

VocalEssence
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2016 and 2015



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter Evert & Associates

Independent Auditor's Report

Certified Public Accountants

7760 France Avenue S. Suite 940 Bloomington Minnesota 55435

952.831.0085 carpenterevert.com

Board of Directors
VocalEssence
Minneapolis, Minnesota

We have audited the accompanying financial statements of VocalEssence, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VocalEssence as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Minneapolis, Minnesota
November 16, 2016

EXHIBIT A

VOCALLESSENCE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Contributions	\$ 506,149	\$ 522,268	\$ -	\$ 1,028,417	\$ 553,616	\$ 574,190	\$ -	\$ 1,127,806
Special Events - Less Direct Expense of \$134,206 in 2016 and \$29,048 in 2015	155,048	-	-	155,048	16,055	-	-	16,055
Government Grants	80,618	46,395	-	127,013	88,858	235,832	-	324,690
Performance Revenue	253,125	-	-	253,125	293,318	-	-	293,318
Investment Income	(10)	(13,324)	-	(13,334)	54,208	68,176	-	122,384
Miscellaneous	4,028	-	-	4,028	3,595	-	-	3,595
Net Assets Released from Restrictions:								
Satisfaction of Time	80,600	(80,600)	-	-	86,000	(86,000)	-	-
Satisfaction of Program Restrictions	736,166	(736,166)	-	-	924,182	(924,182)	-	-
Total Support and Revenue	1,815,724	(261,427)	-	1,554,297	2,019,832	(131,984)	-	1,887,848
Expense:								
Program Services:								
Artistic Series	1,155,073	-	-	1,155,073	941,690	-	-	941,690
Education	366,320	-	-	366,320	350,125	-	-	350,125
Special Programs	36,755	-	-	36,755	326,867	-	-	326,867
Total Program Services	1,558,148	-	-	1,558,148	1,618,682	-	-	1,618,682
Support Services:								
Management and General	160,828	-	-	160,828	189,147	-	-	189,147
Fundraising	252,446	-	-	252,446	269,717	-	-	269,717
Total Support Services	413,274	-	-	413,274	458,864	-	-	458,864
Total Expense	1,971,422	-	-	1,971,422	2,077,546	-	-	2,077,546
Change in Net Assets - From Operations	(155,698)	(261,427)	-	(417,125)	(57,714)	(131,984)	-	(189,698)
Other Changes in Net Assets:								
Fund Transfers	221,000	(221,000)	-	-	187,680	(187,680)	-	-
Change in Net Assets	65,302	(482,427)	-	(417,125)	129,966	(319,664)	-	(189,698)
Net Assets - Beginning of Year	2,531,925	1,022,654	973,459	4,528,038	2,401,959	1,342,318	973,459	4,717,736
Net Assets - End of Year	\$ 2,597,227	\$ 540,227	\$ 973,459	\$ 4,110,913	\$ 2,531,925	\$ 1,022,654	\$ 973,459	\$ 4,528,038

The accompanying Notes to Financial Statements are an integral part of these statements.

VOCALESSENCE

STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR 2015

	2016					2015	
	Program Services		Support Services			Total All Services	Total All Services
	Artistic Series	Education	Special Programs	Program Services	Management & General	Fund-raising	Total Support Services
Personnel Expense:							
Salaries	\$ 245,116	\$ 105,005	\$ -	\$ 350,121	\$ 103,885	\$ 168,431	\$ 272,316
Payroll Taxes	24,408	10,456	-	34,864	10,344	16,772	27,116
Employee Benefits	40,895	17,519	-	58,414	17,332	28,102	45,434
Total Personnel Costs	310,419	132,980	-	443,399	131,561	213,305	344,866
Performance Expense:							
Ensemble	180,624	11,448	2,250	194,322	57	180	237
Printing and Advertising	143,546	7,277	-	150,823	78	-	78
Production	163,559	13,154	637	177,350	1,358	-	1,358
Travel	58,845	39,664	-	98,509	415	422	837
Guest Artists	99,384	42,261	-	141,645	-	-	-
School Artists	-	49,059	-	49,059	-	-	-
Orchestra	54,961	-	785	55,746	-	-	-
Other Expense	14,994	14,555	170	29,719	1,827	516	2,343
Composers/Copyists	1,750	27,726	-	29,476	-	-	-
Merchandise	-	-	-	-	-	-	-
Recording	15,723	4,490	32,913	53,126	-	-	-
Postage and Delivery	12,468	12	-	12,480	-	-	-
Total Performance Expense	745,854	209,646	36,755	992,255	3,735	1,118	4,853
General Expense:							
Rent	28,159	6,753	-	34,912	6,679	10,837	17,516
Equipment Rental and Maintenance	18,377	4,407	-	22,784	4,359	7,072	11,431
Other Expense	6,174	1,480	-	7,654	1,462	2,377	3,839
Contract Services and Professional Fees	14,271	3,422	-	17,693	3,385	5,492	8,877
Travel	8,256	1,980	-	10,236	1,958	3,177	5,135
Subscriptions and Dues	3,084	740	-	3,824	732	1,187	1,919
Printing	1,844	442	-	2,286	437	711	1,148
Telephone	4,101	984	-	5,085	973	1,578	2,551
Supplies	4,094	982	-	5,076	971	1,575	2,546
Postage	3,264	783	-	4,047	774	1,256	2,030
Insurance	3,511	842	-	4,353	833	1,351	2,184
Interest	-	-	-	-	2,100	-	2,100
Depreciation	3,665	879	-	4,544	869	1,410	2,279
Total General Expense	98,800	23,694	-	122,494	25,532	38,023	63,555
Total Expense	\$ 1,155,073	\$ 366,320	\$ 36,755	\$ 1,558,148	\$ 160,828	\$ 252,446	\$ 413,274
							\$ 1,971,422
							\$ 2,077,546

