ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

AUGUST 31, 2018 AND 2017

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
St. Luke's Chamber Ensemble, Inc. and
Orchestra of St. Luke's Support Corporation

We have audited the accompanying consolidated financial statements of St. Luke's Chamber Ensemble, Inc. and Orchestra of St. Luke's Support Corporation, which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Chamber Ensemble, Inc. and Orchestra of St. Luke's Support Corporation as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
December 13, 2018

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND
ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents (Notes 1c and 3)	$ 1,618,898	$ 1,361,178
Investments and cash held for investment (Notes 1d, 1e, 4 and 5)	11,483,453	7,212,389
New Markets Tax Credit note receivable (Note 7)	-	21,222,300
Unconditional promises to give (Notes 1f and 6)		
Unrestricted	94,905	104,701
Restricted for future periods and programs	501,244	380,162
Restricted for capital projects	500,426	531,862
Restricted for capital campaign	785,774	411,936
Receivables and advances	46,865	22,454
Flood reimbursement receivable (Note 16)	346,816	-
Prepaid expenses and other current assets	26,023	34,675
Property and equipment, at cost (net of accumulated depreciation) (Notes 1g and 8)	25,535,375	26,276,251
Total Assets	$40,939,779	$57,557,908
Liabilities and Net Assets		
Liabilities		
Mortgage and loans payable (Note 9)	$ 4,640,339	$ 6,834,136
New Markets Tax Credit note payable (Note 7)	-	27,800,000
Accounts payable and accrued expenses	258,594	178,917
Deferred revenue (Note 1h)	129,905	104,293
Executive benefit liability (Note 12)	35,396	68,257
Total Liabilities	5,064,234	34,985,603
Commitments and Contingency (Notes 7, 9, 10 and 11)		
Net Assets (Note 2)		
Unrestricted (deficit)	11,248,413	(693,850)
Temporarily restricted	20,622,060	19,261,083
Permanently restricted	4,005,072	4,005,072
Total Net Assets	35,875,545	22,572,305
Total Liabilities and Net Assets	$40,939,779	$57,557,908

See notes to consolidated financial statements.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND
ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in Unrestricted Net Assets								
Operating Activities								
Revenue, Gains and Other Support								
Contributions	$ 2,148,856	$ 2,037,276	$ -	$ 4,186,132	$ 1,871,440	$ 517,705	$ -	$ 2,389,145
Donated services and materials	22,465	-	-	22,465	95,917	-	-	95,917
Fundraising benefits	1,038,752	-	-	1,038,752	918,510	-	-	918,510
Less: Direct fundraising benefit costs	(204,661)	-	-	(204,661)	(210,218)	-	-	(210,218)
Orchestra series	120,000	-	-	120,000	117,162	-	-	117,162
Chamber music series	89,015	-	-	89,015	96,021	-	-	96,021
Fee engagements	1,646,935	-	-	1,646,935	1,827,013	-	-	1,827,013
Education	20,750	-	-	20,750	8,100	-	-	8,100
The DiMenna Center rentals, including insurance reimbursement of $250,000 in 2018 (Note 16)	796,047	-	-	796,047	787,836	-	-	787,836
Investment income (Note 4)	6,123	-	-	6,123	13,304	-	-	13,304
Miscellaneous income	34,713	-	-	34,713	9,569	-	-	9,569
	5,718,995	2,037,276	-	7,756,271	5,534,654	517,705	-	6,052,359
Net assets released from restrictions								
Time and program restrictions	523,483	(523,483)	-	-	722,624	(722,624)	-	-
Appropriations for use in operations	322,422	-	-	322,422	288,146	-	-	288,146
Appropriation to board designated artistic excellence fund	(328,240)	-	-	(328,240)	(150,000)	-	-	(150,000)
Total Revenue, Gains and Other Support from Operating Activities	6,236,660	1,513,793	-	7,750,453	6,395,424	(204,919)	-	6,190,505
Expenses								
Program Services								
Orchestra series	712,255	-	-	712,255	634,818	-	-	634,818
Chamber music series	443,717	-	-	443,717	314,821	-	-	314,821
Fee engagements	2,480,344	-	-	2,480,344	2,587,189	-	-	2,587,189
Education performances	376,770	-	-	376,770	379,716	-	-	379,716
Youth orchestra program (YOSL)	338,557	-	-	338,557	273,966	-	-	273,966
Community outreach programs	100,410	-	-	100,410	98,422	-	-	98,422
The DiMenna Center: building operations	746,632	-	-	746,632	879,869	-	-	879,869
Total Program Services	5,198,685	-	-	5,198,685	5,168,801	-	-	5,168,801
Supporting Services								
Management and general	625,292	-	-	625,292	738,864	-	-	738,864
Fundraising	409,237	-	-	409,237	476,423	-	-	476,423
Total Supporting Services	1,034,529	-	-	1,034,529	1,215,287	-	-	1,215,287
Total Expenses	6,233,214	-	-	6,233,214	6,384,088	-	-	6,384,088
Increase (Decrease) in Net Assets from Operating Activities Before Other Activities (carried forward)	3,446	1,513,793	-	1,517,239	11,336	(204,919)	-	(193,583)

