

**VocalEssence**  
Minneapolis, Minnesota

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Financial Statements  
Auditor's Report  
For the Years Ended  
June 30, 2022 and 2021



**CERTIFIED PUBLIC ACCOUNTANTS**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
VocalEssence  
Minneapolis, Minnesota

### **Opinion**

We have audited the accompanying financial statements of VocalEssence (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VocalEssence as of June 30, 2022 and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VocalEssence and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VocalEssence's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 VocalEssence's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VocalEssence's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Carpenter Ernst and Associates, LTD.*  
Certified Public Accountants

Minneapolis, Minnesota  
September 14, 2022

VOCALLESSENCE  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 635,242	\$ 1,270,016	\$ 1,905,258	\$ 658,180	\$ 1,153,999	\$ 1,812,179
Noncash Contributions	24,830	-	24,830	35,980	-	35,980
Special Events Revenue	-	-	-	357,682	-	357,682
Less: Costs of Direct Benefits to Donors	(3,002)	-	(3,002)	(106,161)	-	(106,161)
Net Revenues from Special Events	(3,002)	-	(3,002)	251,521	-	251,521
Government Grants	502,359	-	502,359	337,188	3,686	340,874
Performance Revenue	175,243	-	175,243	71,066	-	71,066
Investment Income (Loss)	(607,539)	(593,205)	(1,200,744)	831,497	709,736	1,541,233
Miscellaneous	780	-	780	460	-	460
Net Assets Released from Restrictions:						
Satisfaction of Purpose and Time Restrictions	491,430	(491,430)	-	211,759	(211,759)	-
Total Support and Revenue	1,219,343	185,381	1,404,724	2,397,651	1,655,662	4,053,313
Expense:						
Program Services:						
Artistic Series	902,986	-	902,986	802,149	-	802,149
Learning and Engagement	263,192	-	263,192	249,552	-	249,552
Youth Choir	333,761	-	333,761	271,239	-	271,239
Total Program Services	1,499,939	-	1,499,939	1,322,940	-	1,322,940
Support Services:						
Management and General	204,717	-	204,717	187,476	-	187,476
Fundraising	332,705	-	332,705	304,213	-	304,213
Total Support Services	537,422	-	537,422	491,689	-	491,689
Total Expense	2,037,361	-	2,037,361	1,814,629	-	1,814,629
Change in Net Assets - From Operations	(818,018)	185,381	(632,637)	583,022	1,655,662	2,238,684
Other Changes in Net Assets:						
Fund Transfers	200,000	(200,000)	-	190,000	(190,000)	-
Change in Net Assets	(618,018)	(14,619)	(632,637)	773,022	1,465,662	2,238,684
Net Assets - Beginning of Year	4,286,015	3,644,431	7,930,446	3,512,993	2,178,769	5,691,762
Net Assets - End of Year	\$ 3,667,997	\$ 3,629,812	\$ 7,297,809	\$ 4,286,015	\$ 3,644,431	\$ 7,930,446

