

PACIFIC CHORALE
Financial Statements
June 30, 2022 and 2021
With Independent Auditor's Report

**Pacific Chorale
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June 30, 2022 and 2021**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pacific Chorale:

Qualified Opinion

We have audited the financial statements of Pacific Chorale (the "Chorale"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, except for the effects on the accompanying June 30, 2022 financial statements of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Chorale as of June 30, 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 for Qualified Opinion

The Chorale's system conversion for the year ended June 30, 2022 resulted in a variance in net assets and was unable to produce appropriate audit evidence to conclude on the statement of activity and changes in net assets classification of the variance.

We conducted our audits 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 the Chorale 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 the Chorale's ability to continue as a going concern for 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 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 audits.
- 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 audits 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 Chorale'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 the Chorale'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Emphasis of a Matter

As described in Note 1, the Chorale adopted Accounting Standards Update 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), as of July 1, 2020. Our opinion is not modified with respect to this matter.



May 15, 2023

**Pacific Chorale
Statements of Financial Position
June 30, 2022 and 2021**

	2022			2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 1,190,389	\$ 42,176	\$ 1,232,565	\$ 541,926	\$ 122,151	\$ 664,077
Investments	558,015	6,565,923	7,123,938	503,824	5,974,961	6,478,785
Promises to give	36,250	-	36,250	9,350	-	9,350
Beneficial interest in irrevocable deferred gifts	634,687	-	634,687	-	-	-
Prepaid expenses and other	2,219	-	2,219	5,582	-	5,582
Property and equipment, net	<u>767</u>	<u>-</u>	<u>767</u>	<u>11,320</u>	<u>-</u>	<u>11,320</u>
Total assets	<u>\$ 2,422,327</u>	<u>\$ 6,608,099</u>	<u>\$ 9,030,426</u>	<u>\$ 1,072,002</u>	<u>\$ 6,097,112</u>	<u>\$ 7,169,114</u>
Liabilities and Net Assets						
Liabilities						
Accounts payable	\$ 134,897	\$ -	\$ 134,897	\$ -	\$ -	\$ -
Accrued liabilities	102,303	-	102,303	101,325	-	101,325
Deferred revenue	-	-	-	8,773	-	8,773
Tour deposits	<u>60,826</u>	<u>-</u>	<u>60,826</u>	<u>25,506</u>	<u>-</u>	<u>25,506</u>
Total liabilities	<u>298,026</u>	<u>-</u>	<u>298,026</u>	<u>135,604</u>	<u>-</u>	<u>135,604</u>
Net assets						
Without donor restrictions	2,124,301	-	2,124,301	936,398	-	936,398
With donor restrictions	<u>-</u>	<u>6,608,099</u>	<u>6,608,099</u>	<u>-</u>	<u>6,097,112</u>	<u>6,097,112</u>
Total net assets	<u>2,124,301</u>	<u>6,608,099</u>	<u>8,732,400</u>	<u>936,398</u>	<u>6,097,112</u>	<u>7,033,510</u>
Total liabilities and net assets	<u>\$ 2,422,327</u>	<u>\$ 6,608,099</u>	<u>\$ 9,030,426</u>	<u>\$ 1,072,002</u>	<u>\$ 6,097,112</u>	<u>\$ 7,169,114</u>

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

Pacific Chorale
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2022 and 2021

	2022			2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and public support						
Concert ticket sales	\$ 196,952	\$ -	\$ 196,952	\$ -	\$ -	\$ -
Contracted concerts	223,762	-	223,762	5,391	-	5,391
Educational events	-	-	-	2,331	-	2,331
Special event revenue	405,150	-	405,150	-	-	-
Investment return, net	(209,927)	(844,473)	(1,054,400)	4,218	1,345,864	1,350,082
Other income	147,287	-	147,287	480	-	480
Total revenues and public support	<u>763,224</u>	<u>(844,473)</u>	<u>(81,249)</u>	<u>12,420</u>	<u>1,345,864</u>	<u>1,358,284</u>
 Public support						
Contributions	2,454,717	1,685,435	4,140,152	1,466,388	299,233	1,765,621
Contributed nonfinancial assets	296,075	-	296,075	75,120	-	75,120
PPP loan forgiveness	-	-	-	214,888	-	214,888
Total public support	<u>2,750,792</u>	<u>1,685,435</u>	<u>4,436,227</u>	<u>1,756,396</u>	<u>299,233</u>	<u>2,055,629</u>
 Net assets released from restrictions						
Purpose restriction	-	-	-	32,500	(32,500)	-
Time restriction - endowment	329,975	(329,975)	-	151,469	(151,469)	-
Total net assets released from restrictions	<u>329,975</u>	<u>(329,975)</u>	<u>-</u>	<u>183,969</u>	<u>(183,969)</u>	<u>-</u>
 Total revenues and public support	<u>3,843,991</u>	<u>510,987</u>	<u>4,354,978</u>	<u>1,952,785</u>	<u>1,461,128</u>	<u>3,413,913</u>

