

VocalEssence
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2019 and 2018



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Carpenter Evert and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
October 10, 2019

VOCALLESSENCE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 846,881	\$ 439,391	\$ 1,286,272	\$ 423,238	\$ 964,053	\$ 1,387,291
Special Events Revenue	800	-	800	462,255	-	462,255
Less: Costs of Direct Benefits to Donors	(761)	-	(761)	(206,052)	-	(206,052)
Net Revenues from Special Events	39	-	39	256,203	-	256,203
Government Grants	269,830	83,949	353,779	83,361	197,352	280,713
Performance Revenue	375,842	-	375,842	273,651	-	273,651
Investment Income	127,838	107,357	235,195	158,129	177,271	335,400
Miscellaneous	16,957	-	16,957	8,859	-	8,859
Net Assets Released from Restrictions:						
Satisfaction of Program and Time Restrictions	800,456	(800,456)	-	667,198	(667,198)	-
Total Support and Revenue	2,437,843	(169,759)	2,268,084	1,870,639	671,478	2,542,117
Expense:						
Program Services:						
Artistic Series	1,050,974	-	1,050,974	881,303	-	881,303
Learning and Engagement	475,964	-	475,964	399,859	-	399,859
Youth Choir	214,734	-	214,734	161,503	-	161,503
Total Program Services	1,741,672	-	1,741,672	1,442,665	-	1,442,665
Support Services:						
Management and General	235,853	-	235,853	217,510	-	217,510
Fundraising	321,634	-	321,634	295,216	-	295,216
Total Support Services	557,487	-	557,487	512,726	-	512,726
Total Expense	2,299,159	-	2,299,159	1,955,391	-	1,955,391
Change in Net Assets - From Operations	138,684	(169,759)	(31,075)	(84,752)	671,478	586,726
Other Changes in Net Assets:						
Fund Transfers	210,000	(210,000)	-	254,250	(254,250)	-
Change in Net Assets	348,684	(379,759)	(31,075)	169,498	417,228	586,726
Net Assets - Beginning of Year	3,071,001	2,493,602	5,564,603	2,901,503	2,076,374	4,977,877
Net Assets - End of Year	\$ 3,419,685	\$ 2,113,843	\$ 5,533,528	\$ 3,071,001	\$ 2,493,602	\$ 5,564,603

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

VOCALLESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2019 WITH COMPARATIVE TOTALS FOR 2018

	2019						2018		
	Program Services			Support Services			Total	Total	
	Artistic Series	Learning and Engagement	Youth Choir	Total Program Services	Management & General	Fund-raising	Total Support Services	All Services	Total All Services
Personnel Expense:									
Salaries	\$ 241,809	\$ 116,963	\$ 22,583	\$ 381,355	\$ 131,877	\$ 196,927	\$ 328,804	\$ 710,159	\$ 676,901
Payroll Taxes	21,702	10,497	2,027	34,226	11,835	17,673	29,508	63,734	60,560
Employee Benefits	32,993	15,959	3,081	52,033	17,994	26,869	44,863	96,896	83,854
Total Personnel Costs	296,504	143,419	27,691	467,614	161,706	241,469	403,175	870,789	821,315
Performance Expense:									
Production	147,924	101,573	69,111	318,608	-	89	89	318,697	179,428
Travel	64,385	58,979	52,067	175,431	526	-	526	175,957	120,780
Printing and Advertising	123,761	13,867	9,313	146,941	-	-	-	146,941	113,051
Ensemble	133,855	12,154	-	146,009	-	404	404	146,413	145,002
Guest Artists and Contract Services	65,286	33,657	42,970	141,913	-	-	-	141,913	135,903
Orchestra	41,445	2,877	-	44,322	-	-	-	44,322	18,489
School Artists	800	42,995	-	43,795	-	-	-	43,795	49,268
Composers/Copyists	10,734	17,432	-	28,166	-	-	-	28,166	35,547
Recording	15,379	3,209	-	18,588	-	-	-	18,588	17,784
Postage and Delivery	16,352	359	-	16,711	-	-	-	16,711	8,995
Other Expense	3,435	4,436	2,388	10,259	3	109	112	10,371	17,846
Total Performance Expense	623,356	291,538	175,849	1,090,743	529	602	1,131	1,091,874	842,093
General Expense:									
Contract Services and Professional Fees	47,324	14,272	6,020	67,616	41,850	34,500	76,350	143,966	108,433
Rent	23,643	7,544	1,460	32,647	8,519	12,716	21,235	53,882	52,810
Equipment Rental and Maintenance	14,331	4,572	885	19,788	5,163	7,707	12,870	32,658	29,756
Travel	14,164	4,519	875	19,558	5,104	7,618	12,722	32,280	30,108
Printing and Advertising	11,416	3,642	705	15,763	4,113	6,140	10,253	26,016	15,599
Other Expense	5,618	1,793	347	7,758	2,025	3,021	5,046	12,804	11,073
Subscriptions and Dues	2,581	824	159	3,564	930	1,388	2,318	5,882	5,752
Postage	2,470	788	153	3,411	890	1,328	2,218	5,629	3,483
Supplies	1,983	633	122	2,738	714	1,067	1,781	4,519	3,459
Insurance	1,554	496	96	2,146	560	836	1,396	3,542	3,297
Telephone	1,512	483	93	2,088	545	813	1,358	3,446	9,200
Interest	-	-	-	-	1,577	-	1,577	1,577	4,116
Depreciation	4,518	1,441	279	6,238	1,628	2,429	4,057	10,295	14,897
Total General Expense	131,114	41,007	11,194	183,315	73,618	79,563	153,181	336,496	291,983
Total Expense	\$ 1,050,974	\$ 475,964	\$ 214,734	\$ 1,741,672	\$ 235,853	\$ 321,634	\$ 557,487	\$ 2,299,159	\$ 1,955,391