See notes to consolidated financial statements.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND
ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED AUGUST 31, 2018 AND 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Increase (Decrease) in Net Assets from Operating Activities Before Other Activities (brought forward)	$ 3,446	$ 1,513,793	$ -	$ 1,517,239	$ 11,336	$ (204,919)	$ -	$ (193,583)
Other Activities								
Net investment income (Note 4)	304,492	367,917	-	672,409	207,344	445,502	-	652,846
Appropriations for use in operations (Notes 4 and 5)	(127,878)	(194,544)	-	(322,422)	(110,895)	(177,251)	-	(288,146)
Contributions to capital campaign	4,600,000	500,000	-	5,100,000	1,001,736	411,936	-	1,413,672
Forgiveness of debts (Notes 7 and 9)	6,967,229	-	-	6,967,229	-	-	-	-
Flood reimbursement, net of expenses of $642,205, in 2018 (Note 16)	178,799	-	-	178,799	-	-	-	-
The DiMenna Center - depreciation, interest and other expenses	(1,138,254)	-	-	(1,138,254)	(1,444,154)	-	-	(1,444,154)
Net assets released from restrictions								
Capital project	676,189	(676,189)	-	-	772,660	(772,660)	-	-
Capital Campaign contribution	150,000	(150,000)	-	-	-	-	-	-
Appropriation from operations to board designated artistic excellence fund	328,240	-	-	328,240	150,000	-	-	150,000
Increase (Decrease) in Other Activities	11,938,817	(152,816)	-	11,786,001	576,691	(92,473)	-	484,218
Increase (decrease) in net assets	11,942,263	1,360,977	-	13,303,240	588,027	(297,392)	-	290,635
Net assets, beginning of year, as previously reported	(693,850)	19,451,083	4,005,072	22,762,305	(1,281,877)	19,558,475	4,005,072	22,281,670
Prior period adjustment (Note 15)	-	(190,000)	-	(190,000)				
Net assets (deficit), beginning of year, as restated	(693,850)	19,261,083	4,005,072	22,572,305				
Net Assets (Deficit), End of Year	$11,248,413	$20,622,060	$ 4,005,072	$35,875,545	$ (693,850)	$19,261,083	$ 4,005,072	$22,572,305