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

Pacific Chorale
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2022 and 2021

	2022			2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating expenses						
Program services						
Chorale presentations	\$ 2,041,980	\$ -	\$ 2,041,980	\$ 628,305	\$ -	\$ 628,305
Education and community outreach	162,339	-	162,339	106,151	-	106,151
Total program services	<u>2,204,319</u>	<u>-</u>	<u>2,204,319</u>	<u>734,456</u>	<u>-</u>	<u>734,456</u>
Supporting services						
General and administrative	149,158	-	149,158	393,903	-	393,903
Development and fundraising	302,611	-	302,611	228,226	-	228,226
Total supporting services	<u>451,769</u>	<u>-</u>	<u>451,769</u>	<u>622,129</u>	<u>-</u>	<u>622,129</u>
Total operating expenses	<u>2,656,088</u>	<u>-</u>	<u>2,656,088</u>	<u>1,356,585</u>	<u>-</u>	<u>1,356,585</u>
Changes in net assets	1,187,903	510,987	1,698,890	596,200	1,461,128	2,057,328
Net assets						
Beginning of year	<u>936,398</u>	<u>6,097,112</u>	<u>7,033,510</u>	<u>340,198</u>	<u>4,635,984</u>	<u>4,976,182</u>
End of year	<u>\$ 2,124,301</u>	<u>\$ 6,608,099</u>	<u>\$ 8,732,400</u>	<u>\$ 936,398</u>	<u>\$ 6,097,112</u>	<u>\$ 7,033,510</u>

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

**Pacific Chorale
Statement of Functional Expenses
Year Ended June 30, 2022**

	Program Services			Supporting Services			Total
	Chorale Presentations	Education and Community Outreach	Subtotal	General and Administrative	Development and Fundraising	Subtotal	
Salaries and related expenses							
Salaries and wages	\$ 863,913	\$ 105,037	\$ 968,950	\$ 86,957	\$ 103,194	\$ 190,151	\$ 1,159,101
Benefits and payroll taxes	100,032	27,895	127,927	14,287	19,747	34,034	161,961
	963,945	132,932	1,096,877	101,244	122,941	224,185	1,321,062
Other							
Advertising	76,534	-	76,534	50	10,322	10,372	86,906
Bad debt	-	-	-	(27)	-	(27)	(27)
Depreciation	7,293	1,387	8,680	417	1,456	1,873	10,553
Office rent	21,617	5,417	27,034	10,625	5,256	15,881	42,915
Fees and taxes	47,132	1,303	48,435	3,716	10,165	13,881	62,316
Insurance	2,891	1,137	4,028	957	1,472	2,429	6,457
Miscellaneous	2,103	594	2,697	928	690	1,618	4,315
Postage and printing	42,637	-	42,637	314	8,594	8,908	51,545
Professional services	48,549	1,195	49,744	24,178	12,986	37,164	86,908
Program events and productions	796,012	-	796,012	-	-	-	796,012
Donor cultivation and events	176	11,412	11,588	-	118,385	118,385	129,973
Staff development	5,159	800	5,959	150	3,199	3,349	9,308
Supplies	7,236	2,757	9,993	2,503	2,658	5,161	15,154
Telephone	3,022	916	3,938	945	1,166	2,111	6,049
Travel	15,678	2,049	17,727	2,334	2,919	5,253	22,980
Utilities	1,996	440	2,436	824	402	1,226	3,662
Total expenses	\$ 2,041,980	\$ 162,339	\$ 2,204,319	\$ 149,158	\$ 302,611	\$ 451,769	\$ 2,656,088

