

CHICAGO CHILDREN'S CHOIR

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

CHICAGO CHILDREN'S CHOIR

YEAR ENDED JUNE 30, 2020

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Independent Auditors' Report

Board of Directors
Chicago Children's Choir

We have audited the accompanying financial statements of Chicago Children's Choir (the Choir), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, 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.

Auditors' 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 from 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 policies 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 Chicago Children’s Choir as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Choir has adopted the following guidance: ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Ostrow Reisin Berk & Abrams, Ltd.

October 26, 2020

CHICAGO CHILDREN'S CHOIR

STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

Current assets:

Cash and cash equivalents	\$ 960,234
Investments	2,615,346
Receivables:	
Tuition	35,913
Contributions	708,276
Prepaid expenses	118,731

Total current assets	4,438,500
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Property and equipment, net	156,807
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Other assets:

Deferred production costs, net of accumulated amortization of \$10,372	45,078
Contributions receivable, net of current portion	258,873

Total other assets	303,951
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Total assets	\$ 4,899,258
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See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2020

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	9,854
Accrued expenses		108,682
Other liabilities		38,039
Contract liabilities		161,178
Deferred revenue - special events		81,000

Total current liabilities 398,753

Long-term liability:

Loan payable		481,800
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Total liabilities 880,553

Net assets:

Without donor restrictions:

Board-designated		1,114,512
Undesignated		504,820

Total net assets without donor restrictions 1,619,332

With donor restrictions 2,399,373

Total net assets 4,018,705

Total liabilities and net assets \$ 4,899,258

See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

STATEMENT OF ACTIVITIES

Year ended June 30, 2020	Without donor restrictions	With donor restrictions	Total
Revenue:			
Contributions:			
Foundation and corporate	\$ 672,904	\$ 558,936	\$ 1,231,840
Individual	630,247		630,247
Strategic initiatives - campaign gifts		116,168	116,168
Government grants	60,900		60,900
In-kind	137,459		137,459
Tuition, fees and other	825,835		825,835
Concerts and other performances	230,271		230,271
Special events, including in-kind contributions of \$19,364 and net of direct benefit to donors of \$274,044	1,305,989		1,305,989
Investment income (loss), net	2,137	(7,574)	(5,437)
Other	4,171		4,171
Net assets released from restrictions	605,224	(605,224)	
Total revenue	4,475,137	62,306	4,537,443
Expenses:			
Program services	2,942,719		2,942,719
Supporting services:			
Management and general	560,168		560,168
Fundraising	814,725		814,725
Total expenses	4,317,612		4,317,612
Change in net assets	157,525	62,306	219,831
Net assets:			
Beginning of year	1,461,807	2,337,067	3,798,874
End of year	\$ 1,619,332	\$ 2,399,373	\$ 4,018,705

See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2020	Program Services				Supporting Services			Total
	Voice of Chicago	Neighborhood Choirs	In-School Choirs	Total	Management and general	Fundraising	Direct benefit to donors	
Salaries, taxes and benefits	\$ 444,480	\$ 788,560	\$ 701,595	\$ 1,934,635	\$ 336,244	\$ 492,579		\$ 2,763,458
Productions and events	126,949	137,220	100,743	364,912			\$ 274,044	638,956
Contract services	27,004	37,454	43,705	108,163	101,387	213,693		423,243
Tour expense	851	4,046		4,897				4,897
Office expense	5,241	18,289	26,982	50,512	36,892	40,977		128,381
Facility and equipment	41,486	144,537	31,520	217,543	22,425	19,716		259,684
Depreciation and amortization	6,709	11,957	10,585	29,251	5,191	7,664		42,106
Travel and meeting	1,873	1,531	27,260	30,664	16,789	24,181		71,634
Uniforms, choral supplies, and other choir expenses	45,726	59,188	34,824	139,738				139,738
Insurance	6,749	11,060	8,696	26,505	8,175	6,297		40,977
Advertising					31,905	4,554		36,459
Credit card and banking fees	11,303	23,627	969	35,899	1,160	5,064		42,123
Total expenses	718,371	1,237,469	986,879	2,942,719	560,168	814,725	274,044	4,591,656
Less expenses included with revenue on the statement of activities							(274,044)	(274,044)
Total expenses included in the expense section on the statement of activities	\$ 718,371	\$ 1,237,469	\$ 986,879	\$ 2,942,719	\$ 560,168	\$ 814,725	\$ -	\$ 4,317,612

