

MACPHAIL CENTER FOR MUSIC
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2024 AND 2023



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**MACPHAIL CENTER FOR MUSIC
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YEARS ENDED AUGUST 31, 2024 AND 2023**

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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, 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 financial statements referred to above present fairly, in all material respects, the financial position of MacPhail Center for Music as of August 31, 2024 and 2023, 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.

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 10, 2024

**MACPHAIL CENTER FOR MUSIC
BALANCE SHEETS
AUGUST 31, 2024 AND 2023**

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,281,219	\$ 5,620,595
Net Accounts Receivable	140,048	71,944
Pledges Receivable - Current Portion, Net	2,740,610	2,525,112
Prepaid Expenses	230,643	256,894
Total Current Assets	<u>4,392,520</u>	<u>8,474,545</u>
PROPERTY AND EQUIPMENT, Net	18,256,647	18,734,171
INVESTMENTS	14,433,779	9,523,325
OTHER ASSETS		
Pledges Receivable - Long-Term Portion, Net	2,198,345	3,487,311
Beneficial Interest in a Perpetual Trust	50,510	46,212
Collections	1,825,000	825,000
Right-of-Use - Operating Leases	877,400	1,081,938
Total Other Assets	<u>4,951,255</u>	<u>5,440,461</u>
Total Assets	<u><u>\$ 42,034,201</u></u>	<u><u>\$ 42,172,502</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 209,641	\$ 191,424
Accrued Expenses	45,005	89,466
Gift Annuity Liability	7,200	7,200
Deferred Revenue	1,029,946	1,063,748
Lease Liability - Operating, Current	239,939	232,835
Total Current Liabilities	<u>1,531,731</u>	<u>1,584,673</u>
LONG-TERM LIABILITIES		
Lease Liability - Operating, Net	644,516	857,958
Gift Annuity Liability, Net	10,191	11,453
Total Long-Term Liabilities	<u>654,707</u>	<u>869,411</u>
Total Liabilities	2,186,438	2,454,084
NET ASSETS		
Without Donor Restriction	19,770,147	23,171,886
Without Donor Restriction - Board-Designated Endowment	8,221,033	5,638,981
Total Without Donor Restriction	<u>27,991,180</u>	<u>28,810,867</u>
With Donor Restriction	11,856,583	10,907,551
Total Net Assets	<u>39,847,763</u>	<u>39,718,418</u>
Total Liabilities and Net Assets	<u><u>\$ 42,034,201</u></u>	<u><u>\$ 42,172,502</u></u>

See accompanying Notes to Financial Statements.

MACPHAIL CENTER FOR MUSIC
STATEMENTS OF ACTIVITIES
YEARS ENDED AUGUST 31, 2024 AND 2023

	2024			2023		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
OPERATING REVENUE						
Tuition and Fees Revenue	\$ 6,765,618	\$ -	\$ 6,765,618	\$ 6,531,065	\$ -	\$ 6,531,065
Partnership Fees	1,130,303	-	1,130,303	771,748	-	771,748
Assistance to Students	(775,478)	-	(775,478)	(735,980)	-	(735,980)
Net Tuition and Fees	7,120,443	-	7,120,443	6,566,833	-	6,566,833
Contributions and Grants	1,237,634	2,844,271	4,081,905	8,219,724	6,470,691	14,690,415
Endowment Draw	260,000	(260,000)	-	79,280	(79,280)	-
Miscellaneous Program Income	102,220	-	102,220	68,689	-	68,689
Net Assets Released for Operations	2,763,953	(2,763,953)	-	3,129,911	(3,129,911)	-
Contributions and Miscellaneous Revenue	4,363,807	(179,682)	4,184,125	11,497,604	3,261,500	14,759,104
Total Operating Revenue	11,484,250	(179,682)	11,304,568	18,064,437	3,261,500	21,325,937
EXPENSES						
Program Services	11,301,926	-	11,301,926	11,660,460	-	11,660,460
General and Administrative	2,540,727	-	2,540,727	2,073,548	-	2,073,548
Fundraising	1,131,767	-	1,131,767	963,320	-	963,320
Total Expenses	14,974,420	-	14,974,420	14,697,328	-	14,697,328
Subtotal Before Nonoperating Activity	(3,490,170)	(179,682)	(3,669,852)	3,367,109	3,261,500	6,628,609
NONOPERATING ACTIVITY						
In-Kind Contributions	1,000,000	-	1,000,000	-	-	-
Employee Retention Credit Revenue	-	-	-	1,013,572	-	1,013,572
Investment Return Gains	1,670,483	1,124,416	2,794,899	64,729	445,756	510,485
Change in Value of Trust	-	4,298	4,298	-	(223)	(223)
Total Nonoperating Revenue	2,670,483	1,128,714	3,799,197	1,078,301	445,533	1,523,834
INCREASE (DECREASE) IN NET ASSETS						
	(819,687)	949,032	129,345	4,445,410	3,707,033	8,152,443
Net Assets - Beginning of Year	28,810,867	10,907,551	39,718,418	24,365,457	7,200,518	31,565,975
NET ASSETS - END OF YEAR	<u>\$ 27,991,180</u>	<u>\$ 11,856,583</u>	<u>\$ 39,847,763</u>	<u>\$ 28,810,867</u>	<u>\$ 10,907,551</u>	<u>\$ 39,718,418</u>

See accompanying Notes to Financial Statements.

