

VocalEssence
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2021 and 2020



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, 2021 and 2020, 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, 2021 and 2020, 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
September 30, 2021

VOCALLESSENCE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 694,160	\$ 1,153,999	\$ 1,848,159	\$ 721,610	\$ 592,146	\$ 1,313,756
Special Events Revenue	357,682	-	357,682	-	-	-
Less: Costs of Direct Benefits to Donors	(106,161)	-	(106,161)	-	-	-
Net Revenues from Special Events	251,521	-	251,521	-	-	-
Government Contributions	337,188	3,686	340,874	131,286	76,032	207,318
Performance Revenue	71,066	-	71,066	218,302	-	218,302
Investment Income	831,497	709,736	1,541,233	195,531	192,132	387,663
Miscellaneous	460	-	460	(19,244)	-	(19,244)
Net Assets Released from Restrictions:						
Satisfaction of Program and Time Restrictions	211,759	(211,759)	-	585,384	(585,384)	-
Total Support and Revenue	2,397,651	1,655,662	4,053,313	1,832,869	274,926	2,107,795
Expense:						
Program Services:						
Artistic Series	802,149	-	802,149	855,994	-	855,994
Learning and Engagement	249,552	-	249,552	407,873	-	407,873
Youth Choir	271,239	-	271,239	147,230	-	147,230
Total Program Services	1,322,940	-	1,322,940	1,411,097	-	1,411,097
Support Services:						
Management and General	187,476	-	187,476	212,995	-	212,995
Fundraising	304,213	-	304,213	325,469	-	325,469
Total Support Services	491,689	-	491,689	538,464	-	538,464
Total Expense	1,814,629	-	1,814,629	1,949,561	-	1,949,561
Change in Net Assets - From Operations	583,022	1,655,662	2,238,684	(116,692)	274,926	158,234
Other Changes in Net Assets:						
Fund Transfers	190,000	(190,000)	-	210,000	(210,000)	-
Change in Net Assets	773,022	1,465,662	2,238,684	93,308	64,926	158,234
Net Assets - Beginning of Year	3,512,993	2,178,769	5,691,762	3,419,685	2,113,843	5,533,528
Net Assets - End of Year	\$ 4,286,015	\$ 3,644,431	\$ 7,930,446	\$ 3,512,993	\$ 2,178,769	\$ 5,691,762

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

VOCALESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2021 WITH COMPARATIVE TOTALS FOR 2020

	2021						2020		
	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	\$ 228,404	\$ 121,820	\$ 40,156	\$ 390,380	\$ 121,820	\$ 199,782	\$ 321,602	\$ 711,982	\$ 737,958
Payroll Taxes	18,324	9,773	3,222	31,319	9,773	16,028	25,801	57,120	64,218
Employee Benefits	25,083	13,378	4,410	42,871	13,378	21,940	35,318	78,189	100,450
Total Personnel Costs	271,811	144,971	47,788	464,570	144,971	237,750	382,721	847,291	902,626
Performance Expense:									
Recording	244,976	10,710	55,161	310,847	-	-	-	310,847	8,291
Guest Artists and Contract Services	36,181	7,347	63,987	107,515	-	-	-	107,515	103,482
Printing and Advertising	45,946	11,582	38,193	95,721	-	-	-	95,721	81,306
Production	61,725	290	1,098	63,113	-	-	-	63,113	174,327
Travel	1,076	776	44,842	46,694	-	-	-	46,694	124,611
Ensemble	43,151	-	-	43,151	-	-	-	43,151	148,067
School Artists	-	31,125	-	31,125	-	-	-	31,125	40,875
Postage and Delivery	8,521	-	280	8,801	-	-	-	8,801	13,419
Composers/Copyists	-	1,100	4,000	5,100	-	-	-	5,100	45,500
Other Expense	140	417	1,495	2,052	-	-	-	2,052	9,333
Orchestra	1,603	-	-	1,603	-	-	-	1,603	32,585
Total Performance Expense	443,319	63,347	209,056	715,722	-	-	-	715,722	781,796
General Expense:									
Contract Services and Professional Fees	29,325	15,641	5,156	50,122	15,641	25,650	41,291	91,413	94,573
Rent	18,611	8,256	2,980	29,847	8,456	13,166	21,622	51,469	53,392
Equipment Rental and Maintenance	16,658	7,390	2,667	26,715	7,569	11,784	19,353	46,068	41,217
Printing and Advertising	6,420	2,848	1,028	10,296	2,917	4,542	7,459	17,755	7,957
Other Expense	3,325	1,475	532	5,332	1,512	2,351	3,863	9,195	10,099
Telephone	2,578	1,143	413	4,134	1,171	1,823	2,994	7,128	6,551
Subscriptions and Dues	1,723	764	276	2,763	783	1,219	2,002	4,765	6,410
Travel	1,613	716	259	2,588	734	1,142	1,876	4,464	24,070
Insurance	1,305	579	210	2,094	593	923	1,516	3,610	3,806
Postage	685	304	110	1,099	311	485	796	1,895	3,073
Supplies	364	161	58	583	165	257	422	1,005	3,284
Interest	-	-	-	-	648	-	648	648	928
Depreciation	4,412	1,957	706	7,075	2,005	3,121	5,126	12,201	9,779
Total General Expense	87,019	41,234	14,395	142,648	42,505	66,463	108,968	251,616	265,139
Total Expense	\$ 802,149	\$ 249,552	\$ 271,239	\$ 1,322,940	\$ 187,476	\$ 304,213	\$ 491,689	\$ 1,814,629	\$ 1,949,561