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

VOCALESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Support Services			Total All Services
	Artistic Series	Learning and Engagement	Youth Choir	Total Program Services	Management & General	Fund- raising	Total Support Services	
Personnel Expense:								
Salaries	\$ 228,012	\$ 104,869	\$ 19,589	\$ 352,470	\$ 130,155	\$ 194,276	\$ 324,431	\$ 676,901
Payroll Taxes	20,400	9,382	1,753	31,535	11,645	17,380	29,025	60,560
Employee Benefits	28,246	12,991	2,427	43,664	16,124	24,066	40,190	83,854
Total Personnel Costs	276,658	127,242	23,769	427,669	157,924	235,722	393,646	821,315
Performance Expense:								
Production	83,282	57,186	38,910	179,378	-	50	50	179,428
Travel	44,195	40,484	35,740	120,419	361	-	361	120,780
Printing and Advertising	95,217	10,669	7,165	113,051	-	-	-	113,051
Ensemble	132,565	12,037	-	144,602	-	400	400	145,002
Guest Artists and Contract Services	62,521	32,232	41,150	135,903	-	-	-	135,903
Orchestra	17,289	1,200	-	18,489	-	-	-	18,489
School Artists	900	48,368	-	49,268	-	-	-	49,268
Composers/Copyists	13,547	22,000	-	35,547	-	-	-	35,547
Recording	14,714	3,070	-	17,784	-	-	-	17,784
Postage and Delivery	8,802	193	-	8,995	-	-	-	8,995
Other Expense	5,911	7,633	4,110	17,654	5	187	192	17,846
Total Performance Expense	478,943	235,072	127,075	841,090	366	637	1,003	842,093
General Expense:								
Contract Services and Professional Fees	46,447	14,142	6,287	66,876	26,057	15,500	41,557	108,433
Rent	23,326	6,888	1,287	31,501	8,549	12,760	21,309	52,810
Equipment Rental and Maintenance	13,143	3,881	725	17,749	4,817	7,190	12,007	29,756
Travel	13,298	3,927	734	17,959	4,874	7,275	12,149	30,108
Printing and Advertising	6,890	2,035	380	9,305	2,525	3,769	6,294	15,599
Other Expense	4,891	1,444	270	6,605	1,793	2,675	4,468	11,073
Subscriptions and Dues	2,541	750	140	3,431	931	1,390	2,321	5,752
Postage	1,538	454	85	2,077	564	842	1,406	3,483
Supplies	1,528	451	84	2,063	560	836	1,396	3,459
Insurance	1,456	430	80	1,966	534	797	1,331	3,297
Telephone	4,064	1,200	224	5,488	1,489	2,223	3,712	9,200
Interest	-	-	-	-	4,116	-	4,116	4,116
Depreciation	6,580	1,943	363	8,886	2,411	3,600	6,011	14,897
Total General Expense	125,702	37,545	10,659	173,906	59,220	58,857	118,077	291,983
Total Expense	\$ 881,303	\$ 399,859	\$ 161,503	\$ 1,442,665	\$ 217,510	\$ 295,216	\$ 512,726	\$ 1,955,391

