

Audited Financial Statements



July 31, 2022 and 2021

Quigley & Miron

**Los Angeles Children's Chorus
Audited Financial Statements
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Independent Auditor's Report

Board of Directors
Los Angeles Children's Chorus
Pasadena, California

Opinion

We have audited the accompanying financial statements of Los Angeles Children's Chorus (LACC), a nonprofit organization, which comprise the statement of financial position as of July 31, 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 LACC as of July 31, 2022 and 2021, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 LACC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 LACC's ability to continue as a going concern for one year after the date that the financial statements are issued.

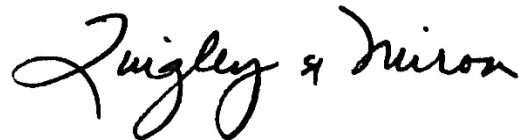
Auditor's Responsibilities for the Audit of the Financial Statements

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 GAAS 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 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 GAAS, 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 LACC'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 LACC'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.

A handwritten signature in black ink that reads "Zwigley & Miron". The signature is written in a cursive, flowing style.

Los Angeles, California
March 30, 2023

Los Angeles Children's Chorus
Statements of Financial Position
July 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 677,733	\$ 651,066
Grants and pledges receivable	61,595	35,521
Accounts receivable, net—Note 2	29,383	2,611
Due from tour company—Note 2	477	6,316
Prepaid expenses	15,784	9,281
	<u>784,972</u>	<u>704,795</u>
Total Current Assets	784,972	704,795
Non-Current Assets		
Cash and cash equivalents	55,000	60,000
Restricted cash, held in perpetuity—Notes 8 and 9	26,527	26,527
Property and equipment, net—Note 4	45,461	41,313
	<u>126,988</u>	<u>127,840</u>
Total Non-Current Assets	126,988	127,840
	<u>\$ 911,960</u>	<u>\$ 832,635</u>
Total Assets	\$ 911,960	\$ 832,635
Liabilities and Net Assets		
Liabilities		
Current Liabilities		
Accounts payable	\$ 4,928	\$ 25,314
Accrued payroll	44,243	26,359
Accrued vacation	77,988	68,287
Accrued expenses	-	6,000
Unearned tuition	49,251	-
Tour costs due to families—Note 2	-	19,675
Current portion of capital lease payable—Note 5	10,243	9,842
	<u>186,653</u>	<u>155,477</u>
Total Current Liabilities	186,653	155,477
Non-Current Liabilities		
Capital lease payable—Note 5	6,690	17,131
	<u>193,343</u>	<u>172,608</u>
Total Liabilities	193,343	172,608
Net Assets		
Without donor restrictions	575,495	532,979
With donor restrictions—Note 8	143,122	127,048
	<u>718,617</u>	<u>660,027</u>
Total Net Assets	718,617	660,027
Total Liabilities and Net Assets	<u>\$ 911,960</u>	<u>\$ 832,635</u>

See notes to financial statements.

Los Angeles Children's Chorus
Statement of Activities
Year Ended July 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
Public Support and Revenue			
Tuition and fees			
Gross revenue	\$ 797,098	\$ -	\$ 797,098
Less scholarships	(106,776)	-	(106,776)
Tuition and Fees, Net	690,322	-	690,322
Tour fees			
Gross revenue	270,009	-	270,009
Less scholarships	(59,890)	-	(59,890)
Tour Fees, Net	210,119	-	210,119
Performance income	122,641	-	122,641
Product sales	1,997	-	1,997
Grants and contributions	431,443	83,600	515,043
Government grant income	46,374	-	46,374
Special events			
Gross revenue	135,992	-	135,992
Less cost of direct benefits to donors	(76,997)	-	(76,997)
Special Events, Net	58,995	-	58,995
Other income	5,397	-	5,397
Interest income	1,069	81	1,150
Total Public Support and Revenue	1,568,357	83,681	1,652,038
Net assets released from restrictions	67,596	(67,596)	-
Total Public Support, Revenue, and Releases from Restrictions	1,635,953	16,085	1,652,038
Expenses			
Chorus programs	1,205,456	-	1,205,456
Management and general	204,693	-	204,693
Fundraising	183,143	-	183,143
Total Expenses	1,593,292	-	1,593,292
Change in Net Assets from Operations	42,661	16,085	58,746
Nonoperating Activities			
Investment return, net	(145)	(11)	(156)
Total Nonoperating Activities	(145)	(11)	(156)
Change in Net Assets	42,516	16,074	58,590
Net Assets at Beginning of Year	532,979	127,048	660,027
Net Assets at End of Year	\$ 575,495	\$ 143,122	\$ 718,617

See notes to financial statements.