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

VOCALLESSANCE  
STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED JUNE 30, 2022 WITH COMPARATIVE TOTALS FOR 2021

	2022							2021	
	Program Services				Support Services			Total All Services	Total All Services
	Artistic Series	Learning and Engagement	Youth Choir	Total Program Services	Management & General	Fund- raising	Total Support Services		
Personnel Expense:									
Salaries	\$ 241,762	\$ 128,945	\$ 42,504	\$ 413,211	\$ 128,945	\$ 211,466	\$ 340,411	\$ 753,622	\$ 711,982
Payroll Taxes	20,943	11,170	3,682	35,795	11,170	18,318	29,488	65,283	57,120
Employee Benefits	27,267	14,543	4,794	46,604	14,543	23,850	38,393	84,997	78,189
Total Personnel Costs	289,972	154,658	50,980	495,610	154,658	253,634	408,292	903,902	847,291
Performance Expense:									
Travel	89,632	3,672	140,098	233,402	675	-	675	234,077	46,694
Production	84,598	12,646	58,554	155,798	6	323	329	156,127	63,113
Guest Artists and Contract Services	40,875	16,815	50,378	108,068	-	-	-	108,068	107,515
Ensemble	91,182	-	-	91,182	-	150	150	91,332	43,151
Printing and Advertising	81,051	-	7,276	88,327	-	-	-	88,327	95,721
Recording	53,672	4,703	7,205	65,580	-	-	-	65,580	310,847
Orchestra	36,785	-	-	36,785	-	-	-	36,785	1,603
School Artists	-	20,800	-	20,800	-	-	-	20,800	31,125
Composers/Copyists	15,000	1,500	1,200	17,700	-	-	-	17,700	5,100
Postage and Delivery	9,005	-	1,180	10,185	-	-	-	10,185	8,801
Other Expense	9,113	-	-	9,113	-	580	580	9,693	2,052
Total Performance Expense	510,913	60,136	265,891	836,940	681	1,053	1,734	838,674	715,722
General Expense:									
Contract Services and Professional Fees	34,618	18,463	6,086	59,167	18,463	30,280	48,743	107,910	91,413
Rent	19,652	8,717	3,147	31,516	8,929	13,902	22,831	54,347	51,469
Equipment Rental and Maintenance	17,035	7,557	2,728	27,320	7,740	12,051	19,791	47,111	46,068
Travel	7,464	3,311	1,195	11,970	3,391	5,280	8,671	20,641	4,464
Printing and Advertising	6,155	2,730	985	9,870	2,796	4,354	7,150	17,020	17,755
Other Expense	3,711	1,647	594	5,952	1,686	2,625	4,311	10,263	9,195
Telephone	3,118	1,383	499	5,000	1,417	2,206	3,623	8,623	7,128
Subscriptions and Dues	2,142	950	343	3,435	973	1,515	2,488	5,923	4,765
Postage	1,238	549	198	1,985	562	876	1,438	3,423	1,895
Insurance	1,111	493	178	1,782	505	786	1,291	3,073	3,610
Supplies	977	433	156	1,566	445	691	1,136	2,702	1,005
Interest	-	-	-	-	254	-	254	254	648
Depreciation	4,880	2,165	781	7,826	2,217	3,452	5,669	13,495	12,201
Total General Expense	102,101	48,398	16,890	167,389	49,378	78,018	127,396	294,785	251,616
Total Expense	\$ 902,986	\$ 263,192	\$ 333,761	\$ 1,499,939	\$ 204,717	\$ 332,705	\$ 537,422	\$ 2,037,361	\$ 1,814,629

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

VOCALLESSENCE  
STATEMENT OF FUNCTIONAL EXPENSE  
FOR THE YEAR ENDED JUNE 30, 2021

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

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

VOCALESSENCE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 80,422	\$ 123,390
Accounts Receivable	3,245	12,926
Pledges Receivable	522,050	390,620
Prepaid Expenses	101,589	70,416
Total Current Assets	707,306	597,352
Pledges Receivable	943,717	634,862
Investments	5,767,790	6,966,445
Property and Equipment - Net	14,845	28,340
TOTAL ASSETS	\$ 7,433,658	\$ 8,226,999
<u>LIABILITIES AND NET ASSETS</u>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 23,975	\$ 51,381
Accrued Payroll Liabilities	58,641	52,237
Deferred Revenue	52,375	-
Capital Lease Payable	858	10,077
Total Current Liabilities	135,849	113,695
Note Payable - PPP	-	182,000
Capital Lease Payable	-	858
Total Liabilities	135,849	296,553
<b>Net Assets:</b>		
<b>Without Donor Restrictions:</b>		
Undesignated	1,995,949	2,262,852
Endowment	1,672,048	2,023,163
Total Without Donor Restrictions	3,667,997	4,286,015
With Donor Restrictions	3,629,812	3,644,431
Total Net Assets	7,297,809	7,930,446
TOTAL LIABILITIES AND NET ASSETS	\$ 7,433,658	\$ 8,226,999

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



VOCALESSENCE  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (632,637)	\$ 2,238,684
Total Adjustments	<u>(188,975)</u>	<u>(2,594,388)</u>
Net Cash (Used) by Operating Activities	(821,612)	(355,704)
Cash Flows from Investing Activities:		
Purchase of Equipment	-	(10,136)
Proceeds from the Sale of Investments	1,272,686	3,854,708
Purchase of Investments	<u>(1,337,739)</u>	<u>(4,383,883)</u>
Net Cash (Used) by Investing Activities	(65,053)	(539,311)
Cash Flows from Financing Activities:		
Proceeds from Notes Payable	-	182,000
Proceeds from Contributions Restricted for Endowment	853,774	510,250
Principal Payments on Capital Lease	<u>(10,077)</u>	<u>(9,683)</u>
Net Cash Provided by Financing Activities	<u>843,697</u>	<u>682,567</u>
Net (Decrease) in Cash and Cash Equivalents	(42,968)	(212,448)
Cash and Cash Equivalents - Beginning of Year	<u>123,390</u>	<u>335,838</u>
Cash and Cash Equivalents - End of Year	<u>\$ 80,422</u>	<u>\$ 123,390</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 254</u>	<u>\$ 648</u>

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

VOCAL ESSENCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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 a 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, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Investments

VocalEssence carries its investments at market value.