See notes to consolidated financial statements.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	$13,303,240	$ 290,635
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Bad debt expense	8,412	-
Forgiveness of loan payable	(500,000)	-
Forgiveness of New Market Tax credit receivable and payable	(6,577,700)	-
Depreciation	781,717	782,272
Net realized and unrealized gain on investments	(418,103)	(309,817)
(Increase) decrease in:		
Unconditional promises to give	(462,100)	(385,666)
Receivables and advances	(24,411)	39,600
Flood reimbursement receivable	(346,816)	-
Prepaid expenses and other current assets	8,652	150,205
Increase (decrease) in:		
Accounts payable and accrued expenses	79,677	(14,541)
Deferred revenue	25,612	68,468
Executive benefit liability	(32,861)	(27,697)
Net Cash Provided By Operating Activities	5,845,319	593,459
Cash Flows From Investing Activities		
Acquisition of property and equipment	(40,841)	(10,957)
Purchase of investments	(6,063,484)	(880,713)
Proceeds from sale of investments	2,210,523	558,766
Net Cash Used By Investing Activities	(3,893,802)	(332,904)
Cash Flows From Financing Activities		
Repayment of mortgage and loans payable	(1,693,797)	(365,921)
Net increase (decrease) in cash and cash equivalents	257,720	(105,366)
Cash and cash equivalents, beginning of year	1,361,178	1,466,544
Cash and Cash Equivalents, End of Year	$ 1,618,898	$1,361,178
Supplemental Disclosure		
Interest paid	$ 356,537	$ 547,425

See notes to consolidated financial statements.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

St. Luke's Chamber Ensemble, Inc. ("St. Luke's") is a gathering of outstanding musicians whose purpose is to bring classical music and the communication that is unique to music to as broad an audience as possible through performance and education programs in New York City and beyond. At its home, in New York City, The DiMenna Center for Classical Music ("The Center"), St. Luke's serves the musical community by providing state-of-the-art facilities for classical music rehearsal, recording, and learning. St. Luke's main sources of revenues are performances, rentals and public support.

In November 2008, St. Luke's purchased a condominium on West 37th Street to create The Center. The Center provides rehearsal space for St. Luke's and other musical groups; a home for the arts education program of the Orchestra of St. Luke's; and its administrative offices. The Center was formally opened in March 2011.

In 2010, the Orchestra of St. Luke's Support Corporation ("OSLSC") was incorporated to support the operations of St. Luke's through fundraising and the management of funds. OSLSC was dissolved in August 2018 and all of the operations were assumed by St. Luke's.

b - Principles of Consolidation

The consolidated financial statements include the accounts of St. Luke's and OSLSC (together "The Organization"). All significant intercompany accounts have been eliminated in the consolidation.

c - Cash and Cash Equivalents

For purposes of the statement of cash flows, The Organization considers all unrestricted highly liquid debt instruments, purchased with a maturity of three months or less, to be cash equivalents, except for cash managed by The Organization's investment managers as part of its long-term investment strategies.

d - Fair Value Measurements

The Organization reflects investments at fair value in the statement of financial position. Fair value is defined as the price that would be received if an asset was sold in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-based measurement. Generally accepted accounting principles establish a framework for measuring fair value which maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those the market participants would use in pricing the asset based on market data obtained from sources independent of The Organization. Unobservable inputs reflect The Organization's assumptions about the inputs market participants would use in pricing the asset based on the best information available in the circumstances. Fair value measurements are categorized into three levels as follows:

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Fair Value Measurements

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that The Organization has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 Inputs that are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

e - Investments and Investment Income

Investments are measured at fair value on a recurring basis. Investments with fair values that are based on quoted market prices in active markets are, therefore, classified within Level 1. These include equities, fixed income, and cash and money market funds. All of The Organization's investments are classified within Level 1.

Interest, dividends and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted assets if the restrictions expire in the fiscal year in which the income is recognized. All other income is recorded in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

f - Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to The Organization, that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Contributions and Promises to Give (continued)
Contributions of property and equipment without donor stipulation concerning the use of such long-lived assets are reported as increases in unrestricted net assets. Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as increases in temporarily restricted net assets and released from restriction over the useful life of the respective asset.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

g - Property and Equipment
Property and equipment acquired are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets.

h - Revenue recognition
Deferred revenue consists of tickets, subscriptions, other performance revenue and rentals that are deferred until the respective activities take place.

