

VocalEssence
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2017 and 2016



CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

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, 2017 and 2016, 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, 2017 and 2016, 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
October 16, 2017

VOCALESSENCE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | | 2016 | | | | |
|---|--------------|------------------------|------------------------|--------------|--------------|------------------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and Revenue: | | | | | | | | |
| Contributions | \$ 618,920 | \$ 909,197 | \$ - | \$ 1,528,117 | \$ 506,149 | \$ 522,268 | \$ - | \$ 1,028,417 |
| Special Events - Less Direct Expense of \$422 in 2017 and \$134,206 in 2016 | 1,028 | - | - | 1,028 | 155,048 | - | - | 155,048 |
| Government Grants | 94,493 | 294,148 | - | 388,641 | 80,618 | 46,395 | - | 127,013 |
| Performance Revenue | 188,849 | - | - | 188,849 | 253,125 | - | - | 253,125 |
| Investment Income | 227,174 | 279,053 | - | 506,227 | (10) | (13,324) | - | (13,334) |
| Miscellaneous | 4,592 | - | - | 4,592 | 4,028 | - | - | 4,028 |
| Net Assets Released from Restrictions: | | | | | | | | |
| Satisfaction of Time | 52,500 | (52,500) | - | - | 80,600 | (80,600) | - | - |
| Satisfaction of Program Restrictions | 655,397 | (655,397) | - | - | 736,166 | (736,166) | - | - |
| Total Support and Revenue | 1,842,953 | 774,501 | - | 2,617,454 | 1,815,724 | (261,427) | - | 1,554,297 |
| Expense: | | | | | | | | |
| Program Services: | | | | | | | | |
| Artistic Series | 726,988 | - | - | 726,988 | 1,155,073 | - | - | 1,155,073 |
| Education | 436,492 | - | - | 436,492 | 366,320 | - | - | 366,320 |
| Special Programs | 19,435 | - | - | 19,435 | 36,755 | - | - | 36,755 |
| Total Program Services | 1,182,915 | - | - | 1,182,915 | 1,558,148 | - | - | 1,558,148 |
| Support Services: | | | | | | | | |
| Management and General | 272,398 | - | - | 272,398 | 160,828 | - | - | 160,828 |
| Fundraising | 295,177 | - | - | 295,177 | 252,446 | - | - | 252,446 |
| Total Support Services | 567,575 | - | - | 567,575 | 413,274 | - | - | 413,274 |
| Total Expense | 1,750,490 | - | - | 1,750,490 | 1,971,422 | - | - | 1,971,422 |
| Change in Net Assets - From Operations | 92,463 | 774,501 | - | 866,964 | (155,698) | (261,427) | - | (417,125) |
| Other Changes in Net Assets: | | | | | | | | |
| Fund Transfers | 211,813 | (211,813) | - | - | 221,000 | (221,000) | - | - |
| Change in Net Assets | 304,276 | 562,688 | - | 866,964 | 65,302 | (482,427) | - | (417,125) |
| Net Assets - Beginning of Year | 2,597,227 | 540,227 | 973,459 | 4,110,913 | 2,531,925 | 1,022,654 | 973,459 | 4,528,038 |
| Net Assets - End of Year | \$ 2,901,503 | \$ 1,102,915 | \$ 973,459 | \$ 4,977,877 | \$ 2,597,227 | \$ 540,227 | \$ 973,459 | \$ 4,110,913 |