Los Angeles Children's Chorus
Statement of Activities
Year Ended July 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Activities			
Public Support and Revenue			
Tuition and fees			
Gross revenue	\$ 819,830	\$ -	\$ 819,830
Less scholarships	(124,924)	-	(124,924)
Tuition and Fees, Net	694,906	-	694,906
Performance income	749	-	749
Product sales	192	-	192
Grants and contributions	390,130	40,521	430,651
Government grant income	113,740	-	113,740
In-kind contributions—Note 10	5,315	-	5,315
SBA PPP grant income—Note 11	235,471	-	235,471
Special events			
Gross revenue	82,851	-	82,851
Less cost of direct benefits to donors	(28,092)	-	(28,092)
Special Events, Net	54,759	-	54,759
Other income	2,689	-	2,689
Interest income	93	7	100
Total Public Support and Revenue	1,498,044	40,528	1,538,572
Net assets released from restrictions	14,507	(14,507)	-
Total Public Support, Revenue, and Releases of Restrictions	1,512,551	26,021	1,538,572
Expenses			
Chorus programs	804,309	-	804,309
Management and general	252,843	-	252,843
Fundraising	152,621	-	152,621
Total Expenses	1,209,773	-	1,209,773
Change in Net Assets from Operations	302,778	26,021	328,799
Nonoperating Activities			
Investment return, net	2,382	-	2,382
Total Nonoperating Activities	2,382	-	2,382
Change in Net Assets	305,160	26,021	331,181
Net Assets at Beginning of Year	227,819	101,027	328,846
Net Assets at End of Year	\$ 532,979	\$ 127,048	\$ 660,027

See notes to financial statements.

Los Angeles Children's Chorus
Statement of Functional Expenses
Year Ended July 31, 2022

	Chorus Programs	Management and General	Fundraising	Special Events	Total
Salaries and wages	\$ 689,464	\$ 80,316	\$ 79,975	\$ -	\$ 849,755
Payroll taxes	51,571	8,557	15,533	-	75,661
Employee benefits	64,100	7,744	7,438	-	79,282
Total Personnel	805,135	96,617	102,946	-	1,004,698
Bank and merchant fees	12,102	12,102	12,102	-	36,306
Chorus education and workshops	4,659	-	-	-	4,659
Concert production costs	5,624	-	-	-	5,624
Cost of direct benefits to donors	-	-	-	76,997	76,997
Depreciation and amortization	13,264	1,545	1,538	-	16,347
Development	-	-	3,090	-	3,090
Facility costs	42,580	4,936	4,913	-	52,429
Insurance	12,222	1,424	1,417	-	15,063
Interest	2,681	260	259	-	3,200
Marketing and publicity	9,355	7,462	6,367	-	23,184
Miscellaneous	109	1,862	912	-	2,883
Music training retreat	16,549	-	-	-	16,549
Office expense	19,909	20,670	6,715	-	47,294
Postage	885	161	718	-	1,764
Printing and copying	684	80	79	-	843
Professional fees	11,837	57,101	41,616	-	110,554
Program supplies	24,182	-	-	-	24,182
Telephone and internet	4,060	473	471	-	5,004
Tour costs	219,619	-	-	-	219,619
Tuition scholarships	166,666	-	-	-	166,666
Total Expenses by Function	1,372,122	204,693	183,143	76,997	1,836,955
Less expenses included with revenues on the statement of activities					
Tuition scholarships	(166,666)	-	-	-	(166,666)
Cost of direct benefits to donors	-	-	-	(76,997)	(76,997)
Total Expenses	\$ 1,205,456	\$ 204,693	\$ 183,143	\$ -	\$ 1,593,292

See notes to financial statements.