i - Advertising
Advertising costs are charged to operations when incurred. Advertising costs incurred were $19,922 and $19,566 for the years ended August 31, 2018 and 2017, respectively.

j - Financial Statement Presentation
The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

k - Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

l - Tax Status
St. Luke's and OSLSC have been determined by the Internal Revenue Service to be exempt from Federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and have been designated as organizations which are not private foundations.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

m - Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities."* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two net asset classes now entitled "net assets without donor restrictions" and "net assets with donor restrictions;" (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources; (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose the methods used to allocate costs; and (d) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact of ASU 2016-14 on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position for all leases with terms longer than twelve months and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact of ASU 2016-02 on its financial statements.

n - Subsequent Events

The Organization has evaluated subsequent events through December 13, 2018, the date that the financial statements are considered available to be issued.

o - Prior Year Information

Certain 2017 amounts have been reclassified for comparative purposes.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 2 - Net Assets

Net assets consist of the following:

	2018				2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Note 15) Total
Operating	$ 3,679,100	$ 5,375,799	$ -	$ 9,054,899	$ 4,231,181
Artistic Excellence Fund	478,240	-	-	478,240	150,000
Property and equipment	6,418,573	14,476,463	-	20,895,036	12,864,415
Cash reserve funds	672,500	-	500,000	1,172,500	1,172,500
Endowment	-	769,798	3,505,072	4,274,870	4,154,209
2018	$11,248,413	$20,622,060	$4,005,072	$35,875,545	
2017	$ (693,850)	$19,261,083	$4,005,072		$22,572,305

a - Board Designated Funds

i - Artistic Excellence Fund
During 2017, the Board established an Artistic Excellence Fund ("the Fund") to fund future artistic initiatives. Each year, The Organization may add a portion of an operating surplus, if any, to the Fund; when needed to support artistic initiatives, The Organization may make an appropriation from the Fund. The fund balance was $478,240 as of August 31, 2018 and $150,000 as of August 31, 2017.

ii - Cash Reserve Fund
The Board allocated $672,500 toward a Board designated cash reserve from time restricted donor cash reserve funds that had expired as well as from an unrestricted contribution from a Board member. The balance was $672,500 at August 31, 2018 and 2017.

b - Temporarily Restricted Net Assets
Temporarily restricted net assets are restricted for future programs, periods and a cash reserve. Included in temporarily restricted net assets are accumulated endowment earnings that have not yet been appropriated for operations.

c - Permanently Restricted Net Assets
Permanently restricted net assets consist of donor-restricted endowment funds of $3,505,072 (Note 5) and a donor-restricted cash reserve fund of $500,000.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 3 - Concentration of Credit Risk

The Organization's cash accounts are maintained in financial institutions in New York and Minnesota. The balances in the financial institutions are insured by the Federal Deposit Insurance Corporation and other agencies. The cash balances, at times, may exceed insured limits.

Note 4 - Investments and Cash Held for Investment

Investments and cash held for investment, which are all classified as Level 1 in the fair value hierarchy, are reflected at fair value and consist of the following:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Equity mutual funds	$ 2,814,814	$ 2,749,842	$3,419,965	$2,670,057
Fixed income mutual funds	5,353,742	4,131,481	3,048,105	2,903,299
Cash and money market funds	3,314,466	3,314,466	744,319	744,319
	$11,483,022	$10,195,789	$7,212,389	$6,317,675

Investment income consists of the following:

	2018	2017
Interest and dividends	$260,429	$356,333
Net unrealized and realized gain	418,103	309,817
	$678,532	$666,150

Investment income has been allocated as follows:

	2018	2017
Operating activities	$ 6,123	$ 13,304
Other Activities:		
Unrestricted	94,356	207,344
Temporarily restricted	578,053	445,502
	$678,532	$666,150

In 2018 and 2017, allocations were made from unrestricted income - other activities, of current and accumulated investment income in the amount of $127,878 and $110,895, respectively, for use in operations.