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

VOCALLESSENCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and Cash Equivalents	\$ 341,789	\$ 283,442
Accounts Receivable	1,930	2,755
Pledges Receivable	246,569	419,013
Prepaid Expenses	124,868	92,008
Total Current Assets	<u>715,156</u>	<u>797,218</u>
Pledges Receivable	221,483	332,044
Investments	4,707,979	4,519,897
Property and Equipment - Net	<u>11,024</u>	<u>21,319</u>
TOTAL ASSETS	<u>\$ 5,655,642</u>	<u>\$ 5,670,478</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 45,488	\$ 51,557
Accrued Payroll Liabilities	41,076	40,346
Deferred Revenue	35,550	-
Capital Lease Payable	-	13,972
Total Current Liabilities	<u>122,114</u>	<u>105,875</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	1,970,402	1,686,608
Endowment	1,449,283	1,384,393
Total Without Donor Restrictions	<u>3,419,685</u>	<u>3,071,001</u>
With Donor Restrictions	<u>2,113,843</u>	<u>2,493,602</u>
Total Net Assets	<u>5,533,528</u>	<u>5,564,603</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,655,642</u>	<u>\$ 5,670,478</u>

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

VOCALESENCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (31,075)	\$ 586,726
Total Adjustments	<u>(94,274)</u>	<u>(634,958)</u>
Net Cash (Used) by Operating Activities	(125,349)	(48,232)
Cash Flows from Investing Activities:		
Proceeds from the Sale of Investments	3,813,522	2,849,435
Purchase of Investments	<u>(3,615,854)</u>	<u>(2,565,978)</u>
Net Cash Provided by Investing Activities	197,668	283,457
Cash Flows from Financing Activities:		
Capital Lease Payments	<u>(13,972)</u>	<u>(11,433)</u>
Net Increase in Cash and Cash Equivalents	58,347	223,792
Cash and Cash Equivalents - Beginning of Year	<u>283,442</u>	<u>59,650</u>
Cash and Cash Equivalents - End of Year	<u>\$ 341,789</u>	<u>\$ 283,442</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 1,577</u>	<u>\$ 4,116</u>

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

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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:

Net Assets Without Donor Restrictions – Net assets which are not subject to donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as net assets without donor restrictions.

Net Assets With Donor Restrictions – Resources of the Organization resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations. Some donor restrictions may be temporary in nature, for example expiring after a specified time or being used for a particular purpose. Other donor restrictions may be perpetual in nature for the long-term maintenance of the Organization; and the use of all income earned, including capital appreciation, may be without donor-imposed restrictions, or may be restricted by the donor for purposes such as performances.

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.

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 and amount is immaterial.

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 when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as with donor restrictions until the donor-imposed restrictions expire or are fulfilled. Net assets with donor restrictions are reclassified to net assets without donor restrictions 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.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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).

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. VocalEssence has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively for the periods ended June 30, 2019 and 2018, as required.

Subsequent Events

VocalEssence has evaluated the effect that subsequent events would have on the financial statements through October 10, 2019, 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, 2019 AND 2018

3. Investments

Investments were comprised of the following as of:

	June 30,			
	2019		2018	
	Cost	Market	Cost	Market
At quoted market value:				
Money Market Funds	\$ 269,851	\$ 269,851	\$ 766,362	\$ 766,362
Mutual Funds and ETFs	<u>4,004,844</u>	<u>4,438,128</u>	<u>3,415,340</u>	<u>3,753,535</u>
Total	<u>\$ 4,274,695</u>	<u>\$ 4,707,979</u>	<u>\$ 4,181,702</u>	<u>\$ 4,519,897</u>

Investment income was as follows as of:

	June 30,	
	2019	2018
Interest and Dividend Income	\$ 103,371	\$ 76,718
Realized Gain	62,626	419,091
Unrealized Gain (Loss)	96,707	(132,854)
Investment Fees	<u>(27,509)</u>	<u>(27,555)</u>
Total	<u>\$ 235,195</u>	<u>\$ 335,400</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.

