

**THE MINNESOTA CHORALE
MINNEAPOLIS, MINNESOTA**

**FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

THE MINNESOTA CHORALE

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3-4
Statements of Activities and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7-12

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Minnesota Chorale
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of The Minnesota Chorale (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 principles 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 The Minnesota Chorale as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Minnesota Chorale's June 30, 2012 financial statements, and our report dated November 5, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Smith, Schafu and Associates, Ltd.

Maplewood, Minnesota
November 8, 2013

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THE MINNESOTA CHORALE

STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 11,368	\$ 66,309
Accounts receivable	696	-
Grants and pledges receivable (Note 2)	46,818	57,232
Inventory	4,043	3,801
Prepaid expenses	1,300	1,316
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Total Current Assets	64,225	128,658
Property and Equipment		
Office and computer equipment	3,073	5,206
Less: Accumulated depreciation	1,834	4,330
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Property and Equipment, Net	1,239	876
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TOTAL ASSETS	\$ 65,464	\$ 129,534

See Notes to Financial Statements

LIABILITIES AND NET ASSETS	2013	2012
Current Liabilities		
Accounts payable	\$ 26,927	\$ 25,733
Note payable (Note 8)	25,000	-
Holding accounts	-	6,882
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Total Current Liabilities	51,927	32,615
Net Assets		
<i>Unrestricted</i>		
Undesignated	(31,463)	40,562
<i>Temporarily Restricted (Note 3)</i>	45,000	56,357
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Total Net Assets	13,537	96,919
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TOTAL LIABILITIES AND NET ASSETS	\$ 65,464	\$ 129,534
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THE MINNESOTA CHORALE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2013

With Comparative Totals for the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Totals	
			2013	2012
Public Support				
Corporate and foundation grants	\$ 56,468	\$ 30,000	\$ 86,468	\$ 157,637
Individual contributions	102,579	-	102,579	98,610
Government grants	40,548	15,000	55,548	77,159
Total Public Support	199,595	45,000	244,595	333,406
Revenues				
Performance fees and ticket revenue	32,761	-	32,761	123,546
Fundraising	51,768	-	51,768	56,397
Other revenue	2,647	-	2,647	2,438
Interest	8	-	8	2
Value of contributed services by unpaid volunteer singers	193,875	-	193,875	179,528
In-kind contributions	800	-	800	10,829
Total Revenues	281,859	-	281,859	372,740
Net Assets Released				
From Restrictions (Note 4)	56,357	(56,357)	-	-
Total Public Support and Revenues	537,811	(11,357)	526,454	706,146
Expenses				
Performances and education	493,287	-	493,287	507,066
Fundraising	73,868	-	73,868	80,818
General and administrative	42,681	-	42,681	42,488
Total Expenses	609,836	-	609,836	630,372
Increase (Decrease) in Net Assets	(72,025)	(11,357)	(83,382)	75,774
Net Assets – Beginning of Year	40,562	56,357	96,919	21,145
Net Assets (Deficit) – End of Year	\$ (31,463)	\$ 45,000	\$ 13,537	\$ 96,919

See Notes to Financial Statements

THE MINNESOTA CHORALE

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Change in net assets	\$ (83,382)	\$ 75,774
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	324	116
(Increase) Decrease in:		
Accounts receivable	(696)	-
Grants and pledges receivable	10,414	(25,932)
Inventory	(242)	91
Prepaid expenses	16	145
Increase (Decrease):		
Accounts payable	1,194	2,809
Interest payable	-	(156)
Holding accounts	(6,882)	2,720
Net Cash Provided By (Used In) Operating Activities	<u>(79,254)</u>	<u>55,567</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	<u>(687)</u>	<u>(992)</u>
Cash Flows From Financing Activities		
Proceeds from issuance of note payable	<u>25,000</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,941)	54,575
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	66,309	11,734
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 11,368</u>	<u>\$ 66,309</u>
Supplemental Data:		
Cash Paid During the Year for Interest	2,343	\$ -
Noncash Investing and Financing Activities:		
Donated services by singers	\$ 193,875	\$ 179,528
Other in-kind donations	800	10,829

See Notes to Financial Statements

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THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Nature of Organization

The Minnesota Chorale (the Organization) is a Minnesota Non-Profit Corporation, which serves its community of audiences through all forms of choral music, performed at the highest level of artistic quality. The Organization celebrates the human voice and its ability to educate, unite, enrich and inspire.