The accompanying Notes to Financial Statements

are an integral part of this statement.

VOCALLESSENCE

STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services				Support Services			Total All Services
	Artistic Series	Education	Special Programs	Program Services	Management & General	Fund-raising	Support Services	
Personnel Expense:								
Salaries	\$ 220,945	\$ 84,231	\$ -	\$ 305,176	\$ 117,747	\$ 166,106	\$ 283,853	\$ 589,029
Payroll Taxes	24,119	9,195	-	33,314	12,853	18,132	30,985	64,299
Employee Benefits	41,046	15,648	-	56,694	21,874	30,859	52,733	109,427
Total Personnel Costs	286,110	109,074	-	395,184	152,474	215,097	367,571	762,755
Performance Expense:								
Ensemble	89,878	3,102	150,921	243,901	-	5,464	5,464	249,365
Printing and Advertising	128,009	11,490	5,546	145,045	507	6,433	6,940	151,985
Production	119,470	13,877	6,338	139,685	509	231	740	140,425
Travel	10,282	60,829	118,563	189,674	269	-	269	189,943
Guest Artists	114,115	37,156	43,139	194,410	1,250	400	1,650	196,060
School Artists	-	51,730	-	51,730	-	-	-	51,730
Orchestra	28,161	250	-	28,411	-	-	-	28,411
Other Expense	13,357	4,037	2,360	19,754	887	333	1,220	20,974
Composers/Copyists	15,083	36,200	-	51,283	-	-	-	51,283
Merchandise	-	-	-	-	3,669	-	3,669	3,669
Recording	16,302	1,040	-	17,342	-	-	-	17,342
Postage and Delivery	8,138	176	-	8,314	-	-	-	8,314
Total Performance Expense	542,795	219,887	326,867	1,089,549	7,091	12,861	19,952	1,109,501
General Expense:								
Rent	27,374	5,137	-	32,511	7,180	10,135	17,315	49,826
Equipment Rental and Maintenance	20,424	3,833	-	24,257	5,357	7,562	12,919	37,176
Other Expense	13,841	2,597	-	16,438	3,630	5,125	8,755	25,193
Contract Services and Professional Fees	12,515	2,349	-	14,864	3,282	4,633	7,915	22,779
Travel	9,104	1,708	-	10,812	2,388	3,371	5,759	16,571
Subscriptions and Dues	8,900	1,670	-	10,570	2,334	3,295	5,629	16,199
Printing	5,676	1,065	-	6,741	1,489	2,102	3,591	10,332
Telephone	4,493	843	-	5,336	1,179	1,664	2,843	8,179
Supplies	3,706	695	-	4,401	972	1,372	2,344	6,745
Postage	3,539	664	-	4,203	928	1,310	2,238	6,441
Insurance	1,836	345	-	2,181	482	680	1,162	3,343
Depreciation	1,377	258	-	1,635	361	510	871	2,506
Total General Expense	112,785	21,164	-	133,949	29,582	41,759	71,341	205,290
Total Expense	\$ 941,690	\$ 350,125	\$ 326,867	\$ 1,618,682	\$ 189,147	\$ 269,717	\$ 458,864	\$ 2,077,546

The accompanying Notes to Financial Statements are an integral part of this statement.

VOCALESSENCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and Cash Equivalents	\$ 12,341	\$ 65,802
Accounts Receivable	9,616	18,402
Pledges Receivable	126,272	76,241
Prepaid Expenses	44,141	50,390
Total Current Assets	<u>192,370</u>	<u>210,835</u>
Investments	3,952,072	4,341,052
Property and Equipment - Net	47,474	14,999
TOTAL ASSETS	<u>\$ 4,191,916</u>	<u>\$ 4,566,886</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 21,094	\$ 17,221
Accrued Vacation	25,149	10,627
Capital Lease Payable	9,355	
Deferred Income	-	11,000
Total Current Liabilities	<u>55,598</u>	<u>38,848</u>
Long-Term Liabilities:		
Capital Lease Payable	25,405	-
Total Liabilities	<u>81,003</u>	<u>38,848</u>
Net Assets:		
Unrestricted:		
Undesignated	1,439,166	1,379,426
Endowment	1,158,061	1,152,499
Total Unrestricted	<u>2,597,227</u>	<u>2,531,925</u>
Temporarily Restricted	540,227	1,022,654
Permanently Restricted	973,459	973,459
Total Net Assets	<u>4,110,913</u>	<u>4,528,038</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,191,916</u>	<u>\$ 4,566,886</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

VOCALLESSENCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (417,125)	\$ (189,698)
Total Adjustments	<u>(50,869)</u>	<u>(110,665)</u>
Net Cash Used by Operating Activities	(467,994)	(300,363)
Cash Flows from Investing Activities:		
Proceeds from the Sale of Investments	3,162,051	3,413,266
Purchase of Investments	<u>(2,743,139)</u>	<u>(3,255,958)</u>
Net Cash Provided by Investing Activities	418,912	157,308
Cash Flows from Financing Activities:		
Capital Lease Payments	<u>(4,379)</u>	<u>-</u>
Net (Decrease) in Cash and Cash Equivalents	(53,461)	(143,055)
Cash and Cash Equivalents - Beginning of Year	<u>65,802</u>	<u>208,857</u>
Cash and Cash Equivalents - End of Year	<u>\$ 12,341</u>	<u>\$ 65,802</u>
 <u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 2,100</u>	<u>\$ -</u>
Assets Acquired Under a Capital Lease	<u>\$ 39,139</u>	<u>\$ -</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. Summary of Significant Accounting Policies

Organizational Purpose

VocalEssence's mission is to explore the interaction of voices and instruments through innovative programming of music, past and present. They seek to engage and enrich their audiences, who expect from them the unexpected. Their focus is on commissioned and first performances of music as well as important, but rarely heard, works of the past. VocalEssence strives to inspire learners of all ages through creative community engagement programs.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to VocalEssence, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restriction. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as part of unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of VocalEssence resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be satisfied by actions of VocalEssence.

Permanently Restricted – Those resources subject to a donor-imposed stipulation that they should be maintained permanently by VocalEssence. The donors of these resources permit VocalEssence to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Cash and Cash Equivalents

For purposes of the statements of cash flows, VocalEssence considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Doubtful Accounts

VocalEssence extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and VocalEssence does not charge interest on accounts receivable balances. VocalEssence reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. No allowance for doubtful accounts has been provided as accounts receivable are considered collectable.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Investments

VocalEssence carries its investments at market value.

Inventory

VocalEssence produces compact disc recordings as part of its artistic mission. The supply of unsold recordings is not recorded as inventory as their future value is uncertain.

Property and Equipment

All major expenditures for property and equipment in excess of \$1,000 are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is provided through the use of the straight-line method.

Contributions

Contributions are recorded as support when received or pledged. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions.

Promises-To-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

Deferred Revenue

Amounts received for future year programs are recorded as deferred revenue until the period in which they are earned.

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 at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expense

Expenses are recorded in functional categories when incurred. In certain cases, allocations of expenses between categories must be made. When allocations are required, they are based on the best estimates of management

Income Tax

VocalEssence has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted Accounting for Uncertainty in Income Taxes, ASC 740-10. VocalEssence's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. VocalEssence continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, VocalEssence annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending June 30, 2013 and later remain subject to examination by the Internal Revenue Service.

Subsequent Events

VocalEssence has evaluated the effect that subsequent events would have on the financial statements through November 16, 2016, which is the date financial statements were available to be issued.

Reclassifications

Certain amounts in prior year comparative totals have been reclassified to conform with the presentation in the current year financial statements.

2. Significant Concentrations of Credit Risk

VocalEssence provides services primarily within the Twin Cities area. The amounts due for services provided are from local institutions. Pledges receivable are from local individuals and institutions.