Los Angeles Children's Chorus
Statement of Functional Expenses
Year Ended July 31, 2021

	<u>Chorus Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Special Events</u>	<u>Total</u>
Salaries and wages	\$ 593,380	\$ 77,290	\$ 83,623	\$ -	\$ 754,293
Payroll taxes	53,276	6,951	6,636	-	66,863
Employee benefits	51,788	6,746	7,298	-	65,832
Total Personnel	698,444	90,987	97,557	-	886,988
Bank and merchant fees	6,738	6,943	6,739	-	20,420
Community Outreach	-	-	28	-	28
Concert production costs	20,469	-	-	-	20,469
Cost of direct benefits to donors	-	-	-	28,092	28,092
Depreciation and amortization	10,453	1,361	1,473	-	13,287
Development	2,062	-	-	-	2,062
Facility costs	21,354	3,656	2,967	-	27,977
Insurance	11,364	1,480	1,602	-	14,446
Interest	259	3,846	235	-	4,340
Marketing and publicity	3,188	2,436	1,240	-	6,864
Miscellaneous	270	2,151	-	-	2,421
Office expense	10,874	25,422	2,270	-	38,566
Postage	1,011	172	230	-	1,413
Printing and copying	-	2,056	-	-	2,056
Professional fees	12,258	111,160	37,807	-	161,225
Program supplies	2,210	-	-	-	2,210
Telephone and internet	3,355	1,173	473	-	5,001
Tuition scholarships	124,924	-	-	-	124,924
Total Expenses by Function	929,233	252,843	152,621	28,092	1,362,789
Less expenses included with revenues on the statement of activities					
Tuition scholarships	(124,924)	-	-	-	(124,924)
Cost of direct benefits to donors	-	-	-	(28,092)	(28,092)
Totals	\$ 804,309	\$ 252,843	\$ 152,621	\$ -	\$ 1,209,773

See notes to financial statements.

Los Angeles Children's Chorus
Statements of Cash Flows
Years Ended July 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 58,590	\$ 331,181
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,347	13,287
Changes in operating assets and liabilities:		
Grants and pledges receivable	(26,074)	(26,021)
Accounts receivable	(26,772)	(1,124)
Due from tour company	5,839	163,043
Prepaid expenses	(6,503)	711
Accounts payable	(20,386)	22,566
Accrued payroll	17,884	22,817
Accrued vacation	9,701	32,875
Accrued expenses	(6,000)	5,866
Unearned tuition	49,251	(42,764)
Tour costs due to families	(19,675)	(179,013)
SBA PPP advance	-	(51,201)
Net Cash Provided by Operating Activities	52,202	292,223
Cash Flows from Investing Activities		
Purchases of property and equipment	(20,495)	(5,787)
Net Cash Used in Investing Activities	(20,495)	(5,787)
Cash Flows from Financing Activities		
Payments on capital lease payable	(10,040)	(9,841)
Payments on line of credit	-	(45,000)
Net Cash Used in Financing Activities	(10,040)	(54,841)
Net Increase in Cash, Cash Equivalents, and Restricted Cash	21,667	231,595
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	737,593	505,998
Cash, Cash Equivalents, and Restricted Cash at End of Year	<u>\$ 759,260</u>	<u>\$ 737,593</u>
Supplementary Disclosures		
Cash paid during the year for:		
Income taxes	\$ -	\$ -
Interest	<u>\$ 3,200</u>	<u>\$ 4,340</u>

See notes to financial statements.

Los Angeles Children's Chorus
Notes to Financial Statements
July 31, 2022 and 2021

Note 1—Nature of Activities

Los Angeles Children's Chorus (LACC) (a non-profit corporation) has established itself as one of the preeminent youth choruses in the country. LACC was founded in 1986 and incorporated in California in 1993. The mission of LACC is to provide choral music education of the highest quality to young people who represent richly diverse racial, economic, and cultural backgrounds.