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

VOCALLESSENCE

STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

| | 2017 | | | | | | 2016 | | |
|---|------------------|------------|------------------|------------------|----------------------|--------------|------------------------|--------------------|--------------------|
| | Program Services | | | Support Services | | | Total Support Services | Total All Services | Total All Services |
| | Artistic Series | Education | Special Programs | Program Services | Management & General | Fund-raising | | | |
| Personnel Expense: | | | | | | | | | |
| Salaries | \$ 190,363 | \$ 121,031 | \$ 12,405 | \$ 323,799 | \$ 123,109 | \$ 182,806 | \$ 305,915 | \$ 629,714 | \$ 622,437 |
| Payroll Taxes | 16,515 | 10,500 | 1,076 | 28,091 | 10,680 | 15,859 | 26,539 | 54,630 | 61,980 |
| Employee Benefits | 28,767 | 18,290 | 1,875 | 48,932 | 18,604 | 27,626 | 46,230 | 95,162 | 103,848 |
| Total Personnel Costs | 235,645 | 149,821 | 15,356 | 400,822 | 152,393 | 226,291 | 378,684 | 779,506 | 788,265 |
| Performance Expense: | | | | | | | | | |
| Ensemble | 83,039 | 14,252 | - | 97,291 | - | - | - | 97,291 | 194,559 |
| Printing and Advertising | 120,735 | 32,268 | 925 | 153,928 | 9,353 | 13,607 | 22,960 | 176,888 | 150,901 |
| Production | 90,389 | 15,739 | - | 106,128 | - | 60 | 60 | 106,188 | 178,708 |
| Travel | 12,166 | 47,533 | - | 59,699 | 227 | 81 | 308 | 60,007 | 99,346 |
| Guest Artists | 28,020 | 46,299 | - | 74,319 | 950 | 1,846 | 2,796 | 77,116 | 141,645 |
| School Artists | - | 53,813 | - | 53,813 | - | - | - | 53,813 | 49,059 |
| Orchestra | 24,516 | - | - | 24,516 | - | - | - | 24,516 | 55,746 |
| Other Expense | 18,032 | 24,467 | 369 | 42,868 | 939 | 892 | 1,830 | 44,698 | 32,062 |
| Composers/Copyists | 19,950 | 22,000 | - | 41,950 | - | - | - | 41,950 | 29,476 |
| Merchandise | - | - | - | - | - | - | - | - | - |
| Recording | 14,015 | 3,137 | - | 17,152 | - | - | - | 17,152 | 53,126 |
| Postage and Delivery | 6,202 | 40 | - | 6,242 | - | 27 | 27 | 6,269 | 12,480 |
| Total Performance Expense | 417,064 | 259,548 | 1,294 | 677,906 | 11,469 | 16,513 | 27,982 | 705,888 | 997,108 |
| General Expense: | | | | | | | | | |
| Rent | 20,239 | 8,913 | 915 | 30,067 | 9,060 | 13,456 | 22,516 | 52,583 | 52,428 |
| Equipment Rental and Maintenance | 10,911 | 4,805 | 493 | 16,209 | 4,883 | 7,255 | 12,138 | 28,347 | 34,215 |
| Other Expense | 2,805 | 1,235 | 127 | 4,167 | 1,255 | 1,866 | 3,121 | 7,288 | 11,493 |
| Contract Services and Professional Fees | 12,690 | - | - | 12,690 | 74,774 | 11,425 | 86,199 | 98,889 | 26,570 |
| Travel | 6,765 | 2,979 | 306 | 10,050 | 3,028 | 4,497 | 7,525 | 17,575 | 15,371 |
| Subscriptions and Dues | 2,226 | 980 | 101 | 3,307 | 997 | 1,480 | 2,477 | 5,784 | 5,743 |
| Printing | 3,828 | 1,686 | 173 | 5,687 | 1,714 | 2,545 | 4,259 | 9,946 | 3,434 |
| Telephone | 3,542 | 1,560 | 160 | 5,262 | 1,585 | 2,355 | 3,940 | 9,202 | 7,636 |
| Supplies | 1,791 | 789 | 81 | 2,661 | 802 | 1,190 | 1,992 | 4,653 | 7,622 |
| Postage | 2,071 | 912 | 94 | 3,077 | 927 | 1,377 | 2,304 | 5,381 | 6,077 |
| Insurance | 1,553 | 684 | 70 | 2,307 | 695 | 1,033 | 1,728 | 4,035 | 6,537 |
| Interest | - | - | - | - | 6,194 | - | 6,194 | 6,194 | 2,100 |
| Depreciation | 5,858 | 2,580 | 265 | 8,703 | 2,622 | 3,894 | 6,516 | 15,219 | 6,823 |
| Total General Expense | 74,279 | 27,123 | 2,785 | 104,187 | 108,536 | 52,373 | 160,909 | 265,096 | 186,049 |
| Total Expense | \$ 726,988 | \$ 436,492 | \$ 19,435 | \$ 1,182,915 | \$ 272,398 | \$ 295,177 | \$ 567,575 | \$ 1,750,490 | \$ 1,971,422 |

