

MACPHAIL CENTER FOR MUSIC
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2023 AND 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

**MACPHAIL CENTER FOR MUSIC
TABLE OF CONTENTS
YEARS ENDED AUGUST 31, 2023 AND 2022**

INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	5
STATEMENTS OF ACTIVITIES	6
STATEMENTS OF FUNCTIONAL EXPENSES	7
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10



INDEPENDENT AUDITORS' REPORT

Board of Directors
MacPhail Center for Music
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of MacPhail Center for Music, which comprise the balance sheets as of August 31, 2023 and 2022, 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 financial statements referred to above present fairly, in all material respects, the financial position of MacPhail Center for Music as of August 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023 MacPhail Center for Music adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MacPhail Center for Music 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 the 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 MacPhail Center for Music's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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 MacPhail Center for Music'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 MacPhail Center for Music'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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 22, 2023

**MACPHAIL CENTER FOR MUSIC
BALANCE SHEETS
AUGUST 31, 2023 AND 2022**

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,620,595	\$ 1,021,304
Net Accounts Receivable	71,944	45,928
Pledges Receivable - Current Portion, Net	2,525,112	1,551,329
Prepaid Expenses	256,894	204,078
Total Current Assets	8,474,545	2,822,639
PROPERTY AND EQUIPMENT, Net	18,312,359	19,568,216
INVESTMENTS	9,523,325	8,614,866
OTHER ASSETS		
Pledges Receivable - Long-Term Portion, Net	3,487,311	1,193,035
Assets Held for Sale	-	80,000
Beneficial Interest in a Perpetual Trust	46,212	46,434
Other Assets	825,000	825,000
Right-of-Use - Operating Leases	1,503,750	-
Investment in Limited Partnership	-	747,535
Total Other Assets	5,862,273	2,892,004
Total Assets	\$ 42,172,502	\$ 33,897,725
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 191,424	\$ 337,819
Accrued Expenses	89,466	76,934
Gift Annuity Liability	7,200	7,200
Deferred Revenue	1,063,748	987,439
Lease Liability - Operating, Current	232,835	-
Line of Credit	-	900,000
Total Current Liabilities	1,584,673	2,309,392
LONG-TERM LIABILITIES		
Lease Liability - Operating, Net	857,958	-
Gift Annuity Liability, Net	11,453	22,358
Total Long-Term Liabilities	869,411	22,358
Total Liabilities	2,454,084	2,331,750
NET ASSETS		
Without Donor Restriction	23,171,886	18,495,678
Without Donor Restriction - Board-Designated Endowment	5,638,981	5,561,496
Without Donor Restriction - Board-Designated Other	-	308,283
Total Without Donor Restriction	28,810,867	24,365,457
With Donor Restriction	10,907,551	7,200,518
Total Net Assets	39,718,418	31,565,975
Total Liabilities and Net Assets	\$ 42,172,502	\$ 33,897,725

See accompanying Notes to Financial Statements.

**MACPHAIL CENTER FOR MUSIC
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2023 AND 2022**

	2023			2022		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUE						
Tuition, Net of Financial Aid to Students of \$735,980 in 2023 and \$552,157 in 2022	\$ 5,795,085	\$ -	\$ 5,795,085	\$ 5,539,010	\$ -	\$ 5,539,010
Partnership Fees	771,748	-	771,748	779,776	-	779,776
Investment Return Gains (Losses)	64,729	445,756	510,485	(1,032,368)	(567,740)	(1,600,108)
Change in Value of Trust	-	(223)	(223)	-	(11,102)	(11,102)
Other Income	68,689	-	68,689	50,993	-	50,993
Contributions and Grants	8,219,724	6,470,691	14,690,415	2,202,927	3,460,283	5,663,210
Inkind Contributions	-	-	-	83,223	-	83,223
PPP Loan Forgiveness	-	-	-	1,435,340	-	1,435,340
Employee Retention Credit Revenue	1,013,572	-	1,013,572	-	-	-
Net Assets Released for Operations	3,209,191	(3,209,191)	-	3,266,853	(3,266,853)	-
Total Support and Revenue	19,142,738	3,707,033	22,849,771	12,325,754	(385,412)	11,940,342
EXPENSES						
Program Services	11,660,460	-	11,660,460	10,750,672	-	10,750,672
General and Administrative	2,073,548	-	2,073,548	1,916,470	-	1,916,470
Fundraising	963,320	-	963,320	1,004,190	-	1,004,190
Total Expenses	14,697,328	-	14,697,328	13,671,332	-	13,671,332
INCREASE (DECREASE) IN NET ASSETS	4,445,410	3,707,033	8,152,443	(1,345,578)	(385,412)	(1,730,990)
Net Assets - Beginning of Year	24,365,457	7,200,518	31,565,975	25,711,035	7,585,930	33,296,965
NET ASSETS - END OF YEAR	<u>\$ 28,810,867</u>	<u>\$ 10,907,551</u>	<u>\$ 39,718,418</u>	<u>\$ 24,365,457</u>	<u>\$ 7,200,518</u>	<u>\$ 31,565,975</u>