LACC's programs include seven chorus ensembles and two First Experiences in Singing classes. LACC annually enrolls and trains nearly 400 choristers, ages 6 – 18, from 40+ communities across the greater Los Angeles metropolitan area. LACC also appears in over 50 public performances each season. These performances include frequent collaborations with some of Los Angeles' most prominent arts organizations, including the LA Philharmonic, LA Opera, and Los Angeles Master Chorale, among others.

In addition to its music education and performance activities in and around Los Angeles, LACC regularly represents the city and state as a cultural ambassador on domestic and international tours that have taken the chorus to 20+ countries on six continents. LACC is tax-exempt under Internal Revenue Code Section 501(c)(3).

Note 2—Significant Accounting Policies

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. LACC's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of LACC and changes therein are presented and reported as follows:

Net Assets without Donor Restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of LACC. These net assets may be used at the discretion of LACC's management and the board of directors.

Net Assets with Donor Restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of LACC and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit LACC to use all or part of the income earned on related investments for general or specific purposes.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Measure of Operations—The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of LACC's music education and performance activities, and interest and dividends earned on investments. to be of a more unusual or nonrecurring nature. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 2—Significant Accounting Policies—Continued

Income Taxes—LACC is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the financial statements. In addition, LACC has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered “more likely than not” to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at July 31, 2022 and 2021. Generally, LACC’s information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

Liquidity—Assets are presented according to their proximity to cash and liabilities are presented according to their nearness of payment or use of cash.

Recently Adopted Accounting Principles

Revenue Recognition—May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. LACC has adopted ASU No. 2014-09 for the year ended July 31, 2021, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements.

Gifts-in-Kind—In September 2020, (FASB) issued (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets (Note 10). There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity’s policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. LACC has adopted ASU No. 2020-07 for the year ended June 30, 2022 on a retrospective basis which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the years ended July 31, 2022 and July 31, 2021.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 2—Significant Accounting Policies—Continued

Cash, Cash Equivalents, and Restricted Cash—LACC considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Certificates of deposit are valued at original purchase cost, which, when combined with accrued interest receivable, approximates fair market value at July 31, 2022. Included in cash and cash equivalents is the long-term portion of cash for the YME director's salary totaling \$50,000, which is being expensed at \$5,000 per year. Restricted cash held in perpetuity consists of \$22,850 for general purposes and \$3,677 for scholarships.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	<u>2022</u>	<u>2021</u>
Cash Accounts Reported in the Statement of Financial Position		
Cash and cash equivalents	\$ 732,733	\$ 711,066
Restricted cash, held in perpetuity	26,527	26,527
	<hr/>	<hr/>
Total Cash, Cash Equivalents, and Restricted Cash Reported in the Statement of Cash Flows	<u>\$ 759,260</u>	<u>\$ 737,593</u>

Grants and Pledges Receivable—Grants and pledges receivable at July 31, 2022 and 2021 are due from a variety of individuals, foundations, corporations and governmental bodies well-known to LACC with favorable past payment histories. Management of LACC has assessed the credit risk associated with these receivables and has determined that an allowance for potential uncollectible amounts is not necessary at July 31, 2022 and 2021.

Accounts Receivable—Accounts receivable consists of tuition and fees earned but not collected. An allowance for uncollectible accounts is not maintained as uncollectible accounts receivable are normally insignificant. If any amounts become uncollectible, they will be charged to operations when that determination is made. Generally accepted accounting principles require that an allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method. Management of LACC has assessed the credit risk associated with these receivables and has determined that an allowance for potential uncollectible amounts is not necessary at July 31, 2022 and 2021.

Due from Tour Company and Tour Costs Due to Families—LACC's June 2020 tour to Spain was cancelled in April 2020 due to the COVID-19 pandemic. The balances due from tour company of \$477 and \$6,316 at July 31, 2022 and 2021, respectively, represent partial refunds owed to LACC for the tour. LACC in turn had a liability at July 31, 2021 of \$19,675 for refunds and credits owed to paying families of choristers registered for the tour. There was no balance due to families at July 31, 2022 as a result of the cancelled 2020 Spain Tour.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 2—Significant Accounting Policies—Continued

Property and Equipment—Property and equipment is stated at cost when purchased or at estimated fair market value at the date of bequest or gift. Depreciation is provided using the straight-line method over the estimated useful life of the related asset, principally 5 years for computer equipment and software, 7 years for furniture and fixtures, and 15 years for leasehold improvements. It is LACC's policy to expense items purchased or donated with values less than \$1,000.