See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

STATEMENT OF CASH FLOWS

Year ended June 30, 2020

Cash flows from operating activities:

Change in net assets	\$ 219,831
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Contributions restricted for endowment fund	(20,000)
Depreciation and amortization	42,106
Discounts on long-term contributions receivable	604
Net realized and unrealized loss on investments	57,697
(Increase) decrease in operating assets:	
Receivables	274,681
Inventory	5,022
Prepaid expenses	(73,388)
Increase (decrease) in operating liabilities:	
Accounts payable	(56,137)
Accrued expenses	5,371
Other liabilities	33,286
Contract liabilities	82,103
Deferred revenue - special events	(39,000)

Net cash and cash equivalents provided by operating activities	532,176
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Cash flows from investing activities:

Purchases of investments	(680,833)
Production expenditures	(11,000)
Purchases of property and equipment	(11,284)

Net cash and cash equivalents used in investing activities	(703,117)
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See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

STATEMENT OF CASH FLOWS (CONTINUED)

Year ended June 30, 2020

Cash flows from financing activities:

Proceeds from loan payable	\$ 481,800
Proceeds from contributions restricted for endowment fund	20,000

Net cash and cash equivalents provided by financing activities	501,800
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Net change in cash and cash equivalents	330,859
Cash and cash equivalents, beginning of year	629,375

Cash and cash equivalents, end of year	\$ 960,234
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See notes to financial statements.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

The mission of Chicago Children's Choir (the Choir) is to inspire and change lives by uniting youth from diverse backgrounds to become global citizens through music. The Choir serves thousands of children, ages 8 to 18, by providing in-school and after-school choral education programs throughout Chicago. The programs include a choral curriculum comprised of vocal production, music theory and history taught through diverse repertoire, recording projects and professional-level performance opportunities locally and abroad.

2. Summary of significant accounting policies

The significant accounting policies of the Choir are summarized below:

Basis of accounting:

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Recent accounting pronouncements:

Effective July 1, 2019, the Choir adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The Choir implemented this standard on a modified prospective basis. The adoption of this standard did not materially impact the Choir's financial statements.

Effective July 1, 2019, the Choir adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the Choir recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the Choir expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry specific guidance, and establishes a five step approach for the recognition of revenue. As disclosed in Note 4, the Choir implemented this standard during the year ended June 30, 2020 using the modified retrospective method.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Cash and cash equivalents:

The Choir considers financial instruments with an original maturity of less than three months when purchased to be cash equivalents. The Choir maintains its cash and cash equivalents in bank accounts which, at times, may exceed federally-insured deposit limits. At June 30, 2020, cash and cash equivalents in excess of these limits totaled approximately \$464,000. The Choir believes it is not exposed to any significant credit risk on cash and cash equivalents.

Tuition and other receivables:

Receivables are recorded at the amounts that the Choir expects to collect from outstanding balances based on the Choir's historical collection experience. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Management considers an allowance for doubtful accounts to be unnecessary and is not provided for as of June 30, 2020.

Contributions receivable:

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at 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. Management provides for probable uncollectible amounts, as needed, through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the likelihood of collection, and a review of subsequent collections. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to contributions receivable.

Investments:

Investments are stated at fair value. The Choir's investments are exposed to various risks such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near term and could materially affect the amounts reported in the statement of financial position.

Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Property and equipment:

Property and equipment are stated at cost or if donated, at the approximate fair value at the date of donation. Depreciation and amortization are provided over the estimated useful life of the assets using the straight-line method over the following useful lives:

Leasehold improvements	20 years
Equipment	3-5 years
Furniture and fixtures	10 years
Instruments	10 years
Website	5 years

Additions to property and equipment over \$500 are capitalized while maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed as incurred.

Artistic productions:

Artistic production costs are capitalized at the total cost to bring the production to completion and amortized over a 10-year period starting at the date of the initial performance.

Impairment:

The Choir reviews the carrying values of property, equipment and artistic productions for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. An impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2020.