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

**Pacific Chorale
Statement of Functional Expenses
Year Ended June 30, 2021**

	Program Services			Supporting Services			Total
	Chorale Presentations	Education and Community Outreach	Subtotal	General and Administrative	Development and Fundraising	Subtotal	
Salaries and related expenses							
Salaries and wages	\$ 264,985	\$ 78,822	\$ 343,807	\$ 204,492	\$ 136,615	\$ 341,107	\$ 684,914
Benefits and payroll taxes	39,358	6,650	46,008	16,436	10,980	27,416	73,424
	304,343	85,472	389,815	220,928	147,595	368,523	758,338
Other							
Advertising	-	-	-	45,081	-	45,081	45,081
Bad debt	-	-	-	4,750	-	4,750	4,750
Depreciation	4,119	1,855	5,974	2,968	1,948	4,916	10,890
Office rent	8,670	6,278	14,948	17,041	9,866	26,907	41,855
Fees and taxes	-	-	-	9,995	-	9,995	9,995
Insurance	13,122	9,502	22,624	25,791	14,932	40,723	63,347
Miscellaneous	14	41	55	11,731	45	11,776	11,831
Postage and printing	668	111	779	904	5,136	6,040	6,819
Professional services	-	-	-	35,230	5,500	40,730	40,730
Program events and productions	282,120	54	282,174	-	-	-	282,174
Donor cultivation and events	-	-	-	-	40,711	40,711	40,711
Supplies	2,244	1,464	3,708	12,102	817	12,919	16,627
Telephone	730	529	1,259	1,435	831	2,266	3,525
Travel	10,000	-	10,000	3,412	-	3,412	13,412
Utilities	2,275	845	3,120	2,535	845	3,380	6,500
Total expenses	\$ 628,305	\$ 106,151	\$ 734,456	\$ 393,903	\$ 228,226	\$ 622,129	\$ 1,356,585

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

Pacific Chorale
Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities		
Changes in net assets	\$ 1,699,084	\$ 2,057,328
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	10,553	10,890
Realized and unrealized loss (gain) on investments, net	1,102,665	(1,259,600)
Donated stock	(1,005,436)	(503,250)
PPP loan forgiveness	-	(214,888)
Changes in assets and liabilities		
Promises to give	(26,900)	8,375
Beneficial interest in irrevocable deferred gifts	(634,687)	-
Prepaid expenses and other	3,363	753
Accounts payable	91,862	(3,447)
Accrued liabilities	44,013	32,563
Deferred revenue	(8,772)	(214)
Tour deposits	35,319	25,507
Net cash provided by operating activities	<u>1,311,064</u>	<u>154,017</u>
Investing activities		
Purchases of investments	(4,427,492)	(2,236,690)
Proceeds from sales of investments	<u>3,685,110</u>	<u>2,087,197</u>
Net cash used in investing activities	<u>(742,382)</u>	<u>(149,493)</u>
Financing activity		
Issuance of PPP loan	<u>-</u>	<u>105,941</u>
Net cash provided by financing activity	<u>-</u>	<u>105,941</u>
Net change in cash and cash equivalents	568,682	110,465
Cash and cash equivalents		
Beginning of year	<u>664,077</u>	<u>553,612</u>
End of year	<u>\$ 1,232,759</u>	<u>\$ 664,077</u>

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

Pacific Chorale
Notes to Financial Statements
June 30, 2022 and 2021

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Pacific Chorale (the "Chorale") is a nonprofit corporation founded in 1969 to establish a major chorale for Orange County, California. The Chorale receives contributions and grant funding from individual donors, various foundations, and corporations.

Basis of Presentation

The financial statements of the Chorale have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Chorale and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Chorale. These net assets may be used at the discretion of the Chorale'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; those restrictions will be met by actions of the Chorale or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

The Chorale records gifts of cash and other assets as net assets with donor restriction contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as net assets without donor restrictions in the accompanying statements of activities and changes in net assets.

Endowment monies are identified in the accompanying financial statements as both net assets with donor restrictions, which include donor-restricted contributions, and net assets without donor restrictions, which include unspent investment income and realized and unrealized losses on endowments.