ST. LUKE’S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 5 - Endowment Funds

The Organization’s endowment consists of funds established to support general operations, educational and other programs. The endowment is currently comprised of donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Consistent with New York State Not-for-profit Corporation Law and the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), The Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of any applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Organization.
In accordance with NYPMIFA, The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(i) the duration and preservation of the endowment fund;
(ii) the purposes of The Organization and the endowment fund;
(iii) general economic conditions;
(iv) the possible effect of inflation or deflation;
(v) the expected total return from income and the appreciation of investments;
(vi) other resources of The Organization;
(vii) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on The Organization; and
(viii) the investment policy of The Organization

The composition of the Organization’s invested endowment funds, by type of fund and classification, are summarized as follows at August 31:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted, 2018	$769,798	$3,505,072	$4,274,870
Donor-restricted, 2017	$649,137	$3,505,072	$4,154,209

Note 5 - Endowment Funds (continued)

Changes in the invested endowment funds for the years ended August 31, 2018 and 2017 are summarized as follows:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$649,137	$3,505,072	$4,154,209
Investment Return			
Interest and dividends	84,607	-	84,607
Net unrealized and realized gain	230,598	-	230,598
Total Investment Return	315,205	-	315,205
Appropriation for use in operations	(194,544)	-	(194,544)
Balance, End of Year	$769,798	$3,505,072	$4,274,870

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$380,886	$3,505,072	$3,885,958
Investment Return			
Interest and dividends	130,784	-	130,784
Net unrealized and realized gain	314,718	-	314,718
Total Investment Return	445,502	-	445,502
Appropriation for use in operations	(177,251)	-	(177,251)
Balance, End of Year	$649,137	$3,505,072	$4,154,209

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that The Organization must hold in perpetuity as well as board designated funds.

Note 5 - Endowment Funds (continued)

To satisfy its long-term rate-of-return objectives, The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that aims to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year, 4.5% of the average fair value of endowment funds over the four quarters preceding the end of the fiscal year in which the distribution is planned. In establishing this policy, The Organization considered the long-term expected return on its endowment. Accordingly, The Organization expects the current spending policy to allow its endowment to grow. The Organization's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 6 - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	Unrestricted	Restricted for Future Periods and Programs	Restricted for Capital Projects	Restricted for Capital Campaigns	2018 Total	2017 Total
Due within one year	$ 94,905	$304,000	$491,000	$600,000	$1,489,905	$ 539,209
Due in one to five years	-	214,000	10,000	200,000	424,000	977,500
	94,905	518,000	501,000	800,000	1,913,905	1,516,709
Less: Discount	-	(16,756)	(574)	(14,226)	(31,556)	(88,048)
Total, 2018	$ 94,905	$501,244	$500,426	$785,774	$1,882,349	
Total, 2017	$104,701	$380,162	$531,862	$411,936		$1,428,661

Uncollectible promises are expected to be immaterial. Unconditional promises to give due after one year are discounted to net present value using a discount rate of 3% per annum.

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2018 AND 2017

Note 7 New Markets Tax Credit Program

Under the New Markets Tax Credit Program, a federally funded program to encourage community development, The Organization obtained funding to finance a portion of the construction of The Center. In September and December 2010, St. Luke's received loans totaling $27,800,000, of which $21,222,300 was a leveraged loan through third parties independent from OSLSC. The independent third parties included an independent New Markets Tax Credit investor.

As of December 1, 2017, the entity that owned the investment structure made its ownership available to OSLSC for a price of $1,000. Ownership of the investment structure provided The Organization with the ability to have the investment structure forgive the loan receivable from OSLSC and have the loan payable by St. Luke's forgiven. The principal and remaining accrued interest were extinguished through these transactions prior to the loans' maturity dates, and the gains that result were recognized as income during 2018 financial year.

As a result of the purchase of the investment, The Organization's recognized $6,467,229 of income as net forgiveness of loan payable/receivable during 2018.