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

4. Fair Value (continued)

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

June 30, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 269,851	\$ -	\$ -	\$ 269,851
Mutual Funds and ETFs	4,438,128	-	-	4,438,128
Pledges Receivable	-	221,483	-	221,483
Total	<u>\$ 4,707,979</u>	<u>\$ 221,483</u>	<u>\$ -</u>	<u>\$ 4,929,462</u>

June 30, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 766,362	\$ -	\$ -	\$ 766,362
Mutual Funds and ETFs	3,753,535	-	-	3,753,535
Pledges Receivable	-	332,044	-	332,044
Total	<u>\$ 4,519,897</u>	<u>\$ 332,044</u>	<u>\$ -</u>	<u>\$ 4,851,941</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. Property and Equipment

VocalEssence owned the following as of:

	<u>June 30,</u>		<u>Estimated</u>
	<u>2019</u>	<u>2018</u>	<u>Useful Lives</u>
Furniture and Equipment	\$ 111,258	\$ 111,258	5-15 years
Leasehold Improvements	62,657	62,657	10 years
	173,915	173,915	
Less Accumulated Depreciation	<u>162,891</u>	<u>152,596</u>	
	<u>\$ 11,024</u>	<u>\$ 21,319</u>	

Depreciation expense of \$10,295 and \$14,897 was recorded for the years ended June 30, 2019 and 2018, respectively.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

7. Pledges Receivable

The outstanding balance of pledges receivable at June 30, 2019, is expected to be collected over the following fiscal years:

Due in the Year Ending June 30,

2020	\$ 255,117
2021	110,420
2022	66,920
2023	55,620
2024 and Beyond	<u>5,000</u>
	493,077
Less discount to present value at 4%	<u>25,025</u>
	468,052
Due within one year	<u>246,569</u>
Long-term portion	<u>\$ 221,483</u>

8. Pension Plan

VocalEssence made contributions of \$42,405 and \$39,962 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2019 and 2018, 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, 2019, total \$5,711. Rental commitments under a noncancelable lease for office space subsequent to June 30, 2019, total \$152,486. The future annual rental commitments are as follows:

Due in the Year Ending June 30,

	<u>Equipment</u>	<u>Space</u>
2020	\$ 5,711	\$ 50,324
2021	-	50,827
2022	-	<u>51,335</u>
	<u>\$ 5,711</u>	<u>\$ 152,486</u>

Rental expense for office space and equipment was \$63,687 and \$62,614 for the years ended June 30, 2019 and 2018, respectively.

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10. Net Assets

Net Assets With Donor Restrictions consisted of amounts for the following as of:

	June 30,	
	2019	2018
Subject to expenditure for specified purpose and the passage of time:		
Future Years Operating and Program Support	\$ 741,142	\$ 1,009,571
Unappropriated Investment Income – Endowment Fund	226,335	430,225
Artistic Advancement Fund	29,754	29,754
Minnesota State Arts Board – Touring & Arts Access	29,891	21,949
Cross Cultural Education	29,892	3,524
	1,057,014	1,495,023
Endowment – To be Held in Perpetuity	1,056,829	998,579
Total Net Assets With Donor Restrictions	\$ 2,113,843	\$ 2,493,602

Board designated net assets consisted of amounts for the following as of:

	June 30,	
	2019	2018
Board Designated Endowment	\$ 1,449,284	\$ 1,384,393

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,	
	2019	2018
Travel, Lodging and Parking	\$ 2,100	\$ 42,300
Rehearsal Space	51,136	22,880
Advertising	21,500	21,500
Other	-	804
	\$ 74,736	\$ 87,484

12. Capital Lease Payable

VocalEssence leases certain equipment under a non-cancelable lease. The lease has been capitalized and included in equipment for the amount of \$39,139 less accumulated depreciation of \$39,139. The capital lease was paid off in the year ending June 30, 2019.

Principal payments toward the capital leases payable of \$13,972 were made during the year ended June 30, 2019. Interest expense for the years ended June 30, 2019 and 2018, were \$1,577 and \$4,116, respectively. Amortization expense related to the lease of \$8,698 and \$13,046 is included in depreciation expense for the years ended June 30, 2019 and 2018.

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13. Endowment Fund

Description

Endowment funds consist of donor restricted net assets and without donor restrictions established for the purposes:

Donor Restricted Net Assets to be held in perpetuity are donor restricted to be held for designated purposes with the income and related investment gains to be used for those designated purposes.