Concentrations of Credit Risk—Financial instruments which potentially subject LACC to concentrations of credit risk consist of cash and cash equivalents, grants and pledges receivable, and accounts receivable. LACC places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, such balances of cash and cash equivalents are in excess of the FDIC coverage limits. Management regularly reviews the financial stability of its cash depositories and deems the risk of loss due to these concentrations to be minimal. Management also regularly reviews the grants and pledges receivable, and accounts receivable for collectability. The receivable balances are written off when management deems them to be uncollectible.

Contributions and Grants—Contributions and grants received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions and grants that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution and grant is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Government grants—Revenues from government grants are reported as increases in net assets without donor restrictions, when allowable expenditures under such agreements are incurred. The amounts expended in excess of reimbursements are reported as grants receivable. Amounts received in excess of amounts expended are recorded as deferred revenue.

Revenue Recognition—LACC's revenue recognition policies are as follows:

Tuition and fees—Revenue from tuition and fees is classified as exchange transactions and recognized as earned. Funds received for services not yet earned are reported as unearned tuition in the financial statements.

Tour fees— Revenue from tours is recognized at the time of sale or rendering of services.

Performance income—Revenue from performances is classified as exchange transactions and recognized when the event has been performed. Funds received for performances not yet performed are reported as deferred revenue in the financial statements.

Product sales—Revenue from sales is recognized at the time of sale or rendering of services.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 2—Significant Accounting Policies—Continued

Special events revenue—LACC periodically holds special events as fundraisers. Special events revenue is recognized when such income is earned.

Interest income—Interest income is recognized when received and is reported under revenues and support in the statement of activities.

In-kind Contributions—Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donated materials are valued at amounts normally charged or paid for similar materials. These materials are included in the statements as both support and expenses.

Functional Allocation of Expenses—The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

<u>Allocated Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Payroll taxes	Payroll cost
Employee benefits	Payroll cost
Bank and merchant fees	Applicable revenue
Depreciation	Use by department
Development	Time and effort
Facility costs	Use by department
Insurance	Use by department
Interest	Use by department
Marketing and publicity	Time and effort
Miscellaneous	Use by department
Music training retreat	Time and effort
Office expense	Use by department
Postage	Use by department
Printing and copying	Use by department
Professional fees	Time and effort
Program supplies	Use by department
Telephone and internet	Use by department

Advertising Expenses— Advertising costs are expensed as incurred and amounted to \$23,184 and \$6,864 for the years ended July 31, 2022 and 2021.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include valuation of pledges receivable and the useful lives of property and equipment. Accordingly, actual results could differ from those estimates.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 3—Availability and Liquidity

LACC's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$200,000).

The following represents the availability and liquidity of LACC's financial assets at July 31, 2022 to cover operating expenses for the next fiscal year:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 534,611	\$ 524,018
Accounts receivable	29,383	2,611
Due from tour company	477	6,316
Current Availability of Financial Assets	<u>\$ 564,471</u>	<u>\$ 532,945</u>

Note 4—Property and Equipment, Net

Net property and equipment at July 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Music library and furniture	\$ 134,353	\$ 129,366
Computer and office equipment	88,514	73,006
Office furniture and equipment	33,182	33,182
Instruments and storage	25,149	25,149
Total Property and Equipment	<u>281,198</u>	<u>260,703</u>
Less accumulated depreciation	(235,737)	(219,390)
Property and Equipment, Net	<u>\$ 45,461</u>	<u>\$ 41,313</u>

Depreciation and amortization expense for the years ended July 31, 2022 and 2021 was \$16,347 and \$13,287, respectively.

