

VocalEssence
Minneapolis, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
June 30, 2024 and 2023



CERTIFIED PUBLIC ACCOUNTANTS

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Carpenter, Evert & Associates

Certified Public Accountants
7760 France Avenue S. Suite 940 Bloomington Minnesota 55435
952.831.0085 carpenterevert.com

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, 2024 and 2023, 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, 2024 and 2023, 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 and Associates, LTD.
Certified Public Accountants

Minneapolis, Minnesota
September 26, 2024

VOCALLESSENCE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

EXHIBIT A

	2024			2023		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions of Financial Assets	\$ 883,399	\$ 218,806	\$ 1,102,205	\$ 471,873	\$ 1,114,726	\$ 1,586,599
Contributions of Non-Financial Assets	48,519	-	48,519	19,750	-	19,750
Special Events Revenue	262,385	-	262,385	311,502	-	311,502
Less: Costs of Direct Benefits to Donors	(139,273)	-	(139,273)	(149,747)	-	(149,747)
Net Revenues from Special Events	123,112	-	123,112	161,755	-	161,755
Government Grants	191,979	-	191,979	355,696	-	355,696
Performance Revenue	160,764	-	160,764	120,689	-	120,689
Investment Income (Loss)	350,178	670,455	1,020,633	297,401	383,272	680,673
Miscellaneous	-	-	-	838	-	838
Net Assets Released from Restrictions:						
Satisfaction of Purpose and Time Restrictions	388,000	(388,000)	-	481,848	(481,848)	-
Total Support and Revenue	2,145,951	501,261	2,647,212	1,909,850	1,016,150	2,926,000
Expense:						
Program Services:						
Artistic Series	1,059,363	-	1,059,363	811,565	-	811,565
Learning and Engagement	286,711	-	286,711	273,295	-	273,295
Youth Choir	390,427	-	390,427	496,298	-	496,298
Total Program Services	1,736,501	-	1,736,501	1,581,158	-	1,581,158
Support Services:						
Management and General	190,363	-	190,363	224,807	-	224,807
Fundraising	311,570	-	311,570	308,705	-	308,705
Total Support Services	501,933	-	501,933	533,512	-	533,512
Total Expense	2,238,434	-	2,238,434	2,114,670	-	2,114,670
Change in Net Assets - From Operations	(92,483)	501,261	408,778	(204,820)	1,016,150	811,330
Other Changes in Net Assets:						
Fund Transfers	270,000	(270,000)	-	240,000	(240,000)	-
Change in Net Assets	177,517	231,261	408,778	35,180	776,150	811,330
Net Assets - Beginning of Year	3,703,177	4,405,962	8,109,139	3,667,997	3,629,812	7,297,809
Net Assets - End of Year	\$ 3,880,694	\$ 4,637,223	\$ 8,517,917	\$ 3,703,177	\$ 4,405,962	\$ 8,109,139