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

VOCALESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2016

| | Program Services | | | | Support Services | | | | Total All Services |
|---|---------------------|-------------------|------------------|---------------------|----------------------|-------------------|-------------------|---------------------|--------------------|
| | Artistic Series | Education | Special Programs | Program Services | Management & General | Fund-raising | Support Services | Total | |
| Personnel Expense: | | | | | | | | | |
| Salaries | \$ 245,116 | \$ 105,005 | \$ - | \$ 350,121 | \$ 103,885 | \$ 168,431 | \$ 272,316 | \$ 622,437 | |
| Payroll Taxes | 24,408 | 10,456 | - | 34,864 | 10,344 | 16,772 | 27,116 | 61,980 | |
| Employee Benefits | 40,895 | 17,519 | - | 58,414 | 17,332 | 28,102 | 45,434 | 103,848 | |
| Total Personnel Costs | 310,419 | 132,980 | - | 443,399 | 131,561 | 213,305 | 344,866 | 788,265 | |
| Performance Expense: | | | | | | | | | |
| Ensemble | 180,624 | 11,448 | 2,250 | 194,322 | 57 | 180 | 237 | 194,559 | |
| Printing and Advertising | 143,546 | 7,277 | - | 150,823 | 78 | - | 78 | 150,901 | |
| Production | 163,559 | 13,154 | 637 | 177,350 | 1,358 | - | 1,358 | 178,708 | |
| Travel | 58,845 | 39,664 | - | 98,509 | 415 | 422 | 837 | 99,346 | |
| Guest Artists | 99,384 | 42,261 | - | 141,645 | - | - | - | 141,645 | |
| School Artists | - | 49,059 | - | 49,059 | - | - | - | 49,059 | |
| Orchestra | 54,961 | - | 785 | 55,746 | - | - | - | 55,746 | |
| Other Expense | 14,994 | 14,555 | 170 | 29,719 | 1,827 | 516 | 2,343 | 32,062 | |
| Composers/Copyists | 1,750 | 27,726 | - | 29,476 | - | - | - | 29,476 | |
| Merchandise | - | - | - | - | - | - | - | - | |
| Recording | 15,723 | 4,490 | 32,913 | 53,126 | - | - | - | 53,126 | |
| Postage and Delivery | 12,468 | 12 | - | 12,480 | - | - | - | 12,480 | |
| Total Performance Expense | 745,854 | 209,646 | 36,755 | 992,255 | 3,735 | 1,118 | 4,853 | 997,108 | |
| General Expense: | | | | | | | | | |
| Rent | 28,159 | 6,753 | - | 34,912 | 6,679 | 10,837 | 17,516 | 52,428 | |
| Equipment Rental and Maintenance | 18,377 | 4,407 | - | 22,784 | 4,359 | 7,072 | 11,431 | 34,215 | |
| Other Expense | 6,174 | 1,480 | - | 7,654 | 1,462 | 2,377 | 3,839 | 11,493 | |
| Contract Services and Professional Fees | 14,271 | 3,422 | - | 17,693 | 3,385 | 5,492 | 8,877 | 26,570 | |
| Travel | 8,256 | 1,980 | - | 10,236 | 1,958 | 3,177 | 5,135 | 15,371 | |
| Subscriptions and Dues | 3,084 | 740 | - | 3,824 | 732 | 1,187 | 1,919 | 5,743 | |
| Printing | 1,844 | 442 | - | 2,286 | 437 | 711 | 1,148 | 3,434 | |
| Telephone | 4,101 | 984 | - | 5,085 | 973 | 1,578 | 2,551 | 7,636 | |
| Supplies | 4,094 | 982 | - | 5,076 | 971 | 1,575 | 2,546 | 7,622 | |
| Postage | 3,264 | 783 | - | 4,047 | 774 | 1,256 | 2,030 | 6,077 | |
| Insurance | 3,511 | 842 | - | 4,353 | 833 | 1,351 | 2,184 | 6,537 | |
| Interest | - | - | - | - | 2,100 | - | 2,100 | 2,100 | |
| Depreciation | 3,665 | 879 | - | 4,544 | 869 | 1,410 | 2,279 | 6,823 | |
| Total General Expense | 98,800 | 23,694 | - | 122,494 | 25,532 | 38,023 | 63,555 | 186,049 | |
| Total Expense | \$ 1,155,073 | \$ 366,320 | \$ 36,755 | \$ 1,558,148 | \$ 160,828 | \$ 252,446 | \$ 413,274 | \$ 1,971,422 | |