Note 5—Capital Lease Payable

LACC leases equipment under a lease agreement classified as a capital lease. The maturity date of the lease is March 11, 2024. The monthly payment is \$1,059. Future minimum lease payments for the capital lease by year, discounted at 2%, are as follows:

<u>Year Ending July 31,</u>	
2023	\$ 10,243
2024	6,690
Total	<u>\$ 16,933</u>

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 6—Commitments

LACC leased office space in Pasadena, California under a non-cancelable lease agreement that expired on August 31, 2019. LACC is presently leasing the office space on an annual basis. Rent expense related to this lease for the years ended July 31, 2022 and 2021, was \$41,150 and \$24,000, respectively.

Note 7—Contingencies

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. Although that is a possibility, management deems the contingency remote since, by accepting the gift and its terms, it is acknowledging the requirements of the grantor at the time of receipt.

Note 8—Net Assets with Donor Restriction

Net assets with donor restrictions at July 31, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
YME director wages	\$ 55,000	\$ 60,000
Total Subject to Expenditure for Specified Purpose	55,000	60,000
Subject to time restrictions:		
Grants and pledges restricted to future periods	61,595	40,521
Total Subject to Time Restrictions	61,595	40,521
Subject to appropriation and expenditure:		
Available for general use	22,850	22,850
Restricted by donors for scholarships	3,677	3,677
Total Subject to Appropriation and Expenditure	26,527	26,527
Total Net Assets with Donor Restrictions	<u>\$ 143,122</u>	<u>\$ 127,048</u>

The donor restriction for the YME director wages arose from a \$100,000 donation received during the year ended July 31, 2014, requiring expenditure over a period of 20 years, at \$5,000 per year, on the Young Men's Ensemble director wages.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 8—Net Assets with Donor Restriction—Continued

Net assets released from restrictions for the years ended July 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
YME director wages	\$ 5,000	\$ 5,000
Total Satisfaction of Purpose Restrictions	5,000	5,000
Satisfaction of time restrictions	62,526	9,500
Satisfaction of appropriation and expenditure:		
General operations	60	6
Scholarships	10	1
Total Satisfaction of Appropriation and Expenditure	70	7
Total Net Assets Released from Donor Restrictions	\$ 67,596	\$ 14,507

Note 9—Endowment Net Assets

The Board of Directors of LACC has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the State of California 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. The Board is aware that there is an implicit understanding that the market value of the donor-restricted endowment may, from time to time, fall below the fair value of the original gift as of the gift date due to market conditions or continued prudent expenditures by the Board of certain amounts of the endowment.

If such a temporary deficit condition occurred, the Board would take all prudent steps, given ongoing market conditions, to restore the fair value of the fund to an amount at or above the amount of the original gift.

As a result of this interpretation, LACC classifies as net assets with donor restrictions that are perpetual in nature the following: the corpus of the endowment; the original gift donated to the permanent endowment; the original value of subsequent gifts to the permanent endowment; and the 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.

Any remaining portion of the donor-restricted endowment fund not classified as net assets with donor restrictions that are perpetual in nature is classified as net assets with donor restrictions that are purpose-restricted, until those amounts are appropriated for expenditure by LACC in a manner consistent with the standard of prudence prescribed by UPMIFA.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 9—Endowment Net Assets—Continued

In accordance with UPMIFA, LACC 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 the organization 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 the organization
- (7) The investment policies of the organization

Return Objectives and Risk Parameters—The endowment fund is intended to support the current and future operations of LACC, which in turn supports its charitable mission.

A primary objective of the Endowment is to preserve the Endowment Principal for the current and future benefit of LACC. The Endowment Fund's investment objective is to manage growth, earnings, and volatility in order to achieve long-term returns, net of costs for professional investment management, exceeding the draw rate plus the rate of inflation, with sufficient liquidity to meet spending needs. The inflation rate shall be calculated based on the Consumer Price Index. LACC considers itself a risk-averse investor. That is, among various investment alternatives with comparable expected returns, the preference is for those having the lowest risk.

Strategies Employed for Achieving Objectives—LACC manages its endowment on a total rate of return basis consisting of dividends, interest, and any net increase / decrease in market value of securities for the fiscal year, not favoring returns from one source over another.