See accompanying Notes to Financial Statements.

MACPHAIL CENTER FOR MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2023

	Programs	General and Administrative	Fundraising	Total
Salaries	\$ 7,175,548	\$ 915,473	\$ 467,595	\$ 8,558,616
Benefits and Payroll Taxes	1,074,135	126,369	63,184	1,263,688
Payroll Services and Other Processing Fees	-	234,409	10,137	244,546
Utilities	162,700	19,141	9,571	191,412
Advertising	237,784	195,871	-	433,655
Photocopying	24,938	2,934	1,467	29,339
Training	66,088	7,263	132	73,483
Memberships, Subscriptions, and Dues	23,471	12,048	28,202	63,721
Professional Fees	372,723	373,300	140,583	886,606
Office Supplies	29,712	3,495	1,748	34,955
Instructional Supplies	59,686	-	-	59,686
Computer Supplies	119,667	14,079	7,039	140,785
Occupancy	279,507	-	-	279,507
Telephone and Networks	156,556	8,698	8,698	173,952
Postage and Shipping	15,201	1,788	894	17,883
Printing	15,878	-	665	16,543
Equipment Rental	1,754	-	-	1,754
Repairs and Maintenance	53,102	-	-	53,102
Travel	239,476	4,204	236	243,916
Meetings and Special Events	127,405	17,956	139,741	285,102
McKnight Fellowship for Performing Musicians	119,000	-	-	119,000
Insurance	94,850	10,865	5,432	111,147
Interest Expense	-	51,460	-	51,460
Depreciation	822,719	45,707	45,707	914,133
Facility General Expense	252,304	12,906	12,906	278,116
Other Expenses	136,256	15,582	19,383	171,221
	<u>\$ 11,660,460</u>	<u>\$ 2,073,548</u>	<u>\$ 963,320</u>	<u>\$ 14,697,328</u>
Total Functional Expenses	<u>\$ 11,660,460</u>	<u>\$ 2,073,548</u>	<u>\$ 963,320</u>	<u>\$ 14,697,328</u>

See accompanying Notes to Financial Statements.

MACPHAIL CENTER FOR MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2022

	Programs	General and Administrative	Fundraising	Total
Salaries	\$ 6,852,730	\$ 853,687	\$ 500,057	\$ 8,206,474
Benefits and Payroll Taxes	1,073,879	137,852	50,091	1,261,822
Payroll Services and Other Processing Fees	-	213,027	8,643	221,670
Utilities	171,627	20,191	10,096	201,914
Advertising	76,007	208,570	-	284,577
Photocopying	22,622	4,079	1,360	28,061
Training	35,638	6,442	-	42,080
Memberships, Subscriptions, and Dues	15,441	12,267	26,111	53,819
Professional Fees	363,140	319,594	165,052	847,786
Office Supplies	11,821	3,324	9,761	24,906
Instructional Supplies	41,843	-	-	41,843
Computer Supplies	137,190	11,154	7,808	156,152
Occupancy	323,273	171	-	323,444
Telephone and Networks	154,237	13,071	2,370	169,678
Postage and Shipping	10,547	568	3,539	14,654
Printing	10,289	-	-	10,289
Equipment Rental	5,005	-	-	5,005
Repairs and Maintenance	52,361	-	-	52,361
Travel	200,763	2,931	2,829	206,523
Meetings and Special Events	24,110	7,182	148,428	179,720
McKnight Fellowship for Performing Musicians	116,600	-	-	116,600
Insurance	79,935	11,316	3,852	95,103
Interest Expense	-	18,812	-	18,812
Depreciation	673,639	48,328	20,712	742,679
Facility General Expense	228,788	11,586	12,651	253,025
Bad Debt	-	7,661	-	7,661
Other Expenses	69,187	4,657	30,830	104,674
	<u>69,187</u>	<u>4,657</u>	<u>30,830</u>	<u>104,674</u>
Total Functional Expenses	<u>\$ 10,750,672</u>	<u>\$ 1,916,470</u>	<u>\$ 1,004,190</u>	<u>\$ 13,671,332</u>

See accompanying Notes to Financial Statements.

