

**VOCEL: VIEWING OUR CHILDREN
AS EMERGING LEADERS NFP**

FINANCIAL STATEMENTS

**For the Ten Months Ended
June 30, 2020**

**VOCEL: VIEWING OUR CHILDREN
AS EMERGING LEADERS NFP**

Annual Financial Report

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
VOCEL: Viewing Our Children as Emerging Leaders NFP
Chicago, IL

We have audited the accompanying financial statements of VOCEL: Viewing Our Children as Emerging Leaders NFP (a nonprofit organization), 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 ten months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 VOCEL: Viewing Our Children as Emerging Leaders NFP as of June 30, 2020, and the changes in its net assets and its cash flows for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

Desmond & Ahern, Ltd

November 9, 2020
Chicago, IL

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
STATEMENT OF FINANCIAL POSITION
June 30, 2020

Current Assets

Cash and cash equivalents	\$ 971,940
Investments	49,750
Contributions receivable	154,873
Prepaid expenses	10,877
Total current assets	1,187,440

Property and equipment	
Leasehold Improvements	59,466
Office equipment	6,086
Less accumulated depreciation	(27,734)
Net property and equipment	37,818

Other long term assets	
Security deposits	2,500

Total Assets	\$ 1,227,758
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Liabilities and Net Assets

Accounts payable	\$ 13,875
Accrued liabilities	55,098
PPP loan	121,205
Total current liabilities	190,178

Net Assets

Without donor restrictions	
Undesignated	786,009
Designated by the board	100,723
Total without donor restrictions	886,732
With donor restrictions	150,848
Total net assets	1,037,580

Total Liabilities and Net Assets	\$ 1,227,758
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See independent auditor's report and notes to financial statements.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
STATEMENT OF ACTIVITIES
For the Ten Months Ended June 30, 2020

	<u>Without Donor Restricted</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Public Support and Revenue</u>			
Contributions			
Foundations and corporations	\$ 526,994	\$ 295,413	\$ 822,407
Individuals and board members	291,055	-	291,055
Special events, net	214,625	-	214,625
In-kind services	3,953	-	3,953
Interest and dividends	941	-	941
Miscellaneous revenue	2,584	-	2,584
Net assets released from restrictions - satisfaction of restriction	<u>452,175</u>	<u>(452,175)</u>	<u>-</u>
Total public support and revenue	<u>1,492,327</u>	<u>(156,762)</u>	<u>1,335,565</u>
<u>Expenses</u>			
Program Services	758,029	-	758,029
Administrative	151,217	-	151,217
Fundraising	<u>151,070</u>	<u>-</u>	<u>151,070</u>
Total expenses	<u>1,060,316</u>	<u>-</u>	<u>1,060,316</u>
Change in net assets before non-operating items	432,011	(156,762)	275,249
Net assets, beginning of year	<u>454,721</u>	<u>307,610</u>	<u>762,331</u>
Net assets, end of year	<u><u>\$ 886,732</u></u>	<u><u>\$ 150,848</u></u>	<u><u>\$ 1,037,580</u></u>

See independent auditor's report and notes to financial statements.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
STATEMENT OF FUNCTIONAL EXPENSES
For the Ten Months Ended June 30, 2020

	<u>Program</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Functional Expenses				
Salaries and wages	\$ 364,833	\$ 78,198	\$ 87,089	\$ 530,120
Payroll taxes and benefits	48,681	11,365	14,469	74,515
Professional fees and consulting	101,708	30,119	2,359	134,186
Meal distributions	80,972	-	-	80,972
Occupancy	20,030	5,456	5,743	31,229
Event costs	-	-	22,489	22,489
Classroom	38,997	-	-	38,997
Office expense	34,881	1,100	2,121	38,102
IT and computer	5,381	2,166	4,413	11,960
Travel and conferences	5,062	483	1,161	6,706
Insurance	10,704	2,709	3,022	16,435
Marketing	16,939	500	5,056	22,495
Distributions	16,150	-	-	16,150
Postage and shipping	2,000	310	1,094	3,404
Banking fees	-	1,692	-	1,692
Telephone	6,548	1,017	826	8,391
Depreciation	5,143	1,102	1,228	7,473
Bad debt	-	15,000	-	15,000
Total Expenses	<u>\$ 758,029</u>	<u>\$ 151,217</u>	<u>\$ 151,070</u>	<u>\$ 1,060,316</u>

See independent auditor's report and notes to financial statements.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
STATEMENT OF CASH FLOWS
For the Ten Months Ended June 30, 2020