Contract liabilities:

Deferred revenue represents funds that have been received for services that will be provided subsequent to June 30, 2020.

Deferred revenue – special events:

Deferred revenue represents sponsorships that have been received for special events that will occur subsequent to June 30, 2020.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Net assets:

The Choir reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – Net assets that are free of donor-imposed restrictions including all revenues, expenses, gains and losses over which the Choir has discretionary control.

The Choir's Board-designated net assets are funds whose use must be approved by the Board of Directors.

Net assets with donor restrictions – Net assets whose use by the Choir is limited by donor-imposed stipulations that they be used for a specific purpose and/or are designated for future periods. These stipulations either expire with the passage of time, can be fulfilled or removed by actions of the Choir pursuant to such donor-imposed restrictions, or must be maintained permanently. Assets which must be maintained permanently, generally referred to as endowment funds, permit the Choir to utilize or expend part or all of the income or other economic benefits derived from the donated assets. See Notes 12 and 13.

Contributions revenue:

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Conditional promises to give are not included as support until the conditions are substantially met.

Contributions received are recorded as without or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of 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. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue in the net assets without donor restrictions class.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Contributed goods and services:

Contributed goods are reflected as contributions at their fair value at date of donation and are reported as contributions without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The Choir recognizes the fair value of contributed services if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The Choir receives services from a large number of volunteers who give significant amounts of their time to the Choir but these services do not meet the criteria for financial statement recognition.

The Choir was the recipient of the following contributed goods and services:

Year ended June 30, 2020	Program services	Management and general	Fundraising	Direct benefit to donors	Total
Facility and equipment	\$ 120,149	\$ 6,990	\$ 10,320		\$ 137,459
Productions and events				\$ 19,364	19,364
Total	\$ 120,149	\$ 6,990	\$ 10,320	\$ 19,364	\$ 156,823

Advertising:

Advertising costs are expensed as incurred and totaled \$36,459 for the year ended June 30, 2020.

Functional allocation of expenses:

The Choir allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure. Personnel related costs that are common to several functions are allocated among the program and supporting services on the basis of time analyses. Contract services, office expense, facility and equipment, depreciation and amortization, insurance and credit card and banking fees that are not directly allocated are allocated by the percentage of personnel related expenses in each functional category.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Subsequent events:

Management of the Choir has evaluated subsequent events through October 26, 2020, the date the financial statements were available to be issued.

3. Impact of COVID-19 pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported in Wuhan, China and has since extensively impacted the global health and economic environment. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President declared the COVID-19 outbreak in the United States as a national emergency.

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Choir and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which the Choir operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

As a result of COVID-19, the Choir made adjustments to its programs and special events. All in-school and after-school programs moved to a virtual platform in March 2020. These programs will be offered virtually until at least December 31, 2020. As a result of the move to virtual programming, the Choir issued refunds to its singers either through a cash refund or deposit to be used for the following year's fees. Cash refunds totaling approximately \$16,000 were repaid to its singers. Approximately \$41,000 of singer deposits were carried forward to the year ending June 30, 2021 and are included in contract liabilities at June 30, 2020. Additionally, all tours have been suspended through at least Spring 2021 and the Choir's annual gala has been converted to a virtual event. While the complete financial impact of these changes cannot be estimated at this time, the Choir continues to operate at a balanced budget despite an expected reduction in revenues for the year ending June 30, 2021.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Revenue from contracts with customers

Effective July 1, 2019, the Choir adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the Choir recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the Choir expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry specific guidance, and establishes a five step approach for the recognition of revenue.

The Choir has adopted this guidance using the modified retrospective approach, which applies to contracts that have remaining obligations as of July 1, 2019 and new contracts entered into subsequent to July 1, 2019. Under the modified retrospective method, the cumulative effect of the application of Topic 606 is shown as an adjustment to beginning net assets as of the date of application. There was no significant effect on any financial statement line items as a result of applying Topic 606.

The performance obligations for contracts with customers all have durations of one year or less. All performance obligations have been satisfied as of June 30, 2020.