The Foundation has determined that marketable debt and equity securities traded in the United States are appropriate investments consistent with its return objectives and risk parameters. Cash invested in money market accounts is also an acceptable investment within these guidelines. The investment portfolio is to be sufficiently balanced so that no single security or class of securities will have a disproportionate impact on the risk of the total portfolio.

Spending Policy and How the Investment Objectives Relate to Spending Policy—LACC's current policy is to utilize earnings from its endowment assets to support operations which in turn supports its charitable mission. This is consistent with LACC's objective to preserve the endowment principal as well as to provide additional real growth through new gifts and investment returns.

Endowment assets consist of cash equivalents totaling \$26,527 for each of the years ended July 31, 2022 and 2021.

Los Angeles Children's Chorus
Notes to Financial Statements—Continued

Note 9—Endowment Net Assets—Continued

Changes in endowment asset for the year ended July 31, 2022 are as follows:

	<u>Subject to Appropriation</u>	<u>Perpetual In Nature</u>	<u>Total</u>
Endowment net assets at July 31, 2021	\$ -	\$ 26,527	\$ 26,527
Interest and dividends	81	-	81
Investment losses	(11)	-	(11)
Total Return on Investment	70	-	70
Appropriated for expenditure	(70)	-	(70)
Endowment Net Assets at July 31, 2022	\$ -	\$ 26,527	\$ 26,527

Changes in endowment net assets for the year ended July 31, 2021 are as follows:

	<u>Subject to Appropriation</u>	<u>Perpetual In Nature</u>	<u>Total</u>
Endowment net assets at July 31, 2020	\$ -	\$ 26,527	\$ 26,527
Interest and dividends	7	-	7
Total Return on Investment	7	-	7
Appropriated for expenditure	(7)	-	(7)
Endowment Net Assets at July 31, 2021	\$ -	\$ 26,527	\$ 26,527

Note 10—In-Kind Contributions

During the year ended July 31, 2021, donated services totaling \$5,315 were received by the LACC and recorded in the statement of activities under the in-kind contributions caption, and in the respective expense captions in the statement of functional expenses. The in-kind contributions were utilized for general and administrative purposes and were received with no associated donor restrictions.

There were no in-kind contributions during the year ended July 31, 2022.

Los Angeles Children's Chorus
Notes to Financial Statements—*Continued*

Note 11—SBA PPP Advance

On May 4, 2020, LACC received a Paycheck Protection Program (PPP) advance for \$155,935 from the U.S. Small Business Administration (SBA). The advance is designed to provide a direct incentive for small businesses struggling from the impact of the COVID-19 pandemic (see Note 12) to keep their workers on the payroll. LACC recognized a total of \$104,734 SBA PPP grant income during the year ended July 31, 2020 based on qualifying expenditures incurred. During the year ended July 31, 2021, LACC recognized the remaining advance of \$51,201 in the statement of activities under as SBA PPP grant income. LACC received official notice of forgiveness from the SBA for the full advance amount of \$155,935 on January 28, 2021.

On February 13, 2021, LACC received \$184,270 of PPP funding from the SBA as part of the second round of funding. LACC recognized the \$184,270 as SBA PPP grant revenue during the year ended July 31, 2021. The advance was forgiven by the SBA on June 14, 2021.

Note 12—Line of Credit

On August 1, 2019, LACC entered into a \$50,000 revolving line of credit arrangement with Bank of the West. The line of credit is due on demand by the bank and interest is at a variable rate of prime plus 3.25%. LACC has no outstanding balance of the line of credit arrangement at July 31, 2022 and 2021, respectively.

Note 13—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Since then, business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. LACC is continuing to conduct its activities, primarily in person, and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on LACC cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 14—Recent Accounting Pronouncement

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is to be applied using the modified retrospective approach and is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. LACC does not believe the adoption of ASU No. 2016-02 will have a material impact on the financial statements.

Los Angeles Children's Chorus
Notes to Financial Statements—*Continued*

Note 15—Subsequent Events

Management evaluated all activities of LACC through March 30, 2023, which is the date the financial statements were available to be issued, and concluded that no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.