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

VOCALESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2020

	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	\$ 246,280	\$ 122,799	\$ 21,930	\$ 391,009	\$ 136,871	\$ 210,078	\$ 346,949	\$ 737,958
Payroll Taxes	21,432	10,686	1,908	34,026	11,911	18,281	30,192	64,218
Employee Benefits	33,524	16,715	2,985	53,224	18,631	28,595	47,226	100,450
Total Personnel Costs	301,236	150,200	26,823	478,259	167,413	256,954	424,367	902,626
Performance Expense:								
Recording	6,860	1,431	-	8,291	-	-	-	8,291
Guest Artists and Contract Services	47,606	24,543	31,333	103,482	-	-	-	103,482
Printing and Advertising	68,480	7,673	5,153	81,306	-	-	-	81,306
Production	80,914	55,560	37,804	174,278	-	49	49	174,327
Travel	45,597	41,768	36,874	124,239	372	-	372	124,611
Ensemble	135,368	12,291	-	147,659	-	408	408	148,067
School Artists	747	40,128	-	40,875	-	-	-	40,875
Postage and Delivery	13,131	288	-	13,419	-	-	-	13,419
Composers/Copyists	17,340	28,160	-	45,500	-	-	-	45,500
Other Expense	3,091	3,992	2,149	9,232	3	98	101	9,333
Orchestra	30,470	2,115	-	32,585	-	-	-	32,585
Total Performance Expense	449,604	217,949	113,313	780,866	375	555	930	781,796
General Expense:								
Contract Services and Professional Fees	31,562	15,737	2,810	50,109	17,541	26,923	44,464	94,573
Rent	23,163	7,550	1,348	32,061	8,415	12,916	21,331	53,392
Equipment Rental and Maintenance	17,881	5,828	1,041	24,750	6,496	9,971	16,467	41,217
Printing and Advertising	3,452	1,125	201	4,778	1,254	1,925	3,179	7,957
Other Expense	4,381	1,428	255	6,064	1,593	2,442	4,035	10,099
Telephone	2,842	926	165	3,933	1,033	1,585	2,618	6,551
Subscriptions and Dues	2,781	906	162	3,849	1,010	1,551	2,561	6,410
Travel	10,441	3,404	608	14,453	3,794	5,823	9,617	24,070
Insurance	1,651	538	96	2,285	600	921	1,521	3,806
Postage	1,333	435	78	1,846	484	743	1,227	3,073
Supplies	1,425	464	83	1,972	518	794	1,312	3,284
Interest	-	-	-	-	928	-	928	928
Depreciation	4,242	1,383	247	5,872	1,541	2,366	3,907	9,779
Total General Expense	105,154	39,724	7,094	151,972	45,207	67,960	113,167	265,139
Total Expense	\$ 855,994	\$ 407,873	\$ 147,230	\$ 1,411,097	\$ 212,995	\$ 325,469	\$ 538,464	\$ 1,949,561