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

VOCALLESSENCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

| <u>ASSETS</u> | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 59,650 | \$ 12,341 |
| Accounts Receivable | 12,151 | 9,616 |
| Pledges Receivable | 205,371 | 126,272 |
| Prepaid Expenses | 43,105 | 44,141 |
| Total Current Assets | <u>320,277</u> | <u>192,370</u> |
| Pledges Receivable | 366,609 | - |
| Investments | 4,331,974 | 3,952,072 |
| Property and Equipment - Net | 36,216 | 47,474 |
| TOTAL ASSETS | <u>\$ 5,055,076</u> | <u>\$ 4,191,916</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 24,489 | \$ 21,094 |
| Accrued Vacation | 27,305 | 25,149 |
| Capital Lease Payable | 11,433 | 9,355 |
| Total Current Liabilities | <u>63,227</u> | <u>55,598</u> |
| Long-Term Liabilities: | | |
| Capital Lease Payable | 13,972 | 25,405 |
| Total Liabilities | <u>77,199</u> | <u>81,003</u> |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 1,611,455 | 1,439,166 |
| Endowment | 1,290,048 | 1,158,061 |
| Total Unrestricted | <u>2,901,503</u> | <u>2,597,227</u> |
| Temporarily Restricted | 1,102,915 | 540,227 |
| Permanently Restricted | 973,459 | 973,459 |
| Total Net Assets | <u>4,977,877</u> | <u>4,110,913</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 5,055,076</u> | <u>\$ 4,191,916</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, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|--------------------|--------------------|
| <u>Increase (Decrease) in Cash and Cash Equivalents</u> | | |
| Cash Flows from Operating Activities: | | |
| Change in Net Assets | \$ 866,964 | \$ (417,125) |
| Total Adjustments | <u>(1,008,734)</u> | <u>(50,869)</u> |
| Net Cash Used by Operating Activities | (141,770) | (467,994) |
| Cash Flows from Investing Activities: | | |
| Proceeds from the Sale of Investments | 1,924,860 | 3,162,051 |
| Purchase of Investments | <u>(1,695,426)</u> | <u>(2,743,139)</u> |
| Net Cash Provided by Investing Activities | 229,434 | 418,912 |
| Cash Flows from Financing Activities: | | |
| Capital Lease Payments | <u>(9,355)</u> | <u>(4,379)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 78,309 | (53,461) |
| Cash and Cash Equivalents - Beginning of Year | <u>12,341</u> | <u>65,802</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 90,650</u> | <u>\$ 12,341</u> |
| <u>Supplemental Disclosures of Cash Flow Information</u> | | |
| Cash Paid for: | | |
| Interest | <u>\$ 6,194</u> | <u>\$ 2,100</u> |
| Assets Acquired Under a Capital Lease | <u>\$ -</u> | <u>\$ 39,139</u> |

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

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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. Long-term pledges receivable are due from the Katherine B. Anderson Fund of the St. Paul Foundation.