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

3. Investments

Investments were comprised of the following as of:

	June 30,			
	2016		2015	
	Cost	Market	Cost	Market
At quoted market value:				
Money Market Funds	\$ 592,487	\$ 592,487	\$ 304,119	\$ 304,119
Marketable Equity Securities	2,396,882	2,552,449	2,570,424	2,855,940
Mutual Funds	766,863	807,136	1,077,838	1,180,993
Total	<u>\$ 3,756,232</u>	<u>\$ 3,952,072</u>	<u>\$ 3,952,381</u>	<u>\$ 4,341,052</u>

Investment income was as follows as of:

	June 30,	
	2016	2015
Interest and Dividend Income	\$ 39,585	\$ 27,372
Realized Gain	140,154	432,547
Unrealized Gain (Loss)	(193,073)	(337,535)
Total	<u>\$ (13,334)</u>	<u>\$ 122,384</u>

4. Fair Value

VocalEssence adopted Financial Accounting Standards Board Accounting Standards Codification Topic 820 Fair Value Measurements and Disclosures ("ASC 820"). In accordance with ASC 820, "fair value" is defined as the price that an organization would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used in determining the value of investments. ASC 820 established a three-tier hierarchy of inputs to establish a classification of fair value measurements for disclosure purposes. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical investments.
- Level 2 – Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – Significant unobservable inputs.

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

4. Fair Value (continued)

The following is a summary of the inputs used to determine the fair value of the investments at:

June 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 592,487	\$ -	\$ -	\$ 592,487
Marketable Equity Securities	2,552,449	-	-	2,552,449
Mutual Funds	<u>807,136</u>	-	-	<u>807,136</u>
Total	<u>\$ 3,952,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,952,072</u>

June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 304,119	\$ -	\$ -	\$ 304,119
Marketable Equity Securities	2,855,940	-	-	2,855,940
Mutual Funds	<u>1,180,993</u>	-	-	<u>1,180,993</u>
Total	<u>\$ 4,341,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,341,052</u>

5. Net Asset Designations

The Board of Directors has established an Endowment Fund to invest resources for the long-term benefit of VocalEssence. Annually, the Board determines the portion of the Endowment Fund earnings to be retained in order to offset the effect of inflation and to determine the portion that should be assigned or transferred to the Operating Fund.

6. Pledges Receivable

The outstanding balance of pledges receivable at June 30, 2016, is expected to be collected over the following fiscal year:

Due in the Year Ending June 30,

2017	\$ 66,272
2018	30,000
2019	<u>30,000</u>
	<u>\$ 126,272</u>

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

7. Property and Equipment

VocalEssence owned the following as of:

	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>2016</u>	<u>2015</u>	
Furniture and Equipment	\$ 107,297	\$ 68,158	5-15 years
Leasehold Improvements	62,657	62,657	10 years
	169,954	130,815	
Less Accumulated Depreciation	<u>122,480</u>	<u>115,816</u>	
	<u>\$ 47,474</u>	<u>\$ 14,999</u>	

Depreciation expense of \$6,823 and \$2,506 was recorded for the years ended June 30, 2016 and 2015, respectively.

8. Pension Plan

VocalEssence made contributions of \$35,045 and \$47,189 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2016 and 2015, respectively. Employees age 21 and over, with a least 1,000 hours of service per year, are covered by the plan.

9. Leased Facilities and Equipment

Rental commitments under a noncancelable lease for equipment in effect at June 30, 2016, total \$37,247. Rental commitments under a noncancelable lease for office space subsequent to June 30, 2016, total \$100,648. The future annual rental commitments are as follows:

<u>Due in the Year Ending June 30,</u>	<u>Equipment</u>	<u>Space</u>
2017	\$ 11,928	\$ 50,324
2018	9,804	50,324
2019	9,804	-
2020	<u>5,711</u>	<u>-</u>
	<u>\$ 37,247</u>	<u>\$ 100,648</u>

Rental expense for office space and equipment was \$76,930 and \$70,506 for the years ended June 30, 2016 and 2015, respectively.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

10. Temporarily Restricted Net Assets

The purpose of temporarily restricted net assets is to account for revenue committed but not yet spent for the purpose intended by the donor. Temporarily restricted net assets included the following as of:

	June 30,	
	2016	2015
Unappropriated Investment Income	\$ 343,488	\$ 577,812
Future Years Operating and Program Support	90,000	115,404
Minnesota State Arts Board – Touring & Arts Access	76,985	122,040
Artistic Advancement Fund	29,754	188,994
Assistant Directorship Campaign	-	18,404
	\$ 540,227	\$ 1,022,654

11. In-kind Contributions

VocalEssence records in-kind contributions at fair market value at date of donation. In-kind contributions included the following as of:

	June 30,	
	2016	2015
Advertising	\$ 47,700	\$ 53,000
Travel Vouchers	20,425	1,600
Graphic Design and Printing	16,275	7,350
Contract Services	800	-
Other	2,100	2,100
	\$ 87,300	\$ 64,050

12. Capital Lease Payable

VocalEssence leases certain equipment under a non-cancelable lease. The lease has been capitalized and included in equipment in the amount of \$39,139 less accumulated depreciation of \$4,349. The following is a schedule of future minimum lease payments at June 30, 2016:

<u>Due in the Year Ending June 30,</u>	
2017	\$ 15,549
2018	15,549
2019	15,549
Total Payments	46,647
Less imputed interest at 20.2%	11,887
Net Amount Due	34,760
Less Portion Due Within One (1) Year	9,355
Long-term Portion	\$ 25,405

Amortization expense related to the lease of \$4,349 is included in depreciation expense for the year ended June 30, 2016.

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13. Endowment Fund

Description

Endowment funds consist of both permanently restricted, temporarily restricted and board designated funds established for the purposes:

Permanently restricted funds are donor restricted to be held for designated purposes with the income and related investment gains to be used for those designated purposes.

Temporarily restricted funds are earnings on invested funds not yet appropriated for use by the Board of Directors and held for long-term purposes.

Funds designated by the Board of Directors to function as endowments are held at the discretion of the Board of Directors with the income and investment gains to be used for operation in accordance with an established spending formula.

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.

Interpretation of Relevant Law

The Board of Directors 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 funds absent explicit donor stipulations to the contrary. As a result of this interpretation, VocalEssence 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 the 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 VocalEssence in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, VocalEssence 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 VocalEssence 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 VocalEssence
7. The investment policies of VocalEssence.

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13. Endowment Fund (continued)

Endowment Net Asset Composition by Type of Fund:

June 30, 2016	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 373,242	\$ 973,459	\$ 1,346,701
Board-designated	<u>2,605,371</u>	<u>-</u>	<u>-</u>	<u>2,605,371</u>
Total	<u>\$ 2,605,371</u>	<u>\$ 373,242</u>	<u>\$ 973,459</u>	<u>\$ 3,952,072</u>
June 30, 2015	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 766,806	\$ 973,459	\$ 1,740,265
Board-designated	<u>2,600,787</u>	<u>-</u>	<u>-</u>	<u>2,600,787</u>
Total	<u>\$ 2,600,787</u>	<u>\$ 766,806</u>	<u>\$ 973,459</u>	<u>\$ 4,341,052</u>

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13. Endowment Fund (continued)

Changes in Endowment Net Assets:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2014	\$ 2,327,358	\$ 962,368	\$ 973,459	\$ 4,263,185
Investment Return:				
Investment Income	12,179	15,193	-	27,372
Net Appreciation	<u>42,000</u>	<u>52,983</u>	<u>-</u>	<u>94,983</u>
Total Investment Return	54,179	68,176	-	122,355
Other Changes:				
Appropriation	<u>219,250</u>	<u>(263,738)</u>	<u>-</u>	<u>(44,488)</u>
June 30, 2015	2,600,787	766,806	973,459	4,341,052
Investment Return:				
Investment Income		41,300	-	41,300
Net Appreciation	<u>4,584</u>	<u>(54,624)</u>	<u>-</u>	<u>(50,040)</u>
Total Investment Return	4,584	(13,324)	-	(8,740)
Other Changes:				
Appropriation	<u>-</u>	<u>(380,240)</u>	<u>-</u>	<u>(380,240)</u>
June 30, 2016	<u>\$ 2,605,371</u>	<u>\$ 373,242</u>	<u>\$ 973,459</u>	<u>\$ 3,952,072</u>

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14. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities were as follows as of:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Depreciation	\$ 6,823	\$ 2,506
Contributed Securities	(123,433)	(140,163)
Unrealized (Gain)/ Loss on Investments	194,357	337,535
Realized (Gain)/Loss on Investments	(140,154)	(432,547)
Assets Acquired Under a Capital Lease	39,139	-
- Increases (Decreases) in Current Liabilities:		
Accounts Payable	3,873	(14,502)
Accrued Expense	14,522	(4,916)
Deferred Income	(11,000)	11,000
Decreases (Increases) in Current Assets:		
Accounts Receivable	8,786	(17,909)
Pledges Receivable	(50,031)	35,582
Prepaid Expenses	6,249	112,749
Total Adjustments	<u>\$ (50,869)</u>	<u>\$ (110,665)</u>