**MACPHAIL CENTER FOR MUSIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2024**

	Programs	General and Administrative	Fundraising	Total
Salaries	\$ 7,125,911	\$ 1,016,713	\$ 492,787	\$ 8,635,411
Benefits and Payroll Taxes	1,109,205	130,495	65,247	1,304,947
Payroll Services and Other Processing Fees	-	242,092	10,609	252,701
Utilities	135,722	15,967	7,984	159,673
Advertising	130,371	187,856	550	318,777
Photocopying	27,355	3,218	1,609	32,182
Training	40,928	5,924	6,443	53,295
Memberships, Subscriptions, and Dues	12,849	13,899	31,143	57,891
Professional Fees	402,601	723,735	218,885	1,345,221
Office Supplies	15,461	1,819	909	18,189
Instructional Supplies	63,309	-	-	63,309
Computer Supplies	154,037	18,122	9,061	181,220
Occupancy	271,089	-	-	271,089
Telephone and Networks	160,107	8,895	8,895	177,897
Postage and Shipping	13,890	1,634	817	16,341
Printing	26,289	-	6,081	32,370
Equipment Rental	20,124	-	-	20,124
Repairs and Maintenance	47,505	-	-	47,505
Travel	238,125	11,100	1,154	250,379
Meetings and Special Events	116,210	22,032	190,667	328,909
McKnight Fellowship for Performing Musicians	122,200	-	-	122,200
Insurance	106,587	12,540	6,270	125,397
Depreciation	739,933	41,107	41,107	822,147
Facility General Expense	148,441	8,717	8,717	165,875
Bad Debt	-	70,143	-	70,143
Other Expenses	73,677	4,719	22,832	101,228
	<u>\$ 11,301,926</u>	<u>\$ 2,540,727</u>	<u>\$ 1,131,767</u>	<u>\$ 14,974,420</u>
Total Functional Expenses	<u>\$ 11,301,926</u>	<u>\$ 2,540,727</u>	<u>\$ 1,131,767</u>	<u>\$ 14,974,420</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
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2024 AND 2023**

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 129,345	\$ 8,152,443
Adjustments to Reconcile Net Income to		
Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	822,147	914,132
Lease Expense	204,538	-
Lease Transition Adjustment	-	14,691
Change in Present Value on Long-Term Pledges	84,394	71,846
Realized and Unrealized (Gains) Losses on Investments	(2,598,035)	(369,545)
Change in Value of Beneficial Interest in Perpetual Trust	(4,298)	222
Permanently Restricted Contributions	(833,983)	(1,244,069)
(Increase) Decrease in:		
Accounts Receivable	(68,104)	(26,016)
Pledges Receivable	989,074	(3,339,905)
Prepaid Expenses	26,251	(52,816)
Collections	(1,000,000)	-
Assets Held for Sale	-	80,000
Investment in Partnership	-	747,535
Increase (Decrease) in:		
Accounts Payable	18,217	(146,395)
Accrued Expenses	(44,461)	12,532
Lease Liability	(206,338)	-
Gift Annuity Liability	(1,262)	(10,905)
Deferred Revenue	(33,802)	76,309
Net Cash Provided (Used) by Operating Activities	(2,516,317)	4,880,059
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(344,623)	(85,923)
Purchase of Investments	(11,013,012)	(5,189,976)
Proceeds from Sale of Investments	8,700,593	4,651,062
Net Cash Used by Investing Activities	(2,657,042)	(624,837)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Line of Credit	-	(900,000)
Proceeds from Permanently Restricted Contributions	833,983	1,244,069
Net Cash Provided by Financing Activities	833,983	344,069
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,339,376)	4,599,291
Cash and Cash Equivalents - Beginning of Year	5,620,595	1,021,304
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,281,219</u>	<u>\$ 5,620,595</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ -</u>	<u>\$ 51,460</u>

See accompanying Notes to Financial Statements.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023**

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, 2024 AND 2023**

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, 2024 and 2023, the receivable balance was \$5,158,560, and \$5,807,935, respectively. The allowance then applied to these balances was \$65,000.