Cash Flows from Operating Activities

Change in net assets	\$ 275,249
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,473
Change in assets - (increase) decrease	
Contributions receivable	78,102
Prepaid expense and other assets	3,498
Change in liabilities - increase (decrease)	
Deferred revenue	(35,500)
Accounts payable and accrued expenses	38,358
Net cash provided by operating activities	<u>367,180</u>

Cash Flows from Investing Activities

Proceeds from sale of investments	108,785
Purchases of investments	(20,730)
Acquisition of property and equipment	(9,075)
Net cash provided by investing activities	<u>78,980</u>

Cash Flows from Financing Activities

Proceeds from PPP loan	121,205
Net cash provided by financing activities	<u>121,205</u>

Net increase in cash and cash equivalents	567,365
Cash and cash equivalents, beginning of year	404,575
Cash and cash equivalents, end of year	<u>\$ 971,940</u>

See independent auditor's report and notes to financial statements.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

VOCEL: Viewing our Children as Emerging Leaders NFP (“VOCEL”), a not-for-profit Illinois corporation, aims to help ensure every child has the foundation to learn, grow, and lead by providing two-generation early childhood education programming for young children, families, and schools in overburdened, under-resourced communities, aiming to support early brain development and build a foundation for academic and life success.

Basis of Accounting

The financial statements of VOCEL have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities in accordance with the accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation

As required by the generally accepted accounting principles for Not-for-Profit accounting, VOCEL is required to report information regarding its financial position and activities according to two classes:

Without donor restrictions – Net assets that are not subject to donor-imposed restrictions. Such gifts include gifts without restrictions, including restricted gifts whose donor-imposed restrictions were met during the year.

With donor restrictions – Net assets subject to donor-imposed restrictions which will be met either by actions of VOCEL or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Restrictions that have been met on net assets with donor restrictions are reported as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, VOCEL reports the support as with donor restrictions and released in same year.

Income Tax Status

VOCEL is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and therefore no provision for federal income taxes has been made on the accompanying financial statements. In addition, VOCEL has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the ten months ended June 30, 2020. VOCEL’s Form 990, *Return of Organization Exempt from Income Tax*, are subject to examination by the IRS, generally for three years from date of filing. VOCEL has adopted the requirements for accounting for uncertain tax positions. Management has determined that VOCEL was not required to record a liability related to uncertain tax positions as of June 30, 2020.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

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 the revenues, expenses, gains, losses and other changes in net assets during the year. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in federally and privately insured (Securities Investment Protection Corporation (SIPC) accounts. At times, balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

For purposes of the statement of cash flows, VOCEL considers all highly liquid debt instruments, if any, purchased or donated with an original maturity or anticipated liquidation of three months or less to be cash equivalents. No interest or taxes were paid during the ten months ended June 30, 2020.

Contributions Receivable

Contributions are recorded at fair value and are recognized as revenue and receivables in the period in which the pledge is made. VOCEL will not recognize a conditional promise to give until the conditions which the promise depends are substantially met. A promise that calls for specific financial goals to be achieved will be treated as conditional promises to give in the amount of \$25,000 for the ten months ended June 30, 2020. VOCEL periodically reviews contributions receivable and determines the need for an allowance for doubtful accounts. Based on management's experience and information, no allowance for uncollectible receivables was deemed necessary as of June 30, 2020.

Support and Revenue

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return- are not recognized until the conditions on which they depend have been met. VOCEL reports gifts of cash and other assets as restricted support 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, 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.

VOCEL reports gifts of land, buildings, and equipment as without donor restriction support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, VOCEL reports

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. During the ten months ended June 30, 2020 no such gifts of land, buildings, or equipment were received.

VOCEL recognizes contract revenue at an amount that reflects consideration to which the Organization expects to be entitled to in exchange for transferring goods or services to a customer. For performance reporting contracts, a customer pays the agreed upon amounts after the completion and submission of specified deliverables in the contract. For these contracts, VOCEL will allocate the transaction price of the contract to the specific performance obligations based on the contract. VOCEL recognizes revenue when the performance obligations are met and delivered to the customer. VOCEL had no contracts during 2020 that were performance reporting contracts. There are no contract assets or liabilities. There was no contract revenue recorded in 2020 for any performance obligations met in the prior year.

Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially extend the useful lives of assets in excess of \$1,000 are capitalized. Property and equipment are carried at cost, or if donated, at the approximate fair value at date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Useful lives for each asset category are as follows:

Office equipment	3 - 5 years
Software	3 years
Website	5 years

Depreciation expense for the ten months ended June 30, 2020 was \$7,473.

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial 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. For the ten months ended June 30, 2020, VOCEL received donated services meeting the above criteria valued at \$2,000.