Donor Restricted Net Assets 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.

Undesignated Net Assets are investments that are invested in the endowment but can be used by the organization for any purpose.

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 donor 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 donor restricted net assets in perpetuity is classified as donor 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, 2019	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted			
Original donor-restricted gift and amounts to be maintained in perpetuity by donor	\$ -	\$ 1,116,473	\$ 1,116,473
Accumulated Investment Gains	-	226,335	226,335
Board-Designated	1,449,284	-	1,449,284
Undesignated	<u>1,915,887</u>	<u>-</u>	<u>1,915,887</u>
Total	<u>\$ 3,365,171</u>	<u>\$ 1,342,808</u>	<u>\$ 4,707,979</u>

June 30, 2018	<u>Without Donor Restrictions</u>	<u>With Donor Restricted</u>	<u>Total</u>
Donor-Restricted			
Original donor-restricted gift and amounts to be maintained in perpetuity by donor	\$ -	\$ 956,976	\$ 956,976
Accumulated Investment Gains	-	430,225	430,225
Board-Designated	1,384,393	-	1,384,393
Undesignated	<u>1,748,303</u>	<u>-</u>	<u>1,748,303</u>
Total	<u>\$ 3,132,696</u>	<u>\$ 1,387,201</u>	<u>\$ 4,519,897</u>

Changes in Endowment Net Assets:

June 30, 2017	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2017	\$ 2,867,794	\$ 1,464,180	\$ 4,331,974
Investment Return:			
Investment Income	35,428	39,720	75,148
Net Appreciation	<u>121,342</u>	<u>137,551</u>	<u>258,893</u>
Total Investment Return	156,770	177,271	334,041
Other Changes:			
Contributions	-	-	-
Appropriation	<u>108,132</u>	<u>(254,250)</u>	<u>(146,118)</u>
June 30, 2018	<u>\$ 3,132,696</u>	<u>\$ 1,387,201</u>	<u>\$ 4,519,897</u>

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NOTES TO FINANCIAL STATEMENTS
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13. Endowment Fund (continued)

Investment Return:			
Investment Income	54,091	49,281	103,372
Net Appreciation	<u>80,293</u>	<u>58,076</u>	<u>138,369</u>
Total Investment Return	134,384	107,357	241,741
Other Changes:			
Contributions	-	58,250	58,250
Appropriation	<u>98,091</u>	<u>(210,000)</u>	<u>(111,909)</u>
June 30, 2019	<u>\$ 3,365,171</u>	<u>\$ 1,342,808</u>	<u>\$ 4,707,979</u>

14. Liquidity and Availability

The following represents the Organization's financial assets at June 30, 2019:

Financial Assets:	
Cash and Cash Equivalents	\$ 341,789
Accounts Receivable	1,930
Pledges Receivable	468,052
Investments	<u>4,707,979</u>
Total Financial Assets	5,519,750
Less assets not available to be used for general expenditures within one year:	
Net Assets With Donor Restrictions	2,133,843
Board Designated Endowment	1,449,284
Net Assets With Restrictions to be met within a year	<u>(462,330)</u>
Total assets not available for general expenditures within one year:	<u>3,120,797</u>
Financial assets available for general expenditures within one year	<u>\$ 2,398,953</u>

VocalEssence's Board Designated portion of its Endowment is not considered available for use within one year but could be available for use with a board resolution.

As part of VocalEssence's liquidity plan, VocalEssence has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

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NOTES TO FINANCIAL STATEMENTS
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15. 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>2019</u>	<u>2018</u>
Depreciation	\$ 10,295	\$ 14,897
Contributed Securities	(234,524)	(137,337)
Unrealized (Gain) Loss on Investments	(88,596)	132,854
Realized (Gain) on Investments	(62,630)	(466,897)
Pledges Receivable Long-Term	110,561	34,565
Increases in Current Liabilities:		
Accounts Payable	(6,069)	27,068
Accrued Payroll Liabilities	730	13,041
Deferred Income	35,550	-
Decreases (Increases) in Current Assets:		
Accounts Receivable	825	9,396
Pledges Receivable	172,444	(213,642)
Prepaid Expenses	(32,860)	(48,903)
Total Adjustments	<u>\$ (94,274)</u>	<u>\$ (634,958)</u>