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

VOCALLESSENCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash and Cash Equivalents	\$ 123,390	\$ 335,838
Accounts Receivable	12,926	12,867
Pledges Receivable	390,620	166,824
Prepaid Expenses	<u>70,416</u>	<u>120,685</u>
Total Current Assets	597,352	636,214
Pledges Receivable	634,862	464,647
Investments	6,966,445	4,952,850
Property and Equipment - Net	<u>28,340</u>	<u>30,405</u>
TOTAL ASSETS	<u>\$ 8,226,999</u>	<u>\$ 6,084,116</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 51,381	\$ 18,453
Accrued Payroll Liabilities	52,237	51,455
Deferred Revenue	-	120,828
Capital Lease Payable	<u>10,077</u>	<u>9,683</u>
Total Current Liabilities	113,695	200,419
Note Payable - PPP	182,000	181,000
Capital Lease Payable	<u>858</u>	<u>10,935</u>
Total Liabilities	296,553	392,354
Net Assets:		
Without Donor Restrictions:		
Undesignated	2,262,852	1,950,945
Endowment	<u>2,023,163</u>	<u>1,562,048</u>
Total Without Donor Restrictions	4,286,015	3,512,993
With Donor Restrictions	<u>3,644,431</u>	<u>2,178,769</u>
Total Net Assets	<u>7,930,446</u>	<u>5,691,762</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,226,999</u>	<u>\$ 6,084,116</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, 2021 AND 2020

	2021	2020
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 2,238,684	\$ 158,234
Total Adjustments	<u>(2,594,388)</u>	<u>(1,049,301)</u>
Net Cash Provided (Used) by Operating Activities	(355,704)	(891,067)
Cash Flows from Investing Activities:		
Purchase of Equipment	(10,136)	-
Proceeds from the Sale of Investments	3,854,708	4,092,537
Purchase of Investments	<u>(4,383,883)</u>	<u>(3,817,829)</u>
Net Cash Provided (Used) by Investing Activities	(539,311)	274,708
Cash Flows from Financing Activities:		
Proceeds from Notes Payable	182,000	181,000
Proceeds from Contributions Restricted for Endowment	510,250	437,950
Capital Lease Payments	<u>(9,683)</u>	<u>(8,542)</u>
Net Cash Provided by Financing Activities	<u>682,567</u>	<u>610,408</u>
Net (Decrease) in Cash and Cash Equivalents	(212,448)	(5,951)
Cash and Cash Equivalents - Beginning of Year	<u>335,838</u>	<u>341,789</u>
Cash and Cash Equivalents - End of Year	<u>\$ 123,390</u>	<u>\$ 335,838</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 648</u>	<u>\$ 928</u>

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

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 available for use in general operations and not subject to donor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. VocalEssence reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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, 2021 AND 2020

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.

Revenue and Revenue Recognition

VocalEssence recognizes program service fee revenue when the performance obligations of providing the services are met. Special event revenue is recognized when the event takes place and is comprised of an exchange element based upon the direct benefits the donor receive and a contribution element for the difference.

VocalEssence recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

A portion of VocalEssence's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when VocalEssence has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

The following provides information about significant changes in Deferred Revenue ended June 30:

	<u>2021</u>	<u>2020</u>
Deferred Revenue – Beginning of Year	\$ 120,828	\$ 35,550
Revenue recognized that was included in deferred revenue at the beginning of the year	(120,828)	(35,550)
Increases in deferred revenue due to cash received during the year	<u>-</u>	<u>120,828</u>
Deferred Revenue– End of Year	<u>\$ -</u>	<u>\$ 120,828</u>

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

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.

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).

Subsequent Events

VocalEssence has evaluated the effect that subsequent events would have on the financial statements through September 30, 2021, which is the date financial statements were available to be issued.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

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.

3. Uncertainties and Contingencies

The COVID-19 outbreak in the United States has caused business disruption through both mandated and voluntary closing of organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around its duration. Therefore, VocalEssence expects this matter may impact its operating results, but reasonable estimates cannot be made at this time.

4. Investments

Investments were comprised of the following as of:

	June 30,			
	2021		2020	
	Cost	Market	Cost	Market
At quoted market value:				
Money Market Funds	\$ 833,225	\$ 833,225	\$ 386,627	\$ 386,627
Mutual Funds and ETFS	5,106,194	6,133,220	4,122,411	4,566,223
Total	<u>\$ 5,939,419</u>	<u>\$ 6,966,445</u>	<u>\$ 4,509,038</u>	<u>\$ 4,952,850</u>

Investment income was as follows as of:

	June 30,	
	2021	2020
Interest and Dividend Income	\$ 93,566	\$ 94,217
Realized Gain	907,644	113,212
Unrealized Gain	574,070	208,480
Investment Fees	(34,047)	(28,246)
Total	<u>\$ 1,541,233</u>	<u>\$ 387,663</u>

5. Pension Plan

VocalEssence made contributions of \$35,160 and \$43,630 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2021 and 2020, respectively. Employees age 21 and over, with a least 1,000 hours of service per year, are covered by the plan.

VOCALLESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

6. 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.

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

June 30, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 833,225	\$ -	\$ -	\$ 833,225
Mutual Funds and ETFs	6,133,220	-	-	6,133,220
Pledges Receivable	-	634,862	-	634,862
Total	<u>\$ 6,966,445</u>	<u>\$ 684,862</u>	<u>\$ -</u>	<u>\$ 7,651,307</u>

June 30, 2020

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 386,627	\$ -	\$ -	\$ 386,627
Mutual Funds and ETFs	4,566,223	-	-	4,566,223
Pledges Receivable	-	464,647	-	464,647
Total	<u>\$ 4,952,850</u>	<u>\$ 464,647</u>	<u>\$ -</u>	<u>\$ 5,417,497</u>

7. Leased Facilities and Equipment

Rental commitments under a noncancelable lease for equipment in effect at June 30, 2021, total \$19,129. Rental commitments under a noncancelable lease for office space subsequent to June 30, 2021, total \$51,335. The future annual rental commitments are as follows:

Due in the Year Ending June 30,

	<u>Equipment</u>	<u>Space</u>
2022	\$ 5,739	\$ 51,335
2023	5,739	-
2024	5,739	-
2025	1,912	-
	<u>\$ 19,129</u>	<u>\$ 51,335</u>

Rental expense for office space and equipment was \$57,208 and \$63,216 for the years ended June 30, 2021 and 2020, respectively.

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8. Property and Equipment

VocalEssence owned the following as of:

	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>2021</u>	<u>2020</u>	
Furniture and Equipment	\$ 150,554	\$ 140,418	5-15 years
Leasehold Improvements	<u>62,657</u>	<u>62,657</u>	10 years
	213,211	203,075	
Less Accumulated Depreciation	<u>184,871</u>	<u>172,670</u>	
	<u>\$ 28,340</u>	<u>\$ 30,405</u>	

Depreciation expense of \$12,201 and \$9,779 was recorded for the years ended June 30, 2021 and 2020, respectively.

9. Pledges Receivable

The outstanding balance of pledges receivable at June 30, 2021, is expected to be collected over the following fiscal years:

Due in the Year Ending June 30,

2022	\$ 390,620
2023	191,450
2024	180,930
2025	100,000
2026	97,000
2027 and Beyond	<u>156,950</u>
	1,116,950
Less discount to present value at 4%	<u>91,468</u>
	1,025,482
Due within one year	<u>390,620</u>
Long-term portion	<u>\$ 634,862</u>

10. 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.

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

	<u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Board Designated Endowment	<u>\$ 2,023,163</u>	<u>\$ 1,562,048</u>

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NOTES TO FINANCIAL STATEMENTS
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11. Net Assets

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

	June 30,	
	2021	2020
Subject to expenditure for specified purpose and the passage of time:		
Future Years Operating and Program Support	\$ 807,589	\$ 326,650
Unappropriated Investment Income – Endowment Fund	716,101	206,271
Minnesota State Arts Board – Arts Tour Grant	73,718	118,981
Cross Cultural Education	41,994	32,088
	1,639,402	683,990
Endowment – To be Held in Perpetuity	2,005,029	1,494,779
Total Net Assets With Donor Restrictions	\$ 3,644,431	\$ 2,178,769

12. 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,	
	2021	2020
Travel, Lodging and Parking	\$ -	\$ 2,100
Rehearsal Space	-	51,136
Performing Services	27,750	-
Advertising	8,230	1,778
	\$ 35,980	\$ 55,014

13. 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 \$29,160 less accumulated depreciation of \$9,720. The following is a schedule of future minimum lease payments at June 30, 2021:

<u>Due in the Year Ending June 30,</u>	
2022	\$ 10,077
2023	858
Total Payments	10,935
Less Portion Due Within One (1) Year	10,077
Long-term Portion	\$ 858

Amortization expense related to the lease of \$9,720 and \$8,910 is included in depreciation expense for the years ended June 30, 2021 and 2020, respectively. Interest expense for the years ended June 30, 2021 and 2020 were \$648 and \$928, respectively.