Note 8 - Property and Equipment

Property and equipment at August 31 consisted of:

	Life	2018	2017
Condominium and related acquisition costs	40 years	$14,944,929	$14,944,929
Building improvements, architect and other costs	40 years	13,980,764	13,968,526
Control room	40 years	21,875	-
Pianos	30 years	310,774	310,774
Office equipment	5-7 years	146,993	146,993
Furniture, fixtures and equipment	5 years	733,627	733,627
Computers	3 years	33,342	26,614
Website	3 years	18,670	18,670
		30,190,974	30,150,133
Less: Accumulated depreciation		(6,474,471)	(5,692,754)
		23,716,503	24,457,379
Land		1,818,872	1,818,872
		$25,535,375	$26,276,251

Depreciation expense for the years ended August 31, 2018 and 2017 was $781,717 and $782,272, respectively.

Note 8 - Property and Equipment (continued)

The City of New York's capital contributions to the Center obligated The Organization to operate the facility and/or maintain equipment for the respective bonding term as a non-profit entity, open to and used and maintained for the benefit of the people of the City of New York for cultural, educational or artistic uses and/or related purposes approved by the City.

Note 9 - Mortgage and Loans Payable

Mortgage and loans payable at August 31 consist of the following:

	2018	2017
Refinancing loan agreement between a bank and St. Luke's: $7.5 million term mortgage loan. The mortgage is composed of $5,000,000 fixed rate tranche and a $2,500,000 floating rate tranche. The fixed rate loan is due on July 31, 2019 and is secured by a mortgage on the condominium. The floating rate tranche was repaid on May 1, 2018. Interest is 4.31% on the fixed rate tranche and 3.75% on the floating rate tranche. The interest is payable monthly and is computed on the actual numbers of days over a 360-day year.	$4,640,339	$6,334,136
Due to a foundation for additional funds to expand and renovate the new facility. The loan bears interest at 2%. Interest payments are due semi-annually. The loan was forgiven on March 19, 2018	-	500,000
	$4,640,339	$6,834,136

Interest expense for the loans was $251,589 and $279,203 for the years ended August 31, 2018 and 2017, respectively.

St. Luke's entered into an agreement with a bank for a $1.5 million credit line to be used for working capital. The line expires July 1, 2019. There were no loans taken on the credit line.

Note 10 - Commitments and Contingency

a - St. Luke's entered into a long-term lease agreement for office space with a term expiring on November 30, 2020 and with options to renew through November 30, 2055. The lease agreement provides for rental payments as follows:

Year Ending August 31,	
2019	$64,186
2020	66,111
Thereafter, through November 30, 2020	16,649

Rent and utility expense for the office space was $ 68,916 and $67,100 in 2018 and 2017, respectively.

b - Government supported projects are subject to audit by the applicable granting agency.

Note 11 - Pension Plans

a - Employees, including musician employees, may elect to contribute to St. Luke's Tax Sheltered Annuity Plan, within IRS allowable contribution limits. This plan is an IRS Code Section 403(b) Retirement Plan, which is invested at the direction of the participants within the available funding vehicles.

b - In addition, St. Luke's contributes annually to a separate retirement plan for the benefit of full time staff members. This plan is an IRS Code Section 403(b) Defined Contribution Retirement Plan, which is invested at the direction of the participants within the available funding vehicles. Plan expense was $64,628 and $54,450 for 2018 and 2017, respectively.

c - The Organization contributes to a multiemployer defined benefit pension plan under the terms of a collective-bargaining agreement that covers its union-represented employees.

The following information relates to the Orchestra's union-managed pension plan.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions of The Organization		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		2017	2016		2018	2017		
Pension Fund of Local 802, American Federation of Musicians	13-0452820	Red	Red	Implemented	$236,475	$260,808	No	September 7, 2018

Note 11 - Pension Plans (continued)

c - (continued)

The Organization is currently in the process of renegotiating the collective bargaining agreement. As negotiations with the union are ongoing, the terms of the expired agreement remain in force.