Cash and Cash Equivalents

The Chorale considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Additionally, all stock gifts received are considered cash equivalents as they are liquidated to cash as soon as administratively possible.

Concentration of Credit Risk

The Chorale maintains its cash balances at commercial banks which consist of cash on deposit that, at times, may be in excess of the Federal Deposit Insurance Corporation insurance limit. Any loss incurred or a lack of access to such funds could have a significant adverse impact on the Chorale's financial condition, results of operations, and cash flows.

Pacific Chorale
Notes to Financial Statements
June 30, 2022 and 2021

Investments

Investments are measured and reported at fair value. Those with a readily determinable fair value are based on quotations obtained from national security exchanges. Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. The Chorale management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. Changes in fair value are reported as investment income or loss in the statements of activities and changes in net assets. All investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Beneficial Interest in Irrevocable Deferred Gifts

Beneficial interest in irrevocable deferred gifts is recognized as revenue in the period received. The Chorale recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Chorale is beneficiary but not the trustee. When gifts are revocable in nature, they are not reflected in the financial statements.

Endowment Funding of Operations

The Chorale partially funds its operating activities with earnings from endowment investments. For the years ended June 30, 2022 and 2021, this amount was \$79,975 and \$151,469, respectively, and is included as part of investment return, net in the accompanying statements of activities and changes in net assets.

Property and Equipment

Property and equipment include furniture and equipment, musical instruments, music library, and leasehold improvements and are recorded at cost, net of accumulated depreciation. Donated assets are recorded at the estimated fair value on the date received and are recorded as net assets with donor restrictions and subsequently released from restrictions as such assets are depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of applicable assets as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Technology assets	3
Furniture and equipment	7
Music library	7
Leasehold improvements	7
Musical instruments	7

Leasehold improvements are amortized over the shorter of the term of the lease or the life of the improvement.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Pacific Chorale
Notes to Financial Statements
June 30, 2022 and 2021

Revenue from Contracts with Customers

Revenue is recognized to depict the transfer of promised goods or services to customers and is an amount that reflects the consideration for which the Chorale expects to be entitled in exchange for those goods or services.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Chorale performs the following steps: (i) identify contracts with customers; (ii) Identify performance obligations; (iii) determine the transaction price; (iv) allocate of the transaction price to the performance obligations; and (v) recognize revenue when (or as) the Chorale satisfies each performance obligation.

The following summarizes the Chorale's performance obligation:

Concert Ticket Sales

Ticket sales represent the sums actually paid for individual tickets of admission to a production of the Chorale including handling and other fees. Tickets and the related fees are nonrefundable at the time of receipt unless a performance is canceled. Tickets purchased in advance are recorded as contract liabilities by the Chorale. Advanced ticket sales are recorded as revenue when the performance related to the ticket sale is complete. Admission is recognized at a specific point in time, which is when the performance related to the ticket is complete.

The timing of revenue recognition, billings, and cash collections results in receivables and contract liabilities in the statements of financial position. Total contract assets which are included in promises to give as of June 30, 2022, 2021, and 2020 were \$36,250, \$9,350, and \$17,725, respectively. Total contract liabilities which are included in deferred revenue as of June 30, 2022, 2021, and 2020 were \$0, \$8,773, and \$8,986, respectively.

Deferred Revenue

Deferred revenue consists of ticket sales and deferred programming support pertaining to future concerts. Ticket sales are recorded as revenue when a concert is performed and any related prepaid costs are charged to expense.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates commensurate with the risks involved applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. As of June 30, 2022 and 2021, all promises to give are expected to be collected within one year. An allowance for bad debt is established when necessary, which was not necessary for the years ended June 30, 2022 and 2021.

Pacific Chorale
Notes to Financial Statements
June 30, 2022 and 2021

Contributions

Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions 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 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 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 statements of activities and changes in net assets as net assets released from restrictions. The Chorale's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers and directors have made significant contributions of their time and talent to support the Chorale's functions. Only amounts that meet the criteria above are recorded in the accompanying financial statements.

The Chorale has received donations of singing services that were used for purposes of operating activities. There were gift in-kind contributions of \$296,075 and \$75,120 recorded as revenues and public support in the statements of activities and changes in net assets for the years ended June 30, 2022 and 2021, respectively.