Description of Programs

The Organization is an acclaimed symphonic chorus. It performs with the Minnesota Orchestra, the Saint Paul Chamber Orchestra and other musical organizations. Its annual "Bridges" program engages underserved populations and raises awareness of pressing social needs. An educational program is provided in support of the musical programs of certain inner-city schools. The organization also operates the Minneapolis Youth Chorus, an auditioned chorus offered at no charge to students in grades 4-8 enrolled in Minneapolis Public Schools. Fund raising and administrative activities are carried out to support the performances and the educational programs.

Basis of Financial Statements

The financial statements of the Organization have been prepared on the accrual basis of accounting. Revenues are recorded at the time of performance of the service or at the point of sale for promotional items. Expenses are recorded as incurred.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization qualifies as a tax-exempt nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is required and contributions are generally deductible for income tax purposes by contributors.

Management has determined that the Company does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures.

The Organization's federal informational income tax returns for 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions and Financial Statement Presentation

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor's restriction. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Many individuals have contributed a significant amount of time to the activities of the Organization. The Organization does not recognize these contributed services as revenues unless 1) the services received create or enhance existing facilities; or 2) require specialized skills and are provided by individuals possessing those skills. The Organization recognized \$193,875 and \$179,528 of contributed services by volunteer singers for the years ended June 30, 2013 and 2012, respectively (see also Note 7).

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received. Unconditional promises to give as of June 30, 2013 are expected to be received within one to two years.

Donated Equipment, Materials and Other Services

Donated equipment, materials, and other services are recorded as contributions at the estimated fair value on the date received. The Organization received \$800 and \$10,829 in donated other services for the years ended June 30, 2013 and 2012, respectively.

The Organization also recognizes revenue related to items donated that are later sold as part of a fundraising auction. The amounts recognized as revenue for the years ended June 30, 2013 and 2012 were \$22,470 and \$41,267, respectively. These amounts are included in fundraising revenue on the Organization's statement of activities.

Cash and Cash Equivalents

Cash and cash equivalents includes all demand deposits and investments with an original maturity of three months or less. The Organization holds no cash balances with financial institutions that exceed the federally insured limit.

THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Pledges and Grants Receivable

The Organization records pledges and grants as revenue when a commitment to contribute has been made by a donor or grantor. Such pledges and grants increase unrestricted or temporarily restricted contributions. Conditional pledges and grants are recognized when the conditions on which they depend are substantially met. Pledges and grants deemed not to be collectible are not recorded.

Inventory

Inventory consists of promotional items such as clothing and compact discs. Inventory is carried at the lower of the specific cost or the market value of each item.

Property and Equipment

Equipment is stated at the lower of its cost, fair value or fair value at the time of donation (for in-kind contributions of equipment). Depreciation is computed using the straight-line method over estimated useful lives of three to five years. When the property and equipment are sold, retired or disposed of, the cost and the related accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in the Statement of Activities. Expenditures for maintenance and repairs are recorded as expenses in the Statement of Activities. Improvements that materially extend the life or utility of an asset are capitalized. Depreciation expense for the years ended June 30, 2013 and 2012 was \$324 and \$116, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are presented on a functional basis in the Statement of Activities. Certain costs have been allocated among the programs and supporting services benefited based on time studies and estimates. All other costs are directly charged to the programs and supporting services.