Note 12 - Executive Benefit

During 2004, St. Luke's Board of Directors agreed to provide a nonqualified post-retirement benefit to its Executive Director in recognition of her 30 years of service and her role as co-founder of St. Luke's. The benefit vested in September 2010 and provided an initial benefit sufficient for the employee to pay income taxes then due with the balance being paid out over a 10-year period.

The following sets forth the funded status of the benefit and the amounts shown in the accompanying statements of financial position as of August 31:

	2018	2017
Benefit obligation	$108,051	$161,947
Unrecognized prior service cost, net of unrecognized loss	(72,655)	(93,690)
Unfunded Accrued Pension Cost	$ 35,396	$ 68,257

In September 2010, St. Luke's made a one time lump sum payment of $190,490 and began making monthly payments of $4,146. The monthly payments will continue through August 2020.

Payments under this plan were $49,752 in 2018 and 2017. At August 31, 2018, St. Luke's had set aside investments and cash held for investment in the amount of $167,361 to satisfy this obligation.

Note 13 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Note 14 - Expenses by Functional Classification

Expenses by functional classification for fiscal years 2018 and 2017 are as follows:

	2018	2017
Operating expenses	$6,233,214	$6,384,088
The DiMenna Center - depreciation, interest and other expenses	1,138,254	1,444,154
	$7,371,468	$7,828,242
Program Services	$6,336,939	$6,612,955
Supporting Services		
Management and general	625,292	738,864
Fundraising	409,237	476,423
Total Supporting Services	1,034,529	1,215,287
Total Expenses	$7,371,468	$7,828,242

Note 15 - Prior Period Adjustment

Net assets at August 31, 2017 were restated to adjust contribution receivables in the amount of $150,000 that were improperly recorded in 2017 and reflect an additional release of $40,000 of temporarily restricted net assets to unrestricted net assets for the Chamber Music Series program.

Note 16 - Flood Reimbursement

In January 2018, a water leak and resulting flood caused significant damage to The DiMenna Center for Classical Music. The Organization received insurance reimbursement for the costs incurred to repair the damage to the building and equipment lost in the flood as well as for a portion of rental income lost until The Center was operational.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
St. Luke's Chamber Ensemble, Inc.
and Orchestra of St. Luke's Support Corporation

We have audited the consolidated financial statements of St. Luke's Chamber Ensemble, Inc. and Orchestra of St. Luke's Support Corporation as of and for the years ended August 31, 2018 and 2017, and our report thereon dated December 13, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidated Schedule of Functional Expenses for the year ended August 31, 2018 with comparative totals for 2017 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Lutz + Carr, LLP

New York, New York
December 13, 2018

ST. LUKE'S CHAMBER ENSEMBLE, INC. AND
ORCHESTRA OF ST. LUKE'S SUPPORT CORPORATION

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2018 WITH COMPARATIVE TOTALS FOR 2017