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NOTES TO FINANCIAL STATEMENTS
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14. 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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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

14. Endowment Fund (continued)

Endowment Net Asset Composition by Type of Fund:

June 30, 2021	<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	\$ -	\$ 2,005,029	\$ 2,005,029
Accumulated Investment Gains	-	758,095	758,095
Board-Designated	2,023,163	-	2,023,163
Undesignated	<u>2,180,159</u>	<u>-</u>	<u>2,180,159</u>
Total	<u>\$ 4,203,322</u>	<u>\$ 2,763,124</u>	<u>\$ 6,966,446</u>

June 30, 2020	<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	\$ -	\$ 1,494,779	\$ 1,494,779
Accumulated Investment Gains	-	238,359	238,359
Board-Designated	1,562,048	-	1,562,048
Undesignated	<u>1,657,664</u>	<u>-</u>	<u>1,657,664</u>
Total	<u>\$ 3,219,712</u>	<u>\$ 1,733,138</u>	<u>\$ 4,952,850</u>

Changes in Endowment Net Assets:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2019	\$ 3,365,171	\$ 1,342,808	\$ 4,707,979
Investment Return:			
Investment Income	50,303	43,089	93,392
Net Appreciation	<u>144,403</u>	<u>149,043</u>	<u>293,446</u>
Total Investment Return	194,706	192,132	386,838
Other Changes:			
Contributions	-	437,950	437,950
Appropriation	<u>(340,165)</u>	<u>(239,752)</u>	<u>(579,917)</u>
June 30, 2020	<u>\$ 3,219,712</u>	<u>\$ 1,733,138</u>	<u>\$ 4,952,850</u>

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
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14. Endowment Fund (continued)

June 30, 2020	\$ 3,219,712	\$ 1,733,138	\$ 4,952,850
Investment Return:			
Investment Income	47,372	39,774	87,146
Net Appreciation	<u>762,637</u>	<u>685,030</u>	<u>1,447,667</u>
Total Investment Return	810,009	724,804	1,534,813
Other Changes:			
Contributions	-	510,250	510,250
Appropriations	<u>173,601</u>	<u>(205,068)</u>	<u>(31,467)</u>
June 30, 2021	<u>\$ 4,203,322</u>	<u>\$ 2,763,124</u>	<u>\$ 6,966,446</u>

15. Liquidity and Availability

The following represents VocalEssence's financial assets at June 30,

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash and Cash Equivalents	\$ 123,390	\$ 335,838
Accounts Receivable	12,926	12,867
Pledges Receivable	1,025,482	631,471
Investments	<u>6,966,445</u>	<u>4,952,850</u>
Total Financial Assets	8,128,243	5,933,026
Less assets not available to be used for general expenditures within one year:		
Net Assets With Donor Restrictions	3,644,431	2,178,769
Board Designated Endowment	2,023,163	1,562,048
Net Assets With Restrictions to be met within a year	<u>(497,896)</u>	<u>(424,841)</u>
Total assets not available for general expenditures within one year:	<u>5,169,698</u>	<u>3,315,976</u>
Financial assets available for general expenditures within one year	<u>\$ 2,958,545</u>	<u>\$ 2,617,050</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.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

16. Notes Payable

On April 20, 2020, VocalEssence was granted a loan (the "Loan") from Sunrise Bank in the aggregate amount of \$181,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020. This loan was subsequently forgiven on January 15, 2021, and the amount of \$181,000 was recorded as Government Contribution Income.

On March 26, 2021, VocalEssence was granted a second draw PPP loan from the SBA through Sunrise Bank in the amount of \$182,000. The Loan, which was in the form of a Note dated March 26, 2021 issued by the Borrower, matures on March 26, 2026 and bears interest at a rate of 1% per annum, with payments deferred for 10 months after the borrower's covered period.

Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. In accordance with these Loan forgiveness terms, funds from the Loan were used by VocalEssence for payroll costs, group health care and retirement benefits, and rent.

VocalEssence has elected to carry the Loan as debt on its statements of financial position as of June 30, 2021 per FASB ASC 470.

17. 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>2021</u>	<u>2020</u>
Depreciation	\$ 12,201	\$ 9,779
PPP Loan Forgiveness	(181,000)	-
Contributed Securities	(1,517)	(197,887)
Unrealized (Gain) on Investments	(575,259)	(208,480)
Realized (Gain) on Investments	(907,644)	(113,212)
Pledges Receivable Long-Term	(170,215)	(243,164)
Contributions Restricted for Endowment	(510,250)	(437,950)
Increases in Current Liabilities:		
Accounts Payable	32,928	(27,035)
Accrued Payroll Liabilities	782	10,379
Deferred Income	(120,828)	85,278
Decreases (Increases) in Current Assets:		
Accounts Receivable	(59)	(10,937)
Pledges Receivable	(223,796)	79,745
Prepaid Expenses	50,269	4,183
Total Adjustments	<u>\$ (2,594,338)</u>	<u>\$ (1,049,301)</u>