Contributed Nonfinancial Assets

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Non-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash or other financial assets, along with expanded disclosure requirements.

The Chorale adopted the requirements of the new guidance as of July 1, 2020, utilizing the modified retrospective method of transition. No adjustments to net assets as of July 1, 2020 were necessary. The Chorale applied the new guidance using the practical expedient provided in ASU 2020-07 that allows the guidance to be applied only to contributed nonfinancial assets that were contributed as of July 1, 2020. Adoption of the new guidance did not have a significant impact on the Chorale's financial position, results of activities or cash flows.

Donated materials and other nonfinancial contributions are reflected in the accompanying financial statements at their estimated market values at date of receipt. Contributed services are recognized if the services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time and services in the Chorale's fundraising campaigns and other activities. Only those amounts that meet the criteria above are recorded in the accompanying financial statements.

The Chorale has received donations of services and noncash assets such as professional singers' time for practice and performances. Contributed services in the amount of \$296,075 and \$75,120 are recorded as contributed nonfinancial assets in the statements of activities and changes in net assets for the years ended June 30, 2022 and 2021, respectively.

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Income Taxes

The Chorale is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal and state income taxes. However, the Chorale is subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purposes for which it was granted exemption.

The Chorale has adopted the accounting standards relating to accounting and reporting for uncertainty in income taxes. For the Chorale, these standards could be applicable to the incurrence of any unrelated business income attributable to the Chorale. Because of the Chorale's general tax-exempt status, these standards are not anticipated to have a material impact on the Chorale's financial statements. Further, there are no income tax related penalties and interest included in these financial statements.

Advertising

The Chorale follows the policy of charging advertising costs to expense as incurred. Total advertising costs expensed for the years ended June 30, 2022 and 2021 were \$86,906 and \$45,081, respectively.

Vacation Expense

Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

Use of Estimates

The preparation of financial statements in accordance with GAAP 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 reporting period. Actual results could differ from those estimates.

Fair Value Measurements

The carrying value of financial instruments in the financial statements approximates fair value.

The Chorale has adopted the accounting standard for fair value measurements of financial assets and financial liabilities (see Note 3) and fair value measurements of nonfinancial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The accounting standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments. The Chorale has no financial liabilities or nonfinancial items that are recorded at fair value on a recurring basis.

The accounting standard establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities as follows:

Level 1 - Fair values are based on quoted prices in active markets for identical assets and liabilities. The Chorale's Level 1 assets include common stock and institutional mutual funds.

Level 2 - Fair values are based on observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Chorale has Level 3 investments that consist of alternative funds.

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Level 3 - Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and property appraisal and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Chorale has no Level 3 investments

Fair value estimates are made at a specific point in time based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering for sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and wages	Time and effort
Benefits and payroll taxes	Time and effort
Depreciation	Direct usage
Office rent	Service provided by function
Insurance	Service provided by function
Miscellaneous	Service provided by function
Postage and printing	Direct usage
Professional services	Direct usage
Supplies	Direct usage
Utilities	Square footage

Certain expenses reported on the accompanying statements of functional expenses, such as depreciation and office rent, have been allocated to program services based on direct usage. For certain expenses including advertising, travel, telephone, and program events and productions, the costs directly attributable to program or supporting services have been allocated as such. Salaries and benefits have been allocated to the program and supporting services based on time and effort of the employees involved.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

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ASU 2016-02 is effective for Chorale's year ending June 30, 2023. The Chorale is in the process of assessing the potential impact of the ASU on its financial statements.

Subsequent Events

The Chorale evaluated subsequent events through May 15, 2023, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

2. AVAILABILITY AND LIQUIDITY

The following represents the Chorale's financial assets at June 30:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 1,232,565	\$ 664,077
Investments	7,123,938	6,478,785
Promises to give	36,250	9,350
Beneficial interest in irrevocable deferred gifts	<u>634,687</u>	<u>-</u>
Total financial assets	9,027,440	7,152,212
Less: Financial assets not available for general expenditures within one year		
Investments held in perpetuity	<u>(6,608,099)</u>	<u>(6,097,112)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,419,341</u>	<u>\$ 1,055,100</u>

The Chorale receives significant unrestricted revenue from contracted and self-conducted choral performances which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Chorale receives contributions and promises to give which are restricted by donors for program use. Management of liquidity and reserves is conducted under three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. In addition to the financial assets available as of June 30, 2022 and 2021, the Chorale has the ability to draw 5% on its endowment for operating purposes in order to bridge any gap in cash flows.