	Program Services										Supporting Services			2018	2017 *
	Orchestra Series	Chamber Music Series	Fee Engagements	Education Performances	Youth Orchestra Program (YOSL)	Community Outreach Programs	The DiMenna Center: Building Operations	Sub-total	The DiMenna Center: Depreciation, Interest and Other Expenses	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Salaries	$336,187	$211,745	$ 1,334,399	$ 217,819	$233,232	$ 63,110	$ 358,674	$2,755,166	$ -	$2,755,166	$ 257,345	$ 222,156	$ 479,501	$3,234,667	$3,262,139
Payroll taxes and fringe benefits	76,594	48,206	303,792	22,694	24,301	6,577	46,123	528,287	-	528,287	120,929	53,711	174,640	702,927	705,915
Musician pension plan	30,045	17,636	181,861	2,824	-	2,061	-	234,427	-	234,427	644	1,404	2,048	236,475	260,808
Artistic consulting fees	116,567	13,000	107,575	39,400	1,098	8,800	-	286,440	-	286,440	10,000	975	10,975	297,415	311,050
Production expenses	15,299	63,186	21,554	40,995	23,488	947	-	165,469	-	165,469	8,999	3,388	12,387	177,856	198,218
Professional fees	9,154	5,765	36,332	3,336	3,572	967	22,847	81,973	-	81,973	50,044	16,020	66,064	148,037	263,642
Building maintenance	77,689	48,932	308,370	28,313	30,316	8,203	193,908	695,731	-	695,731	-	-	-	695,731	662,095
Office and storage space rental	5,118	3,223	20,314	1,865	1,997	540	12,774	45,831	-	45,831	27,839	8,957	36,796	82,627	78,151
Office supplies	551	347	2,186	201	215	58	1,375	4,933	-	4,933	2,996	964	3,960	8,893	9,575
Postage and messengers	1,139	718	4,522	415	445	120	2,843	10,202	-	10,202	6,197	1,994	8,191	18,393	15,040
Computer maintenance	2,257	1,422	8,958	823	881	238	5,632	20,211	-	20,211	12,277	3,949	16,226	36,437	22,081
Equipment rental and maintenance	997	628	3,956	363	389	105	2,487	8,925	-	8,925	5,421	1,744	7,165	16,090	15,120
Telephone and internet	2,123	1,337	8,427	774	829	224	5,299	19,013	-	19,013	11,550	3,716	15,266	34,279	32,951
Payroll, bank and credit card fees	-	1,452	-	-	-	-	3,543	4,995	-	4,995	37,524	12,950	50,474	55,469	50,436
Subscriptions and memberships	2,152	1,356	8,545	785	840	228	5,372	19,278	-	19,278	11,711	3,768	15,479	34,757	29,798
Travel and entertainment	5,127	3,229	20,349	1,868	2,001	541	12,796	45,911	-	45,911	27,889	8,972	36,861	82,772	90,366
Printing and design	12,343	7,775	48,993	4,498	4,816	1,303	30,808	110,536	-	110,536	-	-	-	110,536	83,157
Advertising	2,225	1,401	8,829	811	868	235	5,553	19,922	-	19,922	-	-	-	19,922	19,566
Marketing, other	3,415	2,151	13,554	1,244	1,333	360	8,523	30,580	-	30,580	-	-	-	30,580	60,607
Reception and benefits	4,999	4,999	4,999	4,999	4,999	4,999	14,998	44,992	-	44,992	-	14,998	14,998	59,990	85,145
Tickets	-	-	-	-	-	-	-	-	-	-	4,365	39,286	43,651	43,651	33,018
Insurance	7,505	4,725	29,778	2,462	2,637	713	11,158	58,978	-	58,978	25,381	8,939	34,320	93,298	95,210
Interest	-	-	-	-	-	-	-	-	356,537	356,537	-	-	-	356,537	661,882
Miscellaneous	769	484	3,051	281	300	81	1,919	6,885	-	6,885	4,181	1,346	5,527	12,412	-
Total expenses before depreciation	712,255	443,717	2,480,344	376,770	338,557	100,410	746,632	5,198,685	356,537	5,555,222	625,292	409,237	1,034,529	6,589,751	7,045,970
Depreciation	-	-	-	-	-	-	-	-	781,717	781,717	-	-	-	781,717	782,272
Total Expenses, 2018	$712,255	$443,717	$ 2,480,344	$ 376,770	$338,557	$ 100,410	$ 746,632	$5,198,685	$ 1,138,254	$6,336,939	$ 625,292	$ 409,237	$1,034,529	$7,371,468	
Total Expenses, 2017	$634,818	$314,821	$ 2,587,189	$ 379,716	$273,966	$ 98,422	$ 879,869	$5,168,801	$ 1,444,154	$6,612,955	$ 738,864	$ 476,423	$1,215,287		$7,828,242

* Certain 2017 amounts have been reclassified for comparative purposes.

See independent auditors' report on supplementary information.