,294	5,942,662
Grants and contributions	1,055,700	152,597	1,208,297
Designation of released funds to endowment	375,830	-	375,830
Change in value of trusts	46,679	60,608	107,287
Change in value of gift annuities	(18,524)	-	(18,524)
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,703,473)	(1,703,473)
Other changes			
Distribution from Board-designated endowment pursuant to distribution policy	(363,205)	-	(363,205)
Other expenses	(34,269)	-	(34,269)
Endowment net assets, end of year	<u>\$ 6,772,691</u>	<u>\$ 48,843,374</u>	<u>\$ 55,616,065</u>

## The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2024 and 2023

Changes in endowment net assets for the year ended June 30, 2023, is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 4,110,457	\$ 42,101,261	\$ 46,211,718
Net investment return	746,658	4,176,460	4,923,118
Grants and contributions	116,958	350,000	466,958
Designation of released funds to endowment	353,659	-	353,659
Change in value of trusts	48,868	25,924	74,792
Change in value of gift annuities	96,257	-	96,257
Appropriation of endowment assets pursuant to spending-rate policy	-	(1,707,297)	(1,707,297)
Other changes			
Distribution from Board-designated endowment pursuant to distribution policy	(289,506)	-	(289,506)
Other expenses	(28,239)	-	(28,239)
	\$ 5,155,112	\$ 44,946,348	\$ 50,101,460
Endowment net assets, end of year	\$ 5,155,112	\$ 44,946,348	\$ 50,101,460

### 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, 2024 and 2023, no deficiencies of this nature existed. 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. There was no appropriation of underwater endowment funds during the years ended June 30, 2024 and 2023.

### 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 years ended June 30, 2024 and 2023, was 4.20% of the endowment fund's average value.

**Note 9 - Net Assets with Donor Restrictions**

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

	2024	2023
Subject to expenditure for specified purpose		
Concert production projects	\$ 1,151,972	\$ 1,110,122
Digital Media initiative	98,415	49,072
New Generation initiative	3,048	21,608
Rainy Day Fund	-	701,748
Other	-	2,400
	1,253,435	1,884,950
Subject to passage of time		
Annual Fund for future years	230,165	397,136
Other support	2,722,419	2,418,466
	2,952,584	2,815,602

The Saint Paul Chamber Orchestra Society

Notes to Financial Statements

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Endowments		
Subject to appropriation and expenditures when a specified event occurs		
Available for general use	3,879,606	277,911
Broadcasting, recording, touring	5,205	2,929
Music education and outreach	121,446	68,354
New music	61,209	34,451
	<u>4,067,466</u>	<u>383,645</u>
Perpetual in nature, earnings from which are subject to endowment spending policy appropriation		
General use	43,548,417	43,395,820
Broadcasting, recording, touring	25,000	25,000
Music education and outreach	583,370	583,370
New music	294,021	294,021
	<u>44,450,808</u>	<u>44,298,211</u>
Perpetual in nature, not subject to spending policy or appropriation		
Beneficial interests in charitable trusts held by others	<u>325,100</u>	<u>264,492</u>
	<u>\$ 53,049,393</u>	<u>\$ 49,646,900</u>

Net assets released from restrictions during the years ended June 30, 2024 and 2023, consist of the following:

	<u>2024</u>	<u>2023</u>
Expiration of time restrictions	\$ 577,119	\$ 1,265,415
Satisfaction of purpose restrictions		
Concert production projects	147,353	236,722
Education programs	-	135,877
Digital Media initiative	166,916	343,458
New Generation initiative	38,860	46,861
Rainy Day Fund	701,748	-
Other	19,319	168,728
	<u>1,651,315</u>	<u>2,197,061</u>
Restricted-purpose spending-rate distributions and appropriations		
General use	1,665,716	1,668,041
Broadcasting, recording, touring	1,046	1,088
Music education and outreach	24,409	25,378
New music	12,302	12,790
	<u>1,703,473</u>	<u>1,707,297</u>
	<u>\$ 3,354,788</u>	<u>\$ 3,904,358</u>

**Note 10 - 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 years ended June 30, 2024 and 2023, 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 \$130,331 and \$133,747, for the years ended June 30, 2024 and 2023, 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 of January 1 to December 31, beginning in 2023. Previously, the Fund plan year was from April 1 to March 31. The Plan was 48.0% and 49.4% funded as of January 1, 2024 (most recent available) and January 1, 2023, 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 3,972 during the Plan year beginning January 1, 2023 (most recent available). For the Plan years beginning April 1, 2020, 2021, and January 1, 2023, 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 January 1, 2024, has not yet been completed. The SPCO made contributions of \$253,892 and \$259,307 for years ended June 30, 2024 and 2023, 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 January 1, 2023 (most recent available) and April 1, 2021.

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 accepted 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.

Subsequent to yearend, the Plan received over \$1.5 billion in special financial assistance. Under the rules for receiving Special Financial Assistance, the Plan is still considered to be in "critical" status through the Plan year ending 2051, even if it would otherwise not be in critical status based on the funding measures that apply to plans without Special Financial Assistance.

**Note 11 - The 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, 2024 and 2023, for the All 4 One campaign, in part to support the financial stability of the Arts Partners during the pandemic and recovery. 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, including support from the All 4 One campaign, of \$773,168 and \$1,088,837 from the Arts Partnership in the years ended June 30, 2024 and 2023, respectively.

**Note 12 - 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 \$1,933,131 and \$2,039,185 in the years ended June 30, 2024 and 2023, respectively. Promises to give from Board members, staff, and other related parties were \$217,504 and \$399,457 as of June 30, 2024 and 2023, respectively.