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

VOCALLESSENCE

EXHIBIT B

STATEMENT OF FUNCTIONAL EXPENSE

FOR THE YEAR ENDED JUNE 30, 2024 WITH COMPARATIVE TOTALS FOR 2023

	2024							2023	
	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	All Services
Personnel Expense:									
Salaries	\$ 360,959	\$ 106,668	\$ 86,251	\$ 553,878	\$ 119,703	\$ 189,651	\$ 309,354	\$ 863,232	\$ 808,131
Payroll Taxes	32,833	9,703	7,846	50,382	10,888	17,251	28,139	78,521	69,162
Employee Benefits	37,834	11,181	9,040	58,055	12,547	19,878	32,425	90,480	88,567
Total Personnel Costs	431,626	127,552	103,137	662,315	143,138	226,780	369,918	1,032,233	965,860
Performance Expense:									
Travel	54,546	9,789	181,796	246,131	-	-	-	246,131	272,819
Production	101,788	29,166	32,679	163,633	-	-	-	163,633	130,181
Ensemble	101,189	-	-	101,189	-	9,235	9,235	110,424	76,053
Printing and Advertising	104,926	63	152	105,141	-	-	-	105,141	87,836
Guest Artists and Contract Services	32,325	16,630	24,148	73,103	-	-	-	73,103	71,509
School Artists	-	53,310	-	53,310	-	-	-	53,310	56,325
Recording	42,834	8,120	700	51,654	-	-	-	51,654	63,551
Composers/Copyists	23,195	-	-	23,195	-	-	-	23,195	13,007
Other Expense	4,274	-	13,789	18,063	-	735	735	18,798	21,358
Orchestra	11,628	-	-	11,628	-	-	-	11,628	34,888
Postage and Delivery	8,627	-	-	8,627	-	-	-	8,627	9,444
Total Performance Expense	485,332	117,078	253,264	855,674	-	9,970	9,970	865,644	836,971
General Expense:									
Contract Services and Professional Fees	66,420	19,628	15,871	101,919	22,026	34,897	56,923	158,842	112,982
Equipment Rental and Maintenance	23,907	7,065	5,713	36,685	7,928	12,561	20,489	57,174	54,496
Rent	19,261	5,692	4,602	29,555	6,389	10,120	16,509	46,064	54,431
Travel	11,443	3,381	2,734	17,558	3,795	6,012	9,807	27,365	37,270
Printing and Advertising	7,090	2,095	1,694	10,879	2,351	3,725	6,076	16,955	14,527
Other Expense	4,247	1,255	1,015	6,517	1,408	2,231	3,639	10,156	11,858
Telephone	2,728	806	652	4,186	905	1,434	2,339	6,525	6,533
Subscriptions and Dues	2,670	789	638	4,097	885	1,403	2,288	6,385	6,478
Insurance	1,541	455	367	2,363	511	810	1,321	3,684	3,390
Postage	1,220	360	291	1,871	404	640	1,044	2,915	3,165
Supplies	1,172	346	280	1,798	389	616	1,005	2,803	2,517
Interest	-	-	-	-	-	-	-	-	3
Depreciation	706	209	169	1,084	234	371	605	1,689	4,189
Total General Expense	142,405	42,081	34,026	218,512	47,225	74,820	122,045	340,557	311,839
Total Expense	\$ 1,059,363	\$ 286,711	\$ 390,427	\$ 1,736,501	\$ 190,363	\$ 311,570	\$ 501,933	\$ 2,238,434	\$ 2,114,670

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

VOCALESSENCE
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2023

	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	\$ 280,549	\$ 93,725	\$ 97,459	\$ 471,733	\$ 142,080	\$ 194,318	\$ 336,398	\$ 808,131
Payroll Taxes	24,010	8,021	8,341	40,372	12,160	16,630	28,790	69,162
Employee Benefits	30,747	10,272	10,681	51,700	15,571	21,296	36,867	88,567
Total Personnel Costs	335,306	112,018	116,481	563,805	169,811	232,244	402,055	965,860
Performance Expense:								
Travel	47,298	11,961	213,560	272,819	-	-	-	272,819
Production	62,973	26,422	40,192	129,587	168	426	594	130,181
Ensemble	70,908	-	4,785	75,693	-	360	360	76,053
Printing and Advertising	79,443	163	8,230	87,836	-	-	-	87,836
Guest Artists and Contract Services	16,906	17,800	36,803	71,509	-	-	-	71,509
School Artists	-	56,325	-	56,325	-	-	-	56,325
Recording	38,711	12,440	12,400	63,551	-	-	-	63,551
Composers/Copyists	5,507	-	7,500	13,007	-	-	-	13,007
Other Expense	3,163	-	17,500	20,663	-	695	695	21,358
Orchestra	34,888	-	-	34,888	-	-	-	34,888
Postage and Delivery	8,204	-	1,240	9,444	-	-	-	9,444
Total Performance Expense	368,001	125,111	342,210	835,322	168	1,481	1,649	836,971
General Expense:								
Contract Services and Professional Fees	39,223	13,103	13,625	65,951	19,864	27,167	47,031	112,982
Equipment Rental and Maintenance	18,919	6,320	6,572	31,811	9,581	13,104	22,685	54,496
Rent	18,896	6,313	6,564	31,773	9,570	13,088	22,658	54,431
Travel	12,939	4,323	4,495	21,757	6,553	8,960	15,513	37,270
Printing and Advertising	5,043	1,685	1,752	8,480	2,554	3,493	6,047	14,527
Other Expense	4,117	1,375	1,430	6,922	2,085	2,851	4,936	11,858
Telephone	2,268	758	788	3,814	1,148	1,571	2,719	6,533
Subscriptions and Dues	2,249	751	781	3,781	1,139	1,558	2,697	6,478
Insurance	1,177	393	409	1,979	596	815	1,411	3,390
Postage	1,099	367	382	1,848	556	761	1,317	3,165
Supplies	874	292	304	1,470	442	605	1,047	2,517
Interest	-	-	-	-	3	-	3	3
Depreciation	1,454	486	505	2,445	737	1,007	1,744	4,189
Total General Expense	108,258	36,166	37,607	182,031	54,828	74,980	129,808	311,839
Total Expense	\$ 811,565	\$ 273,295	\$ 496,298	\$ 1,581,158	\$ 224,807	\$ 308,705	\$ 533,512	\$ 2,114,670