A number of volunteers, including the Board of Directors, have made significant contributions of time to VOCEL's policy-making, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services contained per Generally Accepted Accounting Principles.

In-Kind Contributions

In addition to receiving cash contributions, VOCEL may receive in-kind contributions from various donors. It is the policy of VOCEL to record the estimated fair market value of certain in-kind donations as an expense in its financial statements, and similarly increase donation revenue by a like amount. VOCEL received \$1,953 of in-kind goods during the ten months ended June 30, 2020.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Directly identifiable expenses are charged to the specific program or supporting service. Expenses related to more than one function are allocated to program expenses and supporting services according to management determined ratio by purpose or by employee usage.

Contingency

VOCEL's operations could be significantly impacted by the novel coronavirus pandemic after the Organization's fiscal period end of June 30, 2020. Management is maintaining operations to the extent possible however some operations may be affected. The value of several of VOCEL's assets could be affected by this crisis. It is not possible to reasonably estimate the effect of this Crisis on the Organization or whether would be material to the Organization's financial statements as of June 30, 2020. See Note 8 for additional disclosures.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. VOCEL has evaluated subsequent events through November 9, 2020, which is the date the financial statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of the date of the report.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. VOCEL's financial statements reflect the application of ASC 606 guidance beginning in fiscal period 2020.

No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact VOCEL's reported historical revenue.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Accounting Standards Update

VOCEL has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of VOCEL's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard. Revenue recognition related to contribution revenue remained unchanged.

Note 2 – Financial Assets and Liquidity Resources

VOCEL monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, VOCEL considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As of June 30, 2020, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets at year-end:	
Cash and cash equivalents	\$ 971,940
Investments	49,750
Contributions receivable	154,873
Total financial asset, at year-end	<u>1,176,563</u>
Less amounts not available to be used within one year:	
Restricted by donor - purpose	(63,428)
Board designated - operating reserve	<u>(100,723)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,012,412</u>

VOCEL moderately relies on donor restricted resources but with a significant portion of those net assets with donor restriction available in future periods. In addition to financial assets available to meet general expenditures over the next 12 months, VOCEL operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

Generally Accepted Accounting Principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in VOCEL's principal or most advantageous market in an orderly transaction between market participants on the measurement date.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 3 – Fair Value Measurements

Fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair value of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates or matrix pricing. This is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on securities' relationship to other benchmark quoted securities (Level 2 inputs). Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions (Level 3 inputs). Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at fair value based on quoted market prices of identical or similar securities based on observable inputs like interest rates using a market valuation approach.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 3 – Fair Value Measurements (cont.)

The following summarizes that classification of investments at June 30, 2020, by classification and method of valuation in accordance with the above definitions:

	Level 1	Level 2	Level 3	Total
Mutual funds - Bonds	\$ 29,642	\$ -	\$ -	\$ 29,642
Exchange Traded Funds	20,108	-	-	20,108
	<u>\$ 49,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,750</u>

Note 4 – Leases

In November 2016, VOCEL entered into a forty-two month lease agreement for office and classroom space. The lease begins January 1, 2017 and expires June 30, 2020. During fiscal period 2020, VOCEL extended this lease agreement until June 30, 2021. Total rental expense for the ten months ended June 30, 2020 was \$26,995. Future minimum operating lease payments are \$32,782 for the year ending June 30, 2021.

Note 5 – Special Events

VOCEL’s special event summary for the ten months ended June 30, 2020:

Sponsorship	\$ 130,000
Contributions	71,657
Special events revenue, ticket portion	41,500
Revenue from special events	<u>243,157</u>
Less direct benefits to donors	<u>(28,532)</u>
Net revenues from special events	<u>\$ 214,625</u>

Note 6 – Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2020:

Future Periods	\$ 87,500
Social Learning at Home Initiative	30,000
COVID Relief	23,428
Child Parent Academy	10,000
	<u>\$ 150,928</u>

VOCEL: VIEWING OUR CHILDREN AS EMERGING LEADERS NFP
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Note 7 – Board Designated Net Assets

During the ten months ended June 30, 2020, VOCEL established an operating reserve consisting of cash and short term investments. The governing board has designated these net assets without donor restrictions in the amount of \$100,723 for general operating purposes to help respond to temporary changes in circumstances or in its environment.

Note 8 – Paycheck Protection Loan

On May 1, 2020, VOCEL received loan proceeds in the amount of \$121,205 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. VOCEL has elected to follow ASC 958-605 and record the loan once forgiveness conditions are substantially met or explicitly waived, the entity would reduce the loan and record a contribution for the amount forgiven.