**MACPHAIL CENTER FOR MUSIC
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 8,152,443	\$ (1,730,990)
Adjustments to Reconcile Net Income (Loss) to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	914,132	742,678
Forgiveness of Long-Term Debt	-	(1,435,340)
Lease Transition Adjustment	14,691	-
Change in Present Value on Long-Term Pledges	71,846	71,846
Realized and Unrealized (Gains) Losses on Investments	(369,545)	1,680,704
Change in Value of Beneficial Interest in Perpetual Trust	222	11,103
Permanently Restricted Contributions	(1,244,069)	(1,012,396)
Donated Property and Equipment	-	(43,623)
(Increase) Decrease in:		
Accounts Receivable	(26,016)	(15,055)
Pledges Receivable	(3,339,905)	(215,849)
Other Assets	(52,816)	(661,903)
Assets Held for Sale	80,000	-
Investment in Partnership	747,535	(747,535)
Increase (Decrease) in:		
Accounts Payable	(146,395)	197,496
Accrued Expenses	12,532	(3,190)
Gift Annuity Liability	(10,905)	(3,459)
Deferred Revenue	76,309	92,927
Net Cash Provided (Used) by Operating Activities	4,880,059	(3,072,586)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(85,923)	(277,956)
Purchase of Investments	(5,189,976)	(9,423,454)
Proceeds from Sale of Investments	4,651,062	8,908,524
Net Cash Used by Investing Activities	(624,837)	(792,886)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Issuance of Line of Credit	-	900,000
Payments on Line of Credit	(900,000)	-
Principal Paid on Capital Lease Payable	-	(14,744)
Proceeds from Permanently Restricted Contributions	1,244,069	1,012,396
Net Cash Provided by Financing Activities	344,069	1,897,652
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,599,291	(1,967,820)
Cash and Cash Equivalents - Beginning of Year	1,021,304	2,989,124
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,620,595</u>	<u>\$ 1,021,304</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ 51,460</u>	<u>\$ 998</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITY		
Acquisition of Sculptures Receivable	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

MacPhail Center for Music (the Organization) was founded in 1907 and is a comprehensive community resource for education and performance experiences in the musical arts for people of all ages, abilities, and economic circumstances. It fulfills its mission through a variety of music lessons, performance experiences, master classes, and other opportunities.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Financial Statement Presentation

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

Without Donor Restriction – Resources over which the board of directors has discretionary control. Designated amounts represent those revenues that the board has set aside for a particular purpose.

With Donor Restriction – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed 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-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

The Organization considers all financial instruments with an original maturity date of 90 days or less to be cash equivalents. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Pledges to give that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contribution revenue. Conditional pledges are not included as support until such time as the conditions are substantially met. At both August 31, 2023 and 2022, the receivable balance was \$5,807,935, and \$2,887,495, respectively. The allowance then applied to these balances was \$65,000 and \$65,000, respectively.

Accounts Receivable

Accounts past due are individually analyzed for collectability. When all collection efforts have been exhausted, the balance is written off against the related allowance. In addition, an allowance is provided for other accounts when a significant pattern of collectability has occurred. At both August 31, 2023 and 2022, the receivable balance was \$77,178, and \$53,491, respectively. The allowance then applied to these balances was \$5,234, and \$7,563, respectively.

Investments

Investments are recorded at fair value. Investment income, including gains and losses on investments, is recorded as increases or decreases in net assets without donor restrictions unless its use is limited by donor-imposed restrictions or law.