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

VOCALESSENCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2024 AND 2023

<u>ASSETS</u>	<u>2024</u>	<u>2023</u>
Current Assets:		
Cash and Cash Equivalents	\$ 311,391	\$ 151,721
Accounts Receivable	10,498	4,658
Pledges Receivable	472,449	333,700
Prepaid Expenses	37,212	55,934
Total Current Assets	<u>831,550</u>	<u>546,013</u>
Pledges Receivable	285,208	667,183
Investments	7,476,056	6,997,965
Property and Equipment - Net	8,967	10,656
Total Assets	<u>\$ 8,601,781</u>	<u>\$ 8,221,817</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 47,752	\$ 52,496
Accrued Payroll Liabilities	36,112	60,182
Total Current Liabilities	<u>83,864</u>	<u>112,678</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	1,846,260	1,844,744
Endowment	2,034,434	1,858,433
Total Without Donor Restrictions	<u>3,880,694</u>	<u>3,703,177</u>
With Donor Restrictions	4,637,223	4,405,962
Total Net Assets	<u>8,517,917</u>	<u>8,109,139</u>
Total Liabilities and Net Assets	<u>\$ 8,601,781</u>	<u>\$ 8,221,817</u>

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

VOCALESSENCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 408,778	\$ 811,330
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,689	4,189
Realized and Unrealized (Gain) on Investments	(893,131)	(611,215)
Contributions Restricted for Endowment	(64,466)	(322,372)
Decreases (Increases) in Operating Assets:		
Accounts Receivable	(5,840)	(1,413)
Pledges Receivable	243,226	464,884
Prepaid Expenses	18,722	45,655
Increases (Decreases) in Operating Liabilities:		
Accounts Payable	(4,744)	28,521
Accrued Payroll Liabilities	(24,070)	1,541
Deferred Revenue	-	(52,375)
Net Cash Provided (Used) by Operating Activities	(319,836)	368,745
Cash Flows from Investing Activities:		
Proceeds from the Sale of Investments	5,006,036	1,854,471
Purchase of Investments	(4,590,996)	(2,473,431)
Net Cash Provided (Used) by Investing Activities	415,040	(618,960)
Cash Flows from Financing Activities:		
Proceeds from Contributions Restricted for Endowment	64,466	322,372
Principal Payments on Capital Lease	-	(858)
Net Cash Provided by Financing Activities	64,466	321,514
Net Increase in Cash and Cash Equivalents	159,670	71,299
Cash and Cash Equivalents - Beginning of Year	151,721	80,422
Cash and Cash Equivalents - End of Year	\$ 311,391	\$ 151,721
<u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	\$ -	\$ 3

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

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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, 2024 AND 2023

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.

VocalEssence records contributions of nonfinancial assets at fair market value at date of donation. VocalEssence’s policy related to contributions of nonfinancial assets is to utilize the assets given to carry out the mission of VocalEssence. If an asset is provided 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.