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.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2014 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 October 16, 2017, 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, 2017 AND 2016

3. Investments

Investments were comprised of the following as of:

| | June 30, | | | |
|------------------------------|--------------|--------------|--------------|--------------|
| | 2017 | | 2016 | |
| | Cost | Market | Cost | Market |
| At quoted market value: | | | | |
| Money Market Funds | \$ 754,484 | \$ 754,482 | \$ 592,487 | \$ 592,487 |
| Marketable Equity Securities | 2,352,981 | 2,909,045 | 2,396,882 | 2,552,449 |
| Mutual Funds | 653,397 | 668,447 | 766,863 | 807,136 |
| Total | \$ 3,760,862 | \$ 4,331,974 | \$ 3,756,232 | \$ 3,952,072 |

Investment income was as follows as of:

| | June 30, | |
|------------------------------|------------|-------------|
| | 2017 | 2016 |
| Interest and Dividend Income | \$ 58,570 | \$ 39,585 |
| Realized Gain | 156,085 | 140,154 |
| Unrealized Gain (Loss) | 291,572 | (193,073) |
| Total | \$ 506,227 | \$ (13,334) |

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.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

4. Fair Value (continued)

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

June 30, 2017

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------|---------------------|-------------------|----------------|---------------------|
| Money Market Funds | \$ 754,482 | \$ - | \$ - | \$ 754,482 |
| Marketable Equity Securities | 2,909,045 | - | - | 2,909,045 |
| Mutual Funds | 668,447 | - | - | 668,447 |
| Grants Receivable | - | 335,609 | - | 335,609 |
| Total | <u>\$ 4,331,974</u> | <u>\$ 335,609</u> | <u>\$ -</u> | <u>\$ 4,667,583</u> |

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 | 807,136 | - | - | 807,136 |
| Total | <u>\$ 3,952,072</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,952,072</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, 2017, is expected to be collected over the following fiscal year:

Due in the Year Ending June 30,

| | |
|--------------------------------------|-------------------|
| 2018 | \$ 220,466 |
| 2019 | 80,000 |
| 2020 | 51,000 |
| 2021 | 50,000 |
| 2022 | 50,000 |
| 2023-26 | <u>200,000</u> |
| | 651,466 |
| Less discount to present value at 4% | <u>(79,486)</u> |
| | 571,980 |
| Due within one year | <u>205,371</u> |
| Long-term portion | <u>\$ 366,609</u> |

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7. Property and Equipment

VocalEssence owned the following as of:

| | <u>June 30,</u> | | <u>Estimated Useful Lives</u> |
|-------------------------------|------------------|------------------|-----------------------------------|
| | <u>2017</u> | <u>2016</u> | |
| Furniture and Equipment | \$ 111,258 | \$ 107,297 | 5-15 years |
| Leasehold Improvements | <u>62,657</u> | <u>62,657</u> | 10 years |
| | 173,915 | 169,954 | |
| Less Accumulated Depreciation | <u>137,699</u> | <u>122,480</u> | |
| | <u>\$ 36,216</u> | <u>\$ 47,474</u> | |

Depreciation expense of \$15,219 and \$6,823 was recorded for the years ended June 30, 2017 and 2016, respectively.

8. Pension Plan

VocalEssence made contributions of \$39,962 and \$35,045 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2017 and 2016, 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, 2017, total \$25,319. Rental commitments under a noncancelable lease for office space subsequent to June 30, 2017, total \$50,324. The future annual rental commitments are as follows:

| <u>Due in the Year Ending June 30,</u> | <u>Equipment</u> | <u>Space</u> |
|--|------------------|------------------|
| 2018 | \$ 9,804 | \$ 50,324 |
| 2019 | 9,804 | - |
| 2020 | <u>5,711</u> | <u>-</u> |
| | <u>\$ 25,319</u> | <u>\$ 50,324</u> |

Rental expense for office space and equipment was \$64,616 and \$76,930 for the years ended June 30, 2017 and 2016, respectively.