Beneficial Interest in Perpetual Trust

Included in restricted net assets is a perpetual trust in the amount of \$46,212 and \$46,434 at August 31, 2023 and 2022, respectively. The Organization has an irrevocable right to receive 5% of the income earned on the trust assets, subject to certain limitations, but will never receive the assets held in trust. The unrealized gains/losses and the undistributed earnings on the trust are reported as a change to the with donor restriction net asset balance. The distributed income from this trust is to be used for the scholarship fund. The Organization does not have variance power over the trust's portfolio. The value of Beneficial Interests in Perpetual Trust is estimated based on the fair value of the underlying investments held by the trust.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The Organization capitalizes land, buildings, and equipment in excess of \$1,000 cost per item. Property and equipment are stated at cost. Contributed property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as without donor restriction. The Organization provides for depreciation of property and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Building and Improvements	50 Years
Musical Instruments	10 to 40 Years
Computers and Related Equipment	5 Years
Office Equipment	10 Years

Leases

The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use ("ROU") assets – operating and lease liability – operating, and finance leases are included in right-of-use ("ROU") assets – financing and lease liability – financing in the balance sheets.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Foundation will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease terms. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the balance sheets.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities. The Organization has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

Deferred Revenue

Payments received by the Organization for future classes and individual instruction are deferred and subsequently recognized as revenue in the year for which the payment has been earned. Deferred revenue was \$1,063,748 and \$987,010 as of August 31, 2023 and 2022, respectively.

Other Assets

The Organization's other assets consist of gifts of sculptures received in prior years valued at \$825,000 as of August 31, 2023 and 2022.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Limited Partnership

The Organization was gifted an investment in a limited partnership of a building in December 2021. The fair value per the appraisal was approximately \$747,000 has been subsequently recorded on equity method with no changes as of August 31, 2022. Subsequent to year end, this investment was sold for \$747,535.

Tax-Exempt Status

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Minnesota Statute 290, and is generally exempt from real estate taxes. The Organization is a public charity and contributions to the Organization qualify as charitable tax deductions by contributors.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Organization's tax returns are subject to review and examination by federal and state authorities.

Functional Expenses

Expenses by function have been charged to programs and supporting services classifications on the basis of estimates made by the Organization's management. These estimates are allocated on the basis of full-time equivalent employees and square footage utilized by each program and supporting service.

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as without donor restriction or with donor restriction support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in the with donor restriction net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), with donor restriction net assets are reclassified to without donor restriction net assets and reported in the statements of activities as Net Assets Released for Operations.

Unconditional contribution pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional contributions are recognized when the conditions on which they depend are substantially met. Gifts and bequests are recognized when it has been determined that there is a legal right to the gift or bequest and the actual amount to be received has been determined.

Tuition revenue is recognized in the fiscal year in which the instruction is delivered. Discounts and financial assistance awarded to students reduce the amount of revenue recognized. Tuition fund revenue received in advance of instruction being delivered is recognized as deferred revenue. This income will be recognized during the fiscal year in which services are delivered.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Partnership fee revenue is contracted with various community partnerships for which customized programs are provided. Revenue is recognized as services are provided over the contract period. There are no deferred partnership fees as of August 31, 2023 and 2022, as all contracts ended before the end of the fiscal years and all services had been provided.

On February 26, 2021, the Organization received a loan in the amount of \$1,435,340 to fund payroll, rent and utilities through the federal Paycheck Protection Program (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0% per annum with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the entity fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. On May 25, 2022, the SBA processed the Organization's PPP Loan forgiveness application and the Organization was notified that the PPP Loan qualified for full forgiveness. Forgiveness on this loan is subject to review by the U.S. Small Business Administration (SBA). The loan forgiveness has been recorded as PPP Loan Forgiveness on the statements of activities.

Additionally, the Organization applied for and received the employee retention credit in the amount of \$1,013,572.

Financial Instruments

The Organization's financial instruments are cash and cash equivalents, accounts receivable, pledges receivable, investments, and accounts payable. The recorded values of cash and cash equivalents, accounts receivable, accounts payable approximate their fair values based on their short-term nature.

The carrying value of contributions receivable is based on discounted cash flows, which approximates fair value at August 31, 2023 and 2022. Investments are carried at fair value.

Fair Value Measurements

The Organization follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Organization has categories for its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, or that are traded by dealers or brokers in active over-the-counter markets. The Organization has investments of equities and bonds included in Level 1.

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. The Organization's Level 3 asset includes the beneficial interest in a perpetual trust.

Advertising Costs

Advertising costs are expensed as incurred.