Singer tuition and in-school program fees:

Singer tuition fees are derived from after-school choral education programs provided to students throughout Chicago. Revenue is earned by providing choral education services during the period of September through May. Revenue is recognized ratably over this time period using the output method as services are provided. Students are charged tuition upon registration, with the option to pay in full upon registration or in installments over the period of service. At June 30, 2020, contract liabilities relating to registrations for the 2020-2021 tuition year totaled approximately \$144,000. Transaction prices are based on a sliding scale of household income. Additionally, small discounts are provided for early registration and families with multiple children participating in the programs. Price concessions for families charged on the sliding fee scale and discounts are netted against tuition revenue for reporting purposes and are not material to the overall financial statements.

In-school program fees are derived from in-school choral education programs provided to schools within Chicago. Revenue is earned by providing the choral education services during the period of October through May. Revenue is recognized ratably over this time period using the output method as services are provided. The schools are charged a specific transaction price, which is negotiated with each individual school prior to the school year and includes price concessions for specific schools, generally based on the individual school's budget restrictions. Additionally, a small discount is provided for early registration. Price concessions and discounts are netted against in-school program fees for reporting purposes and totaled approximately \$111,000 for the year ended June 30, 2020. At June 30, 2020, contract liabilities relating to registrations for the 2020-2021 school year totaled approximately \$17,000.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Revenue from contracts with customers (continued)

Special events, concerts and other performances, and uniforms:

Revenue from contracts with customers includes a portion of special events revenue reflecting the exchange element based upon the fair value of direct benefits donors receive which is recognized at a point in time when the special event takes place. The Choir's special event occurs annually in the fall season.

Concerts and other performances are recognized at a point in time, upon completion of the event. These fees are fixed and charged at the completion of the choral performance.

Fees for uniforms are recognized at a point in time when the good is transferred to the singer. The singer is required to pay for the uniform at the point in time when the good is transferred to the singer. The transaction price for uniforms is based on the stand-alone selling price of the uniform.

There were no contract liabilities relating to special events, concerts and other performances, and uniforms at June 30, 2020 and 2019.

Disaggregation of revenue:

Revenue from contracts with customers disaggregated by category for the year ended June 30, 2020 was as follows:

<u>Year ended June 30, 2020</u>	
Revenue recognized over time:	
Singer tuition	\$ 336,730
In-school program fees	460,225
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Total revenue recognized over time	796,955
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Revenue recognized at a point in time:	
Special events	221,200
Concerts and other performances	230,271
Uniforms	28,880
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Total revenue recognized at a point in time	480,351
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Total contract revenue	\$ 1,277,306

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. Revenue from contracts with customers (continued)

Reconciliation of contract revenue to the statement of activities:

<u>Year ended June 30, 2020</u>	
Tuition, fees and other:	
Singer tuition	\$ 336,730
In-school program fees	460,225
Uniforms	28,880
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Total tuition, fees and other	\$ 825,835
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Concerts and other performances	\$ 230,271
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Special events:	
Special events - contract revenue	\$ 221,200
Special events - contributions revenue	1,358,833
Direct benefit to donors	(274,044)
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Total special events	\$ 1,305,989
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Receivables from contracts with customers:

Accounts receivable related to revenue from contracts with customers were \$35,913 and \$245,945 at June 30, 2020 and 2019, respectively. There were no contract assets related to revenue from contracts with customers at June 30, 2020 and 2019. Contract liabilities at June 30, 2019 totaled approximately \$79,000, which includes \$66,000 of contract liabilities from singer tuition and \$13,000 of contract liabilities from in-school program fees.

Significant judgments:

Significant judgments are required to be made by management to determine the appropriate approach to applying revenue recognition criteria. Management has determined the transaction prices for benefits included in special events where stand-alone purchase prices were not available. Management's estimate of these transaction prices was determined using the actual amount of direct benefit to donors' expenses incurred in the prior year. Significant judgment is also required to assess collectibility which is assessed at the onset of the individual contract and revenue is recognized at the amount management expects to collect from its customers when performance obligations have been satisfied.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<u>June 30, 2020</u>	
Financial assets at year-end:	
Cash and cash equivalents	\$ 960,234
Investments	2,615,346
Tuition receivables	35,913
Contributions receivable, net of allowance	967,149
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Total financial assets	4,578,642
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Less amounts not available to be used within one year:	
Contributions receivable, noncurrent	258,873
Board-designated net assets without donor restrictions	1,114,512
Net assets with donor purpose restrictions, net of contributions receivable	1,935,500
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Total amounts not available to be used within one year	3,308,885
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Financial assets available to meet general expenditures within one year	\$ 1,269,757

The Choir has budgeted to meet \$888,200 of purpose restrictions over the next fiscal year.