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>2024</u>	<u>2023</u>
Deferred Revenue – Beginning of Year	\$ -	\$ 52,375
Revenue recognized that was included in deferred revenue at the beginning of the year	-	(52,375)
Increases in deferred revenue due to cash received during the year	-	-
Deferred Revenue– End of Year	<u>\$ -</u>	<u>\$ -</u>

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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.

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

Leases

VocalEssence determines if an arrangement is or contains a lease at inception. Leases are included in right-of-use (ROU) assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. The operating lease expense is recognized on a straight-line basis over the lease term. VocalEssence does not report ROU assets and leases liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Based on the length of the leases VocalEssence has determined their leases are short-term leases and the difference with operating leases is not material.

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).

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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.

Subsequent Events

VocalEssence has evaluated the effect that subsequent events would have on the financial statements through September 26, 2024, 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. Investments

Investments were comprised of the following as of:

	June 30,			
	2024		2023	
	Cost	Market	Cost	Market
Money Market Funds	\$ 236,282	\$ 236,282	\$ 351,535	\$ 351,535
Mutual Funds and ETFs	5,866,182	7,239,774	6,131,840	6,646,430
Total	\$ 6,102,464	\$ 7,476,056	\$ 6,483,375	\$ 6,997,965

Investment income was as follows as of:

	June 30,	
	2024	2023
Interest and Dividend Income	\$ 163,579	\$ 102,850
Unrealized and Realized Gain (Loss)	893,131	611,215
Investment Fees	(36,077)	(33,392)
Total	\$ 1,020,633	\$ 680,673

4. Pension Plan

VocalEssence made contributions of \$42,927 and \$40,750 to employees' individual retirement accounts in the 403(b) plan for the years ended June 30, 2024 and 2023, 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, 2024 AND 2023

5. Short Term Leases

Rental commitments under a noncancelable lease for equipment and office space in effect at June 30, 2024, total \$1,913. The future annual rental commitments are as follows:

Due in the Year Ending June 30,

2025	<u>\$ 1,913</u>
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Rental expense for office space and equipment was \$46,064 and \$54,431 for the years ended June 30, 2024 and 2023, respectively. Office space lease is a month to month agreement.

6. Fair Value

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, 2024

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 236,282	\$ -	\$ -	\$ 236,282
Mutual Funds and ETFs	7,239,774	-	-	7,239,774
Pledges Receivable	-	285,208	-	285,208
Total	<u>\$ 7,476,056</u>	<u>\$ 285,208</u>	<u>\$ -</u>	<u>\$ 7,761,264</u>

June 30, 2023

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 351,535	\$ -	\$ -	\$ 351,535
Mutual Funds and ETFs	6,646,430	-	-	6,646,430
Pledges Receivable	-	667,183	-	667,183
Total	<u>\$ 6,997,965</u>	<u>\$ 667,183</u>	<u>\$ -</u>	<u>\$ 7,665,148</u>

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7. Property and Equipment

VocalEssence owned the following as of:

	<u>June 30,</u>		<u>Estimated Useful Lives</u>
	<u>2024</u>	<u>2023</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>204,244</u>	<u>202,555</u>	
	<u>\$ 8,967</u>	<u>\$ 10,656</u>	

Depreciation expense of \$1,689 and \$4,189 was recorded for the years ended June 30, 2024 and 2023, respectively.

8. Pledges Receivable

The outstanding balance of pledges receivable at June 30, 2024, is expected to be collected over the following fiscal years:

Due in the Year Ending June 30,

2025	\$ 472,449
2026	161,000
2027	77,000
2028	19,500
2029	19,500
2030 and Beyond	<u>36,624</u>
	786,073
Less discount to present value at 4%	<u>28,416</u>
	757,657
Due within one year	<u>472,449</u>
Long-term portion	<u>\$ 285,208</u>

9. 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>2024</u>	<u>2023</u>
Board Designated Endowment	<u>\$ 2,034,434</u>	<u>\$ 1,858,433</u>