To help manage liquidity needs, during the year ended June 30, 2020, the Chorale instituted an operating reserve fund policy. The reserve fund is defined as funds set aside by action of the Board of Directors and intended to provide an internal source of funds available for various cash needs. The target minimum operating reserve fund is equal to \$500,000, representing approximately six months of operating expenses on average. The funds are held in readily available and accessible funds, such as money market accounts. The balance of the board-designated fund at June 30, 2022 and 2021 was \$500,779 and \$200,845, respectively. The Chorale forecasts its future cash flows, monitors liquidity bimonthly, and monitors reserves annually during the budget review.

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3. INVESTMENTS

Investments as of June 30, 2022 and 2021 consist of exchange-traded funds, mutual funds, and alternative investments.

The following tables set forth by level, within the fair value hierarchy, the Chorale's assets at fair value as of June 30:

	2022			
	Level 1	Level 2	Level 3	Total
Exchange-traded funds				
Fixed income funds	\$ 168,735	\$ -	\$ -	\$ 168,735
International funds	5,882,827	-	-	5,882,827
	<u>6,051,562</u>	-	-	6,051,562
Mutual funds - domestic stock	835,162	-	-	835,162
Alternative investments	-	237,214	-	237,214
	<u>\$ 6,886,724</u>	<u>\$ 237,214</u>	<u>\$ -</u>	<u>\$ 7,123,938</u>
	2021			
	Level 1	Level 2	Level 3	Total
Exchange-traded funds				
Domestic funds	\$ 2,474,179	\$ -	\$ -	\$ 2,474,179
Fixed income funds	370,503	-	-	370,503
International funds	3,075,906	-	-	3,075,906
	<u>5,920,588</u>	-	-	5,920,588
Mutual funds - domestic stock	558,197	-	-	558,197
	<u>\$ 6,478,785</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,478,785</u>

Investment return, net consisted of the following for the years ended June 30:

	2022	2021
Investment income	\$ 112,382	\$ 108,511
Investment fees	(23,431)	(18,029)
Net investment gain (loss)	<u>(1,143,351)</u>	<u>1,259,600</u>
	<u>\$ (1,054,400)</u>	<u>\$ 1,350,082</u>

Investment fees are netted against investment income on the statements of activities and changes in net assets for the years ended June 30, 2022 and 2021.

During the years ended June 30, 2022 and 2021, there were no purchases of Level 3 assets.

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4. PROMISES TO GIVE

Promises to give consist of balances due in less than one year and total \$36,250 and \$9,350 at June 30, 2022 and 2021, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 90,792	\$ 94,678
Musical instruments	24,655	20,768
Music library	274,805	274,805
Leasehold improvements	<u>23,270</u>	<u>23,270</u>
	413,522	413,521
Less: Accumulated depreciation	<u>(412,755)</u>	<u>(402,201)</u>
	<u>\$ 767</u>	<u>\$ 11,320</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$10,553 and \$10,890, respectively.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Employee wages and benefits	\$ 102,303	\$ 96,650
Other	<u>-</u>	<u>4,675</u>
	<u>\$ 102,303</u>	<u>\$ 101,325</u>

7. ENDOWMENT

The Chorale has adopted the accounting standard for endowments of not-for-profit organizations and provides guidance with respect to the accounting for donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which the State of California has enacted. In addition, the accounting standard requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the accounting standard, the Chorale has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar value of donor-restricted endowment contributions is reported as net assets with donor restrictions.

The Chorale's endowment was established for the purpose of supporting the Chorale's mission.