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. Deferred revenue is recorded when amounts are received, but the revenue is not yet earned. 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>2022</u>	<u>2021</u>
Deferred Revenue – Beginning of Year	\$ -	\$ 120,828
Revenue recognized that was included in deferred revenue at the beginning of the year	-	(120,828)
Increases in deferred revenue due to cash received during the year	<u>52,375</u>	<u>-</u>
Deferred Revenue– End of Year	<u>\$ 52,375</u>	<u>\$ -</u>

Noncash Donations

VocalEssence records noncash contributions at fair market value at date of donation. VocalEssence's policy related to noncash donations is to utilize the assets given to carry out the mission of the organization. If an asset is provide that does not allow VocalEssence to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist.

VOCALESSENCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

VocalEssence has adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, as management believes the standards improve the usefulness and understandability of VocalEssence's financial reporting. The ASU has been applied retrospectively for the periods ended June 30, 2022 and 2021, as required.

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.

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).

Reclassifications

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

VOCAL ESSENCE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Subsequent Events

VocalEssence has evaluated the effect that subsequent events would have on the financial statements through September 14, 2022, which is the date financial statements were available to be issued.

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 suspension of operations. While many of the closings have re-opened, there are still uncertainties if there will be future disruptions due to additional outbreaks. 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,			
	2022		2021	
	Cost	Market	Cost	Market
At quoted market value:				
Money Market Funds	\$ 1,397,869	\$ 1,397,869	\$ 833,225	\$ 833,225
Mutual Funds and ETFs	4,476,211	4,369,921	5,106,194	6,133,220
Total	<u>\$ 5,906,411</u>	<u>\$ 5,767,790</u>	<u>\$ 5,939,419</u>	<u>\$ 6,996,445</u>

Investment income was as follows as of:

	June 30,	
	2022	2021
Interest and Dividend Income	\$ 97,359	\$ 93,566
Realized Gain (Loss)	(129,413)	907,644
Unrealized Gain (Loss)	(1,134,295)	574,070
Investment Fees	(34,395)	(34,047)
Total	<u>\$ (1,200,744)</u>	<u>\$ 1,541,233</u>

5. Pension Plan

VocalEssence made contributions of \$37,291 and \$35,160 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2022 and 2021, 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, 2022 AND 2021**

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, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 1,397,869	\$ -	\$ -	\$ 1,397,869
Mutual Funds and ETFs	4,369,921	-	-	4,369,921
Pledges Receivable	-	943,717	-	943,717
Total	<u>\$ 5,800,120</u>	<u>\$ 943,717</u>	<u>\$ -</u>	<u>\$ 6,743,837</u>

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>\$ 634,862</u>	<u>\$ -</u>	<u>\$ 7,601,307</u>

7. Leased Facilities and Equipment

Rental commitments under a noncancelable lease for equipment in effect at June 30, 2022, total \$13,390. The future annual rental commitments are as follows:

Due in the Year Ending June 30,

2023	<u>\$ 5,739</u>
2024	5,739
2025	1,912
	<u>\$ 13,390</u>

Rental expense for office space and equipment was \$54,347 and \$57,208 for the years ended June 30, 2022 and 2021, 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>2022</u>	<u>2021</u>	
Furniture and Equipment	\$ 150,554	\$ 150,554	5-15 years
Leasehold Improvements	<u>62,657</u>	<u>62,657</u>	10 years
	213,211	213,211	
Less Accumulated Depreciation	<u>198,366</u>	<u>184,871</u>	
	<u>\$ 14,845</u>	<u>\$ 28,340</u>	

Depreciation expense of \$13,495 and \$12,201 was recorded for the years ended June 30, 2022 and 2021, respectively.

9. Pledges Receivable

The outstanding balance of pledges receivable at June 30, 2022, is expected to be collected over the following fiscal years:

<u>Due in the Year Ending June 30,</u>	
2023	\$ 522,050
2024	400,430
2025	257,500
2026	96,500
2027	46,500
2028 and Beyond	<u>255,061</u>
	1,578,041
Less discount to present value at 4%	<u>112,274</u>
	1,465,767
Due within one year	<u>522,050</u>
Long-term portion	<u>\$ 943,717</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>2022</u>	<u>2021</u>
Board Designated Endowment	<u>\$ 1,672,048</u>	<u>\$ 2,023,163</u>

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11. Net Assets

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

	June 30,	
	2022	2021
Subject to expenditure for specified purpose and the passage of time:		
Future Years Operating and Program Support	\$ 831,239	\$ 807,650
Cross Cultural Education	30,741	41,994
Minnesota State Arts Board – Arts Tour Grant	-	73,718
Unappropriated Investment Income (Loss) – Endowment Fund	(90,971)	716,101
	771,009	1,639,402
Endowment – To be Held in Perpetuity	2,858,803	2,005,029
Total Net Assets With Donor Restrictions	\$ 3,629,812	\$ 3,644,431

12. Noncash Contributions

In-kind contributions included the following as of:

	June 30,	
	2022	2021
Travel, Lodging and Parking	\$ 600	\$ -
Rehearsal Space	16,000	-
Performing Services	-	27,750
Advertising	8,230	8,230
	\$ 24,830	\$ 35,980

Noncash Contributions were utilized for the Artistic Series and Youth Choir programs during the years ended June 30, 2022 and 2021, and had no donor restrictions. Values were used based on the current market rates VocalEssence would have paid for the same services if they were not donated.