VOCAL ESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

10. Net Assets

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

	June 30,	
	2024	2023
Subject to expenditure for specified purpose and the passage of time:		
Future Years Operating and Program Support	\$ 908,084	\$ 1,141,744
Cross Cultural Education	47,104	37,263
Unappropriated Investment Income – Endowment Fund	436,393	45,779
	1,391,581	1,224,786
Endowment – To be Held in Perpetuity	3,245,642	3,181,176
Total Net Assets With Donor Restrictions	\$ 4,637,223	\$ 4,405,962

11. Contributions of Non-Financial Assets

Contributions of Non-Financial Assets included the following as of:

	June 30,	
	2024	2023
Rehearsal Space	\$ 16,000	\$ 16,000
Professional Services	32,519	3,750
	\$ 48,519	\$ 19,750

Contributions of Non-Financial Assets were utilized for the Artistic Series and Youth Choir programs during the years ended June 30, 2024 and 2023, 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.

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 \$29,160 less accumulated depreciation of \$29,160.

Amortization expense related to the lease of \$0 and \$810 is included in depreciation expense for the years ended June 30, 2024 and 2023, respectively. Interest expense for the years ended June 30, 2024 and 2023 were \$0 and \$3, respectively.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

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.

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

13. Endowment Fund (continued)

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.

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.

Endowment Net Asset Composition by Type of Fund:

June 30, 2024	<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	\$ -	\$ 3,245,642	\$ 3,245,642
Board-Designated	2,034,434	-	2,034,434
Undesignated	<u>2,195,980</u>	<u>-</u>	<u>2,195,980</u>
Total	<u>\$ 4,230,414</u>	<u>\$ 3,245,642</u>	<u>\$ 7,476,056</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

13. Endowment Fund (continued)

Endowment Net Asset Composition by Type of Fund (continued):

June 30, 2023	<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	\$ -	\$ 3,181,176	\$ 3,181,176
Board-Designated	1,858,433	-	1,858,433
Undesignated	<u>1,958,356</u>	<u>-</u>	<u>1,958,356</u>
Total	<u>\$ 3,816,789</u>	<u>\$ 3,181,176</u>	<u>\$ 6,997,965</u>

Changes in Endowment Net Assets:

June 30, 2022	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
June 30, 2022	\$ 2,908,987	\$ 2,858,803	\$ 5,767,790
Investment Return:			
Investment Income	25,453	81,587	107,040
Net Appreciation	<u>91,913</u>	<u>488,070</u>	<u>579,983</u>
Total Investment Return	117,366	569,657	687,023
Other Changes:			
Contributions	-	322,372	322,372
Appropriations	<u>790,436</u>	<u>(569,656)</u>	<u>220,780</u>
June 30, 2023	<u>\$ 3,816,789</u>	<u>\$ 3,181,176</u>	<u>\$ 6,997,965</u>
Investment Return:			
Investment Income	48,887	109,931	158,818
Net Appreciation	<u>121,506</u>	<u>735,548</u>	<u>857,054</u>
Total Investment Return	170,393	845,479	1,015,872
Other Changes:			
Contributions	-	64,466	64,466
Appropriation	<u>243,232</u>	<u>(845,479)</u>	<u>(602,247)</u>
June 30, 2024	<u>\$ 4,230,414</u>	<u>\$ 3,245,642</u>	<u>\$ 7,476,056</u>

VOCALESSENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

14. Liquidity and Availability

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

	2024	2023
Financial Assets:		
Cash and Cash Equivalents	\$ 311,391	\$ 151,721
Accounts Receivable	10,498	4,658
Pledges Receivable	757,657	1,000,883
Investments	<u>7,476,056</u>	<u>6,997,965</u>
Total Financial Assets	8,555,602	8,155,227
Less assets not available to be used for general expenditures within one year:		
Net Assets With Donor Restrictions	4,572,758	4,405,962
Board Designated Endowment	2,034,434	1,858,433
Net Assets With Restrictions to be met within a year	<u>(472,449)</u>	<u>(792,835)</u>
Total assets not available for general expenditures within one year:	<u>6,134,743</u>	<u>5,471,560</u>
Financial assets available for general expenditures within one year	<u>\$ 2,420,859</u>	<u>\$ 2,683,667</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.