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Changes in Endowment Net Assets

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ -	\$ 4,603,484	\$ 4,603,484
Contributions	-	299,233	299,233
Dividends and interest, net of fees	-	84,941	84,941
Net gain on investments	-	1,260,923	1,260,923
Appropriation of endowment for expenditure	151,469	(151,469)	-
Expenditure of appropriated funds	<u>(151,469)</u>	<u>-</u>	<u>(151,469)</u>
Endowment net assets, June 30, 2021	-	6,097,112	6,097,112
Contributions	-	1,435,436	1,435,436
Dividends and interest, net of fees	-	99,975	99,975
Net gain on investments	-	(944,449)	(944,449)
Appropriation of endowment for expenditure	79,975	(79,975)	-
Expenditure of appropriated funds	<u>(79,975)</u>	<u>-</u>	<u>(79,975)</u>
Endowment net assets, June 30, 2022	<u>\$ -</u>	<u>\$ 6,608,099</u>	<u>\$ 6,608,099</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Chorale to retain as a fund of perpetual duration. There were no such deficiencies of this nature that are reported in net assets without donor restrictions as of June 30, 2022 and 2021.

Return Objectives and Risk Parameters

The Chorale has adopted investment and spending policies for endowment assets that provide continued financial stability for the Chorale and a revenue stream for spending on the Chorale's mission. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that ensures safety through diversification while obtaining a competitive rate of return with the secondary objective to maintain liquidity. The Chorale expects its endowment funds over time to provide an average rate of return of approximately 5% - 7% annually.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return, the Chorale relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Chorale targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

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Spending Policy and How the Investment Objectives Relate to Spending Policy

The Chorale's investment policy includes an endowment spending rate not to exceed 5% of the endowment fund's market value at the start of the fiscal year. This spending rate constitutes the Board of Directors' annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the significant and immediate spending of the income of the portfolio, provide a target rate of return for the endowment fund for the Chorale, and provide a sustainable spending level that will allow for support of the Chorale's initiatives in fulfilling its mission, while maintaining the purchasing power of the endowment fund's assets.

8. PAYCHECK PROTECTION PROGRAM LOANS

In April 2020, the Chorale received a loan in the amount of \$108,947 under the Paycheck Protection Program ("PPP") of the Coronavirus Aid, Relief, and Economic Securities Act ("CARES Act"). This loan is guaranteed by the Small Business Administration ("SBA") and is for a two-year term at a 1.0% interest rate. The Chorale used the proceeds to fund payroll and other allowable expenses under the PPP, and in March 2021 was informed that it received full forgiveness of the PPP loan. Accordingly, the Chorale recorded the amount as PPP loan forgiveness in the accompanying statement of activities and changes in net assets for the year ended June 30, 2021.

In February 2021, the Chorale received a loan in the amount of \$105,941 under the Second Draw of the PPP of the CARES Act. This loan is guaranteed by the SBA and is for a two-year term at a 1.0% interest rate. The Chorale used the proceeds to fund payroll and other allowable expenses under the PPP, and in June 2021 was informed that it received full forgiveness of the PPP loan. Accordingly, the Chorale recorded the amount as PPP loan forgiveness in the accompanying statement of activities and changes in net assets for the year ended June 30, 2021.

9. COMMITMENTS

Operating Lease

The Chorale leases its administrative office under a noncancelable operating lease agreement, which expired in June 2022 and was amended to expire on June 30, 2025. Future minimum lease payments under the noncancelable operating lease as of June 30, 2022 are as follows:

2023	\$	47,767
2024		50,155
2025		<u>52,663</u>
	\$	<u>150,585</u>

Total rent expense amounted to \$42,915 and \$41,855 for the years ended June 30, 2022 and 2021, respectively.

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10. NET ASSETS WITH DONOR RESTRICTIONS

The following is a summary of the Chorale's net assets with donor restrictions at June 30:

	<u>2022</u>	<u>2021</u>
Subject to spending policy and appropriation		
Investment in perpetuity	<u>6,608,099</u>	<u>6,097,112</u>
	<u>\$ 6,608,099</u>	<u>\$ 6,097,112</u>

11. CONTRIBUTED NONFINANCIAL ASSETS

For the years ended June 20, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities and changes in net assets included volunteer time for professional singers of \$296,075 and \$75,120, respectively.

The Chorale recognized contributed nonfinancial assets within revenues and public support. In valuing the contributed nonfinancial assets, the Chorale used the fair value amount it would spend if the time were not donated.