Uniform Prudent Management of Institutional Funds Act

The Organization follows accounting guidance which provides guidance on the classification of endowment fund net assets for states that have enacted versions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and enhances disclosures for endowment funds. Under UPMIFA all unappropriated endowment fund assets are considered restricted.

Adoption of Accounting Pronouncement

In February 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the requirements of the guidance effective September 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. The Organization has elected to adopt the package of practical expedients available in the year of adoption. The Organization has elected to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the Foundation's ROU assets.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of Accounting Pronouncement (Continued)

Lease disclosures for the year ended August 31, 2022 are made under prior lease guidance in FASB ASC 840.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. The reclassifications had no effect on the change in net assets or total net assets as previously reported.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 22, 2023, the date the financial statements were available to be issued.

NOTE 2 MAJOR SOURCE AND CONCENTRATION OF SUPPORT

As of August 31, 2023, 50% of the Organization's pledges receivable was from two donors. At August 31, 2022, 43% of the Organization's pledges receivable was from three donors.

If these receivables are not collected, or if a significant reduction in the level of this support were to occur, it might have a significant effect on the Organization's programs and activities.

As of August 31, 2023, 54% of the Organization's contributions and grants revenue was from three donor. At August 31, 2022, 13% of the Organization's contributions and grants revenue was from one donor.

NOTE 3 PLEDGES RECEIVABLE

Included in pledges receivable are the following unconditional promises to give:

<u>Year Ending August 31,</u>	<u>Amount</u>
2024	\$ 2,525,112
2025	1,920,860
2026	1,209,800
2027	645,650
2028	15,000
Pledges Receivable	6,316,422
Less: Discount	(238,999)
Allowance for Doubtful Accounts	(65,000)
Total	<u><u>\$ 6,012,423</u></u>

The annual interest rates utilized for computing the discount for long-term pledges 4% as of August 31, 2023 and 2022.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 4 INVESTMENTS

A comparative summary of investments at August 31 is as follow:

	2023	2022
Equities	\$ 6,945,568	\$ 5,363,638
Fixed Income	1,779,220	1,538,039
Real Assets	381,039	342,188
Cash and Cash Equivalents	417,498	1,371,001
Total Investments	<u>\$ 9,523,325</u>	<u>\$ 8,614,866</u>

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

NOTE 5 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organization values all other assets and liabilities, refer to Note 1 – Summary of Significant Accounting Policies.

The following tables present the fair value hierarchy for the balance of the assets of the Organization measured at fair value on a recurring basis as of August 31:

	2023		
	Level 1	Level 2	Level 3
Beneficial Interest in Perpetual Trust	\$ -	\$ -	\$ 46,212
Equities	6,945,568	-	-
Fixed Income	-	1,779,220	-
Real Assets	381,039	-	-
Cash and Cash Equivalents	-	-	-
Total Investments	<u>\$ 7,326,607</u>	<u>\$ 1,779,220</u>	<u>\$ 46,212</u>

	2022		
	Level 1	Level 2	Level 3
Beneficial Interest in Perpetual Trust	\$ -	\$ -	\$ 46,434
Equities	5,363,638	-	-
Fixed Income	266,663	1,271,376	-
Real Assets	342,188	-	-
Cash and Cash Equivalents	-	-	-
Total Investments	<u>\$ 5,972,489</u>	<u>\$ 1,271,376</u>	<u>\$ 46,434</u>

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 5 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

The following table provides a summary of changes in fair value of the Foundation's Level 3 financial assets for the years ended August 31:

	2023	2022	Principal Valuation Technique	Unobservable Inputs
Beneficial Interest in Trusts:				
Balances as of September 1	\$ 46,434	\$ 57,537	FMV of Trust	Value of
Change in Value	(222)	11,103	Investments	Underlying
Balances as of August 31	<u>\$ 46,212</u>	<u>\$ 46,434</u>		Assets

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment less accumulated depreciation at August 31 are as follows:

	2023	2022
Land	\$ 707,888	\$ 707,888
Building and Improvements	22,045,785	23,236,963
Musical Instruments	2,458,969	2,449,515
Computers and Related Equipment	3,350,348	3,305,653
Office and Other Equipment	1,869,815	1,843,877
Total	<u>30,432,805</u>	<u>31,543,896</u>
Less: Accumulated Depreciation	<u>(12,120,446)</u>	<u>(11,975,680)</u>
Total	<u>\$ 18,312,359</u>	<u>\$ 19,568,216</u>

On August 29, 2006, the Organization entered into a 99-year lease to lease the Campus to the city of Minneapolis. At the same time, the city entered into a 20-year lease agreement to lease the Campus back to the Organization. At the end of the 20-year term of the leaseback, the city of Minneapolis will review and consider extending the leaseback for another 20 years with the Organization. If the city of Minneapolis does not renew the leaseback, the city of Minneapolis is required to purchase the Organization's interest in the Campus from the Organization at its fair market value. Management considers the possibility that the leaseback would not be renewed by the city as remote and, therefore, has retained the Campus on its financial statements as a capital asset and depreciates the Campus over its useful life.