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. Management estimates the allowance based on its assessment of the current status of individual accounts, historical collection ability, type, current conditions, and future considerations. At both August 31, 2024 and 2023, the receivable balance was \$198,492, and \$77,178, respectively. The allowance then applied to these balances was \$58,444, and \$5,234, 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 \$50,510 and \$46,212 at August 31, 2024 and 2023, 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, 2024 AND 2023**

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 \$1,029,946 and \$1,063,748 as of August 31, 2024 and 2023, respectively.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collections

The Organization's collections consist of gifts of artwork valued at \$1,825,000 and \$825,000 as of August 31, 2024, and 2023, respectively.

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, 2024 AND 2023

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, 2024 and 2023, as all contracts ended before the end of the fiscal years and all services had been provided.

Grants from the government are recognized when all conditions of such grants are fulfilled or there is reasonable assurance that they will be fulfilled. During the year ended August 31, 2023 the Organization applied for Employee Retention Credit (ERC) grant funding from the Internal Revenue Service. The Organization recognized \$1,013,572 of grant revenue related to performance requirements being met in compliance with the program during the year ended August 31, 2023.

Eligibility and conditions for the ERC program may be audited by the Internal Revenue Service. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; management is of the opinion that any audit will not have a material adverse impact on the Foundation's financial position.

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, 2024 and 2023. 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, 2024 AND 2023**

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.

Change in Accounting Principle

The Organization has adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Organization adopted this new guidance utilizing a modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

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 10, 2024, the date the financial statements were available to be issued.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023

NOTE 2 MAJOR SOURCE AND CONCENTRATION OF SUPPORT

As of August 31, 2024, 70% of the Organization's pledges receivable was from three donors. At August 31, 2023, 50% of the Organization's pledges receivable was from two 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, 2024, 15% of the Organization's contributions and grants revenue was from one donor. At August 31, 2023, 54% of the Organization's contributions and grants revenue was from three donors.

NOTE 3 PLEDGES RECEIVABLE

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

<u>Year Ending August 31,</u>	<u>Amount</u>
2025	\$ 2,740,610
2026	1,247,300
2027	655,650
2028	515,000
Pledges Receivable	5,158,560
Less: Discount	(154,605)
Allowance for Doubtful Accounts	(65,000)
Total	<u>\$ 4,938,955</u>

The annual interest rates utilized for computing the discount for long-term pledges 4% as of August 31, 2024 and 2023.

NOTE 4 INVESTMENTS

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

	<u>2024</u>	<u>2023</u>
Equities	\$ 10,862,991	\$ 6,945,568
Fixed Income	3,459,734	1,779,220
Real Assets	-	381,039
Cash and Cash Equivalents	111,054	417,498
Total Investments	<u>\$ 14,433,779</u>	<u>\$ 9,523,325</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.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023

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:

2024				
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Perpetual Trust	\$ -	\$ -	\$ 50,510	\$ 50,510
Equities	10,862,991	-	-	10,862,991
Fixed Income	-	3,459,734	-	3,459,734
Cash and Cash Equivalents	-	-	-	111,054
Total Investments	<u>\$ 10,862,991</u>	<u>\$ 3,459,734</u>	<u>\$ 50,510</u>	<u>\$ 14,484,289</u>

2023				
	Level 1	Level 2	Level 3	Total
Beneficial Interest in Perpetual Trust	\$ -	\$ -	\$ 46,212	\$ 46,212
Equities	6,945,568	-	-	6,945,568
Fixed Income	-	1,779,220	-	1,779,220
Real Assets	381,039	-	-	381,039
Cash and Cash Equivalents	-	-	-	417,498
Total Investments	<u>\$ 7,326,607</u>	<u>\$ 1,779,220</u>	<u>\$ 46,212</u>	<u>\$ 9,569,537</u>

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:

	2024	2023	Principal Valuation Technique	Unobservable Inputs
Beneficial Interest in Trusts:				
Balances as of September 1	\$ 46,212	\$ 46,434	FMV of Trust Investments	Value of Underlying Assets
Change in Value	4,298	(222)		
Balances as of August 31	<u>\$ 50,510</u>	<u>\$ 46,212</u>		

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023**

NOTE 6 PROPERTY AND EQUIPMENT

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

	2024	2023
Land	\$ 707,888	\$ 707,888
Building and Improvements	23,411,375	23,236,963
Musical Instruments	2,490,217	2,458,969
Computers and Related Equipment	3,427,223	3,350,348
Office and Other Equipment	1,931,903	1,869,815
Total	31,968,606	31,623,983
Less: Accumulated Depreciation	(13,711,959)	(12,889,812)
Total	<u>\$ 18,256,647</u>	<u>\$ 18,734,171</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- outstanding balance at August 31, 2024 and 2023.

**MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023**

NOTE 8 NET ASSETS

With Donor Restriction

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

	2024	2023
Subject to Expenditure for Specific Purpose:		
Scholarships for Students	\$ 361,943	\$ 397,657
Fellowship Program	355,979	643,122
Time-Restricted	9,200	54,150
MacPhail 6.0 Campaign	4,765	4,765
Community Partnership Programs	38,404	247,000
MN State Arts Board	704,306	508,487
Comprehensive Campaign	345,395	261,001
Music for All	1,038,684	1,531,250
Madeline Island Chamber Music	90,000	-
Music for Life	900,000	1,000,000
Other Restrictions	357,815	312,724
Total	<u>4,206,491</u>	<u>4,960,156</u>
Beneficial Interest in Perpetual Trust	50,510	46,212
Endowments:		
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity		
Scholarships for Students	2,670,428	2,333,419
Prelude Program	138,073	138,073
Operating Support	3,350,667	2,853,692
Total	<u>6,159,168</u>	<u>5,325,184</u>
Subject to Endowment Spending Policy and Appropriation:		
Scholarships for Students	694,973	417,236
Prelude Program	37,877	22,640
Operating Support	707,564	136,123
Total	<u>1,440,414</u>	<u>575,999</u>
Total Endowments	<u>7,599,582</u>	<u>5,901,183</u>
Total Net Assets With Donor Restriction	<u><u>\$ 11,856,583</u></u>	<u><u>\$ 10,907,551</u></u>

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, 2024 and 2023 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, 2024 AND 2023

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:

	2024		
	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds	\$ -	\$ 7,160,569	\$ 7,160,569
Board-Designated Endowment Funds	8,221,033	439,013	8,660,046
Total Endowment Funds	<u>\$ 8,221,033</u>	<u>\$ 7,599,582</u>	<u>\$ 15,820,615</u>

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023

NOTE 9 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

	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>

	2024		
	Without Donor Restriction	With Donor Restriction	Total
Endowments - September 1, 2024	\$ 5,638,981	\$ 5,901,183	\$ 11,540,164
Investment Gains	1,682,052	1,124,416	2,806,468
Contributions	900,000	833,983	1,733,983
Appropriations of Endowment Assets for Expenditure	-	(260,000)	(260,000)
Endowments - August 31, 2024	<u>\$ 8,221,033</u>	<u>\$ 7,599,582</u>	<u>\$ 15,820,615</u>

	2023		
	Without Donor Restriction	With Donor Restriction	Total
Endowments - September 1, 2023	\$ 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>

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. There were no underwater funds as of August 31, 2024 and 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, 2024 AND 2023

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 years ended August 31:

	2024	2023
Operating Lease Cost	\$ 236,217	\$ 352,558
Other Information:		
Operating Cash Flows from Operating Leases	238,015	255,688
Right-of-Use Assets Obtained in Exchange for New Operating Lease Liabilities	-	1,755,328
Weighted-Average Remaining Lease Term - Operating	3.6 years	4.6 years
Weighted-Average Discount Rate - Operating	3.39%	3.39%

A maturity analysis of undiscounted cash flows for lease liabilities as of August 31, 2024 is as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2025	\$ 266,340
2026	266,340
2027	238,015
2028	170,559
Undiscounted Cash Flows	941,254
Less: Imputed Interest	(56,799)
Total	<u>\$ 884,455</u>

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, 2024 and 2023, the Organization paid out \$85,719 and \$83,899 of matching retirement contributions, respectively.

MACPHAIL CENTER FOR MUSIC
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2024 AND 2023

NOTE 12 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, 2024 and 2023, 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:

	2024	2023
Cash and Cash Equivalents	\$ 1,281,219	\$ 5,620,595
Accounts Receivable, Net	140,048	71,944
Pledge Receivable	4,938,955	6,012,423
Investments	14,433,779	9,523,325
Beneficial Interest in a Perpetual Trust	50,510	46,212
Less: Donor Restrictions	<u>(11,856,583)</u>	<u>(10,907,551)</u>
Total Financial Assets Available to Meet		
General Expenditures Within One Year	<u>\$ 8,987,928</u>	<u>\$ 10,366,948</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 13 RELATED PARTY TRANSACTIONS

The Organization receives significant contributions from various board members. Total contributions from board members were \$272,815 and \$702,039 in the years ended August 31, 2024 and 2023, respectively. Pledges receivable from board member related parties are \$200,092 and \$430,973 as of August 31, 2024 and 2023, respectively.

NOTE 14 IN-KIND CONTRIBUTIONS

During the year ended August 31, 2024, the Organization received donated artwork valued at \$1,000,000 and included the artwork in the collections of the Organization. The artwork was appraised by the donor and no impairment has been determined by management.



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