Although the Choir does not intend to spend from its Board-designated investments totaling \$1,114,512 at June 30, 2020, these amounts could be made available if necessary.

In addition to financial assets available to meet general expenditures over the next fiscal year, the Choir operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

As part of its liquidity management plan, the Choir invests excess cash in short-term fixed income and money market funds.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Fair value measurements

The Choir reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Choir has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Fair value measurements (continued)

In some cases, the inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

Investments consist of the following at June 30, 2020:

June 30, 2020	Total	Level 1	Level 2
Equities	\$ 851,519	\$ 851,519	
Fixed income funds	695,726	695,726	
Real asset funds	177,326	177,326	
Money market instruments	890,775		\$ 890,775
Total	\$ 2,615,346	\$ 1,724,571	\$ 890,775

The valuation methodologies used for assets measured at fair value are as follows:

The fair value of Level 1 investments is based on quoted prices in active markets.

The fair value of money market instruments is estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable.

7. Tax status

The Choir is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service (IRS) has determined that the Choir is not a private foundation within the meaning of Section 509(a) of the Code.

The Choir has determined that it was not required to record a liability related to uncertain tax positions as of June 30, 2020.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Contributions receivable

Unconditional promises to give are as follows:

<u>June 30, 2020</u>	
Receivable due in less than one year	\$ 718,276
Receivable due in one to five years	266,000
Total unconditional promises to give	984,276
Less allowance for uncollectible accounts	(10,000)
Less discounts to net present value	(7,127)
Net unconditional promises to give	<u>\$ 967,149</u>

Unconditional promises to give and contributions receivable for more than one year were discounted at rates ranging from 1.36% to 2.52% for the year ended June 30, 2020.

9. Property and equipment

Property and equipment consists of the following at June 30, 2020:

<u>June 30, 2020</u>	
Leasehold improvements	\$ 163,671
Equipment	68,753
Furniture and fixtures	43,670
Instruments	32,511
Website	49,390
	357,995
Accumulated depreciation and amortization	<u>(201,188)</u>
Property and equipment, net	<u>\$ 156,807</u>

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Loan payable

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the CARES Act was signed into law. One component of the CARES Act was the Paycheck Protection Program (PPP) which provides businesses with funding to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (SBA) with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. The Choir applied for and received \$481,800. The loan is a two-year loan with a maturity date of April 9, 2022. The loan bears an annual interest rate of 1%. It is the Choir's intent to apply for loan forgiveness under the provisions of Section 1106 of the CARES Act. Loan forgiveness is subject to the approval of the lender and the SBA. The Choir is eligible for loan forgiveness in an amount equal to payments made during the 24-week period beginning on the loan disbursement date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses.

The Choir has accounted for the PPP loan under the debt model in which the loan will remain a liability of the Choir until such time that the Choir's application for forgiveness is approved by the SBA. At the time the application for forgiveness is approved, the Choir will recognize revenue to the extent of the amount forgiven. The Choir has up to 10 months after the end of the 24-week period following the loan disbursement date to apply for loan forgiveness. To the extent that all or part of the PPP loan is not forgiven, principal and interest payments are deferred until such time that the SBA remits the loan forgiveness amount to the lender or, if the application for loan forgiveness is not submitted within 10 months after the end of the 24-week period following disbursement date, then payments are to begin at that time. The two-year maturity date could be extended to five years if approved by the lender. If the Choir were to not submit an application for forgiveness by 10 months after the end of the 24-week covered period and assuming no change in the two-year maturity date, principal payments due on the PPP loan would be \$-0- for the year ending June 30, 2021 and \$481,800 for the year ending June 30, 2022.