Prior Year Comparative Totals

The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising and promotional expense for the years ended June 30, 2013 and 2012 was \$6,121 and \$7,354, respectively.

THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Concentrations

During the year ended June 30, 2013, performance fees received from the Minnesota Orchestra accounted for approximately 1% of the Organization's total support and revenues. During the year ended June 30, 2012, performance fees received from the Minnesota Orchestra accounted for approximately 16% of the Organization's total support and revenues. The decrease from 2013 to 2012 was due to the work stoppage of the Minnesota Orchestra that began in October 2012. The work stoppage had not been resolved as of November 8, 2013.

Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, grants and pledges receivable, inventory, prepaid expenses, interest payable, accounts payable, and holding accounts approximates fair value due to the immediate or short-term maturity of these financial instruments.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 8, 2013, the date the financial statements were available to be issued.

2. Receivables

Pledges and grants receivable at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Target Foundation	\$ 30,000	\$ -
National Endowment for the Arts	15,000	17,500
Compas	875	875
Minnesota State Arts Board	753	3,857
Individuals	190	-
McKnight Foundation	-	25,000
The Sheltering Arms Foundation	-	10,000
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Total Pledges and Grants Receivable	<u>\$ 46,818</u>	<u>\$ 57,232</u>

No allowance has been provided for doubtful accounts, pledges or grants at June 30, 2013 and 2012, since management expects all receivables to be fully collectible within the next fiscal year.

THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 were available for the following purposes:

	<u>2013</u>	<u>2012</u>
Purpose Restriction:		
Bridges	\$ 15,000	\$ 17,500
Minneapolis Youth Chorus	-	10,000
Future Period Restrictions	<u>30,000</u>	<u>28,857</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 45,000</u>	 <u>\$ 56,357</u>

As discussed under the heading "Concentrations" in Note 1, the Organization lost a significant source of revenue during the year ended June 30, 2013. As a result, the Organization experienced a large decrease in net assets and therefore the statement of financial position as of June 30, 2013 shows negative unrestricted net assets. However, due to the restrictions listed above, temporarily restricted net assets were positive as of June 30, 2013. Management expects to correct negative unrestricted net asset position with future earnings and the release of the balance in temporarily restricted net assets.

4. Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the time restriction expiring for the years ended June 30, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Purpose Restrictions:		
Bridges Program	\$ 17,500	\$ 22,000
Minneapolis Youth Chorus	10,000	3,800
Future Period Restrictions	<u>28,857</u>	<u>-</u>
 Total Net Assets Released from Restrictions	 <u>\$ 56,357</u>	 <u>\$ 25,800</u>

THE MINNESOTA CHORALE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Retirement Plan

In February 2010, the Organization implemented a 401(k) retirement plan. The plan covers all employees who have met the eligibility requirements. Contributions of \$1,815 and \$5,598, respectively, were made to match employee contributions to the 401(k) plan for the years ended June 30, 2013 and 2012.

6. Operating Leases

The Organization leases office space under a month-to-month lease. Rental payments consisted of monthly base rent of \$730 through December 2012 and \$752 through June 2013. Rent expense recorded in 2013 and 2012 was \$8,892 and \$8,760, respectively.

7. Noncash Contributions of Services and Rent

The value of the contribution of talent by volunteer singers is recognized as both revenue and an expense to the Organization at the rates paid to equivalent professional singers hired by the Organization. The value of donated rent is recognized based on the number of hours the Organization used the space and rates the facility charges to customers.

8. Note Payable

The Organization borrowed \$25,000 from Nonprofits Assistance Fund in January 2013 at 7.0% interest. The loan was payable in monthly installments of interest until the June 2013 due date, at which time all outstanding principal was originally due and payable. The loan is secured by substantially all assets of the Organization. Interest paid on this loan was \$719 for the year ended June 30, 2013.

In July 2013, the loan's due date was extended to December 2013 with the option to renew for an additional period.