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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, | |
|--|------------|------------|
| | 2017 | 2016 |
| Future Years Operating and Program Support | \$ 530,014 | \$ 90,000 |
| Unappropriated Investment Income – Endowment Fund | 200,970 | 343,488 |
| Minnesota State Arts Board – Touring & Arts Access | 107,299 | 76,985 |
| Artistic Advancement Fund | 29,754 | 29,754 |
| Cross Cultural Education | 26,792 | - |
| | \$ 894,829 | \$ 540,227 |

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, | |
|-----------------------------|-----------|-----------|
| | 2017 | 2016 |
| Advertising | \$ 43,000 | \$ 47,700 |
| Graphic Design and Printing | 9,550 | 16,275 |
| Other | 2,100 | 2,100 |
| Travel Vouchers | - | 20,425 |
| Contract Services | - | 800 |
| | \$ 54,650 | \$ 87,300 |

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> | |
|--|-----------|
| 2018 | \$ 15,549 |
| 2019 | 15,549 |
| Total Payments | 31,098 |
| Less imputed interest at 20.2% | 5,693 |
| Net Amount Due | 25,405 |
| Less Portion Due Within One (1) Year | 11,433 |
| Long-term Portion | \$ 13,972 |

Amortization expense related to the lease of \$17,395 and \$4,349 is included in depreciation expense for the years ended June 30, 2017 and 2016, respectively

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NOTES TO FINANCIAL STATEMENTS
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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.

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

13. Endowment Fund (continued)

Endowment Net Asset Composition by Type of Fund:

| June 30, 2017 | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-Restricted | \$ - | \$ 465,601 | \$ 973,459 | \$ 1,439,060 |
| Board-Designated | <u>2,892,914</u> | <u>-</u> | <u>-</u> | <u>2,892,914</u> |
| Total | <u>\$ 2,892,914</u> | <u>\$ 465,601</u> | <u>\$ 973,459</u> | <u>\$ 4,331,974</u> |
| | | | | |
| 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> |

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 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 | \$ 2,605,371 | \$ 373,242 | \$ 973,459 | \$ 3,952,072 |
| Investment Return: | | | | |
| Investment Income | 26,553 | 29,518 | - | 56,071 |
| Net Appreciation | <u>469,076</u> | <u>40,167</u> | <u>-</u> | <u>509,243</u> |
| Total Investment Return | 495,629 | 69,685 | - | 565,314 |
| Other Changes: | | | | |
| Contributions | - | 25,120 | - | 25,120 |
| Appropriation | <u>(208,086)</u> | <u>(2,446)</u> | <u>-</u> | <u>(210,532)</u> |
| June 30, 2017 | <u>\$ 2,892,914</u> | <u>\$ 465,601</u> | <u>\$ 973,459</u> | <u>\$ 4,331,974</u> |

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
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14. Cash Flow Operating Adjustments

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

| | <u>June 30,</u> | |
|---|-----------------------|--------------------|
| | <u>2017</u> | <u>2016</u> |
| Depreciation | \$ 15,219 | \$ 6,823 |
| Contributed Securities | (165,640) | (123,433) |
| Unrealized (Gain)/ Loss on Investments | (156,085) | 194,357 |
| Realized (Gain)/Loss on Investments | (291,572) | (140,154) |
| Pledges Receivable Long-Term | (366,609) | - |
| Assets Acquired Under a Capital Lease | - | 39,139 |
| Increases (Decreases) in Current Liabilities: | | |
| Accounts Payable | 3,395 | 3,873 |
| Accrued Expense | 2,156 | 14,522 |
| Deferred Income | - | (11,000) |
| Decreases (Increases) in Current Assets: | | |
| Accounts Receivable | (2,535) | 8,786 |
| Pledges Receivable | (79,099) | (50,031) |
| Prepaid Expenses | 1,036 | 6,249 |
| Total Adjustments | <u>\$ (1,039,734)</u> | <u>\$ (50,869)</u> |