11. Board-designated investment fund

The Board of Directors has established a reserve fund (the Fund), in which the Board occasionally directs a portion of any operating surplus to be placed into the Fund along with the reinvestment of earnings on these funds. Use of these funds must be pre-approved by the Board of Directors. During the year ended June 30, 2020, the Board designated \$100,000 to the Fund. The Fund totaled \$1,114,512 at June 30, 2020.

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Net assets with donor restrictions

Net assets with donor restrictions were available for the following purpose or time restrictions:

<u>June 30, 2020</u>	
Purpose restrictions:	
Strategic priorities	\$ 1,147,091
Neighborhood Choirs programs	27,500
In-school programs	92,500
Endowment subject to spending policy and appropriation	680,916
Time restrictions:	
Endowment income not yet appropriated for expenditure	21,366
Contributions receivable	430,000
<hr/>	
Total net assets with donor restrictions	\$ 2,399,373

Net assets were released from donor restrictions by incurring expenses satisfying the following purpose restrictions specified by donors and by expiration of time restrictions:

<u>Year ended June 30, 2020</u>	
Purpose restrictions:	
Strategic priorities	\$ 310,224
Neighborhood Choirs programs	12,500
In-school programs	77,500
Time restrictions:	
Contributions receivable	205,000
<hr/>	
Total net assets released from restrictions	\$ 605,224

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowment

The Choir's endowment was established in 2017 and consists of one fund. Net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors of the Choir has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Choir retains in perpetuity the original value of the gifts donated to the permanent endowment. The investment income or increases in fair value (if not required to be restricted by the donor) and remaining portion of the donor-restricted endowment fund (such as Board appropriated additions to the Fund) are subject to appropriation for expenditure by the Choir in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Choir considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the Fund
- The purpose of the Choir and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Choir
- The investment policies of the Choir

The Choir has investment and spending policies for the endowment fund that:

- Protect the invested assets
- Preserve spending capacity of the fund income
- Provide a relatively predictable and growing stream of revenue while adhering to the Choir's risk parameters
- Comply with applicable laws

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Endowment (continued)

Return objectives and risk parameters:

The Choir has adopted investment and spending policies for endowment assets that will allow the fund to grow its corpus, cover any future adopted annual payout to the Choir and its investment expenses while preserving purchasing power. Endowment assets include those assets of donor-restricted funds that the Choir must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to provide for growth of the assets while simultaneously protecting the principal of the assets through constraints on approved investments and diversification through asset allocation.

Strategies employed for achieving objectives:

To satisfy its long-term rate of return objectives, the Choir emphasizes total return from capital appreciation and dividend and interest income (balancing the need for total income with the need to preserve principal) and the preservation of purchasing power (to achieve returns in excess of the rate of inflation over a long-term investment horizon).

Spending policy and how the investment objectives relate to spending policy:

At the establishment of the endowment and as of June 30, 2020, the Board's objective is to generate returns from the corpus of the fund. The Board-approved budget will not include endowment income to fund the operations. The spending policies of the earnings for the donor-restricted endowment fund will be determined by the Board from time to time.

Endowment net assets consist of the following:

<u>Year ended June 30, 2020</u>	
Donor-restricted endowment net assets,	
beginning of year	\$ 564,856
Contributions received	20,000
Investment loss	(7,574)
Donor-restricted endowment net assets,	
end of year	\$ 577,282

CHICAGO CHILDREN'S CHOIR

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. Retirement plan

The Choir has a 403(b) defined-contribution plan (the Plan) for all qualified employees. The Choir matches participant contributions to the Plan up to 3% of each eligible employee's salary up to statutory limits. Participation in the Choir's retirement plan is voluntary. Participant and Choir contributions are immediately vested. Employer contributions to the Plan amounted to \$43,021 for the year ended June 30, 2020.

15. Lease commitments

The Choir leases its office and rehearsal space from the City of Chicago under a lease that expires on December 31, 2022. Rent is \$1 per year plus monthly operating expenses.

The Choir also rents from eleven locations for its neighborhood choir rehearsal spaces. These facilities are leased on an annual basis from September through May.

The rent expense for these operating leases, including the recognition of the expense related to the in-kind contribution from the lessors, was \$183,844 for the year ended June 30, 2020.

16. Concentration risk

Approximately 34% of the Choir's revenue was generated from a single special event during the year ended June 30, 2020.