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 \$28,350. The following is a schedule of future minimum lease payments at June 30, 2022:

<u>Due in the Year Ending June 30,</u>	
2023	\$ 858

Amortization expense related to the lease of \$9,720 is included in depreciation expense for both the years ended June 30, 2022 and 2021, respectively. Interest expense for the years ended June 30, 2022 and 2021 were \$254 and \$648, respectively.



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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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14. Endowment Fund (continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Board of Directors of VocalEssence has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under the law.

At June 30, 2022, funds with original gift values of \$2,858,803, fair values of \$2,823,693, and deficiencies of \$35,110 were reported in net assets without donor restrictions.

Endowment Net Asset Composition by Type of Fund:

June 30, 2022	<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	\$ -	\$ 2,858,803	\$ 2,858,803
Board-Designated	1,672,048	-	1,672,048
Undesignated	<u>1,236,939</u>	<u>-</u>	<u>1,236,939</u>
Total	<u>\$ 2,908,987</u>	<u>\$ 2,858,803</u>	<u>\$ 5,767,790</u>
June 30, 2021	<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	\$ -	\$ 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>

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14. Endowment Fund (continued)

Changes in Endowment Net Assets:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Appropriation	<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>
Investment Return:			
Investment Income	20,354	77,004	97,358
Net Decline	<u>(276,779)</u>	<u>(1,021,323)</u>	<u>(1,298,102)</u>
Total Investment Return	(256,425)	(944,319)	(1,200,744)
Other Changes:			
Contributions	-	853,774	853,774
Appropriations	<u>(1,037,910)</u>	<u>186,224</u>	<u>(851,686)</u>
June 30, 2022	<u>\$ 2,908,987</u>	<u>\$ 2,858,803</u>	<u>\$ 5,767,790</u>

15. 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. VocalEssence recorded the loan as debt on the Statement of Financial Position when received. 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 PPP loan from the SBA through Sunrise Bank in the amount of \$182,000. VocalEssence recorded the loan as debt on the Statement of Financial Position when received. The loan was forgiven in the year-ending June 30, 2022 and was recorded as Government Grant Income.

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16. Liquidity and Availability

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

	<u>2022</u>	<u>2021</u>
<b>Financial Assets:</b>		
Cash and Cash Equivalents	\$ 80,422	\$ 123,390
Accounts Receivable	3,245	12,926
Pledges Receivable	1,465,767	1,025,482
Investments	<u>5,767,790</u>	<u>6,966,445</u>
<b>Total Financial Assets</b>	<b>7,317,224</b>	<b>8,128,243</b>
Less assets not available to be used for general expenditures within one year:		
Net Assets With Donor Restrictions	3,629,812	3,644,431
Board Designated Endowment	1,672,048	2,023,163
Net Assets With Restrictions to be met within a year	<u>(316,242)</u>	<u>(497,896)</u>
<b>Total assets not available for general expenditures within one year:</b>	<b><u>4,985,618</u></b>	<b><u>5,169,698</u></b>
Financial assets available for general expenditures within one year	<b><u>\$ 2,331,606</u></b>	<b><u>\$ 2,958,545</u></b>

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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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>2022</u>	<u>2021</u>
Depreciation	\$ 13,495	\$ 12,201
PPP Loan Forgiveness	(182,000)	(181,000)
Contributed Securities	-	(1,517)
Unrealized (Gain) Loss on Investments	1,134,295	(575,259)
Realized (Gain) Loss on Investments	129,413	(907,644)
Pledges Receivable	(308,855)	(170,215)
Contributions Restricted for Endowment	(853,774)	(510,250)
Increases in Current Liabilities:		
Accounts Payable	(27,406)	32,928
Accrued Payroll Liabilities	6,404	782
Deferred Revenue	52,375	(120,828)
Decreases (Increases) in Current Assets:		
Accounts Receivable	9,681	(59)
Pledges Receivable	(131,430)	(223,796)
Prepaid Expenses	(31,173)	50,269
Total Adjustments	<u>\$ (188,975)</u>	<u>\$ (2,594,338)</u>