NOTE 7 LINE OF CREDIT

The Organization has a line of credit agreement with U.S. Bank with a limit of \$2,000,000. Annual interest on the line of credit is the prime rate less 1%. There was \$-0- and \$900,000 outstanding balance at August 31, 2023 and 2022, respectively.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022**

NOTE 8 NET ASSETS

With Donor Restriction

Net assets with donor restriction as of August 31 consist of the following donor restrictions:

	2023	2022
Subject to Expenditure for Specific Purpose:		
Scholarships for Students	\$ 397,657	\$ 324,565
Fellowship Program	643,122	253,500
Time-Restricted	54,150	24,550
MacPhail 6.0 Campaign	4,765	4,765
Community Partnership Programs	247,000	110,000
MN State Arts Board	508,487	423,185
Comprehensive Campaign	261,001	424,368
Music for All	1,531,250	689,916
Madeline Island Chamber Music	-	89,700
Music for Life	1,000,000	-
Other Restrictions	312,724	518,897
Total	4,960,156	2,863,446
Beneficial Interest in Perpetual Trust	46,212	46,434
Endowments:		
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity		
Scholarships for Students	2,333,419	1,811,970
Prelude Program	138,073	137,648
Operating Support	2,853,692	2,131,497
Total	5,325,184	4,081,115
Subject to Endowment Spending Policy and Appropriation:		
Scholarships for Students	417,236	162,955
Prelude Program	22,640	8,616
Operating Support	136,123	37,952
Total	575,999	209,523
Total Endowments	5,901,183	4,290,638
Total Net Assets With Donor Restriction	\$ 10,907,551	\$ 7,200,518

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the time or purpose restrictions specified by donors. All amounts released during the years ended August 31, 2023 and 2022 were for meeting the donor's purpose restriction and time restriction primarily relating to awarding scholarships and covering expenditures relating to their music programs and operational activities.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 9 ENDOWMENTS

The Organization's endowment consists of several funds established for a variety of purposes to provide for the long-term support of the Organization and its programs. Its endowment includes donor-restricted endowment funds. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Organization has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restriction the original value of the gifts to the donor-restricted endowment and the value of subsequent gifts to the donor-restricted endowment. The remaining portion of donor-restricted endowment funds, if any that is not classified as perpetually restricted net assets, is classified as with donor restricted net assets until those amounts are appropriated for expenditure by the Organization.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

Endowment net asset composition by type and changes in endowment net assets for the years ended August 31 is as follows:

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds	\$ -	\$ 5,511,801	\$ 5,511,801
Board-Designated Endowment Funds	5,638,981	389,382	6,028,363
Total Endowment Funds	<u>\$ 5,638,981</u>	<u>\$ 5,901,183</u>	<u>\$ 11,540,164</u>

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 10 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

	2022		
	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds	\$ -	\$ 4,290,638	\$ 4,290,638
Board-Designated Endowment Funds	5,561,496	-	5,561,496
Total Endowment Funds	<u>\$ 5,561,496</u>	<u>\$ 4,290,638</u>	<u>\$ 9,852,134</u>

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Endowments - September 1, 2022	\$ 5,561,496	\$ 4,290,638	\$ 9,852,134
Investment Gains	303,650	445,756	749,406
Contributions	-	1,244,069	1,244,069
Appropriations of Endowment Assets for Expenditure	(226,165)	(79,280)	(305,445)
Endowments - August 31, 2023	<u>\$ 5,638,981</u>	<u>\$ 5,901,183</u>	<u>\$ 11,540,164</u>

	2022		
	Without Donor Restriction	With Donor Restriction	Total
Endowments - September 1, 2021	\$ 6,886,379	\$ 3,835,559	\$ 10,721,938
Investment Losses	(1,289,889)	(521,248)	(1,811,137)
Contributions	-	1,012,396	1,012,396
Appropriations of Endowment Assets for Expenditure	(34,994)	(36,069)	(71,063)
Endowments - August 31, 2022	<u>\$ 5,561,496</u>	<u>\$ 4,290,638</u>	<u>\$ 9,852,134</u>

Fund with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in with donor restriction net assets was \$36,651 as of August 31, 2022. The total corpus of these funds was \$2,258,471 and the total fair value was \$2,221,820 as of August 31, 2022. There were no underwater funds as of August 31, 2023.

Investment Objectives and Strategies

To determine the preservation of its long-term endowment investments, the Organization's board of directors established investment policies with the philosophy that the investment portfolio be managed with the intention of obtaining the highest possible total return, while maintaining a prudent level of risk and providing income to support general operations and program restricted grants.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 10 LEASES

The Organization is obligated under various operating leases for office, equipment, classroom, and network maintenance, which expire at various dates through August 31, 2028.

The following table provides quantitative information concerning the Organization's leases for the year ended August 31, 2023.

Operating Lease Cost	\$ 352,558
Other Information:	
Operating Cash Flows from Operating Leases	255,688
Right-of-Use Assets Obtained in Exchange for New	
Operating Lease Liabilities	1,755,328
Weighted-Average Remaining Lease Term - Operating	4.6 years
Weighted-Average Discount Rate - Operating	3.39%

A maturity analysis of undiscounted cash flows for lease liabilities as of August 31, 2023 is as follows:

<u>Year Ending August 31.</u>	<u>Amount</u>
2024	\$ 266,340
2025	266,340
2026	238,015
2027	238,015
2028	170,559
Undiscounted Cash Flows	1,179,269
Less: Imputed Interest	(88,476)
Total	<u>\$ 1,090,793</u>

Future minimum lease commitments at August 31, 2022 was \$1,055,426. For the year ended August 31, 2022, total rent expense was \$323,272.

NOTE 11 RETIREMENT PLAN

The Organization participates in a Retirement Savings Plan (the Plan), which is established under Section 403(b) of the Internal Revenue Code. All employees of the Organization are eligible to participate in this Plan. The board of directors authorized a discretionary matching contribution of 50% of the employee's deferral up to a maximum match of 2% of the employee's eligible compensation for the year ended August 31, 2011. Full-time employees are eligible for this matching contribution. Part-time employees are eligible for the matching contribution if they have 1,000 hours of service during the Plan year. In the years ended August 31, 2023 and 2022, the Organization paid out \$83,899 and \$46,467 of matching retirement contributions, respectively.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023 AND 2022

NOTE 12 IN-KIND CONTRIBUTIONS

The Organization received in-kind contribution of instruments that were valued at \$-0- and \$43,623 during the years ended August 31, 2023 and 2022, respectively, based on fair market value rates at the time of acquisition.

The Organization also receives in-kind contributions for space rental for their Austin location valued at \$-0- and \$39,600 during the years ended August 31, 2023 and 2022, respectively, based on fair market value rates at the time the lease started.

NOTE 13 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, receivables, investments, and an operating line of credit (see Note 7).

As of August 31, 2023 and 2022, the following financial assets held by the Organization could be made available within one year of the balance sheet date to meet general expenditures or other contractual commitments:

	2023	2022
Cash and Cash Equivalents	\$ 5,620,595	\$ 1,021,304
Accounts Receivable, Net	71,944	45,928
Pledge Receivable	6,012,423	2,744,364
Investments	9,523,325	8,614,866
Beneficial Interest in a Perpetual Trust	46,212	46,434
Less: Donor Restrictions	(10,907,551)	(7,200,518)
Less: Board Designations	-	(308,283)
Total Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 10,366,948</u>	<u>\$ 4,964,095</u>

The Organization's governing board has designated a portion of its without donor-restricted resources for the building fund. Those amounts are identified as designated by the board in the table above, and could be made available, if necessary, with board approval.

NOTE 14 RELATED PARTY TRANSACTIONS

The Organization receives significant contributions from various board members. Total contributions from board members were \$702,039 and \$1,566,123 in the years ended August 31, 2023 and 2022, respectively. Pledges receivable from board member related parties are \$430,973 and \$1,173,000 as of August 31, 2023 and 2022, respectively.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.