

GALA CHORUSES, INC. AND AFFILIATE

**Consolidated Financial Statements for the
Years Ended December 31, 2007 and 2006,
Supplemental Schedules for the Year Ended
December 31, 2007 and Independent Auditors'
Report**

GALA CHORUSES, INC. AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of GALA Choruses I, Inc.

We have audited the accompanying consolidated statement of financial position of GALA Choruses I, Inc. (a nonprofit organization) and Affiliate as of December 31, 2007 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GALA Choruses I, Inc. and Affiliate as of December 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed at the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

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The 2006 consolidated financial statements were reviewed by us, and our report thereon, dated August 31, 2007, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the consolidated financial statements taken as a whole.

GROSSMAN YANAK + FORD LLP

September 8, 2008

GALA CHORUSES, INC. AND AFFILIATE**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006**

<u>ASSETS</u>	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:			
Cash and cash equivalents	2,3	\$ 349,548	\$ 23,319
Certificate of deposit	2	108,494	103,959
Accounts receivable	2	21,025	790
Prepaid expenses and other current assets		<u>173,930</u>	<u>4,628</u>
Total		<u>652,997</u>	<u>132,696</u>
PROPERTY AND EQUIPMENT:			
Furniture and equipment		7,569	6,471
Accumulated depreciation		<u>(728)</u>	<u>(3,178)</u>
Property and equipment, net	2	<u>6,841</u>	<u>3,293</u>
TOTAL ASSETS		<u>\$ 659,838</u>	<u>\$ 135,989</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES:			
Accounts payable		\$ 13,109	\$ 609
Deferred revenue	2	646,975	-
Accrued payroll		<u>2,487</u>	<u>-</u>
Total		<u>662,571</u>	<u>609</u>
LINE OF CREDIT	3	<u>-</u>	<u>70,415</u>
UNRESTRICTED NET ASSETS (DEFICIENCY IN NET ASSETS):			
Board designated	2	20,281	-
Undesignated	2	<u>(23,014)</u>	<u>64,965</u>
Total		<u>(2,733)</u>	<u>64,965</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 659,838</u>	<u>\$ 135,989</u>

See independent auditors' report and the notes to consolidated financial statements.

GALA CHORUSES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
SUPPORT AND REVENUE:			
Support	2	\$ 59,291	\$ 30,355
Revenue	2	<u>182,078</u>	<u>123,568</u>
Total		<u>241,369</u>	<u>153,923</u>
EXPENSES:			
General and administrative	1	122,146	108,812
Association services		73,525	74,686
Festival		-	16,901
Fundraising		8,103	30,561
Annual conference		<u>105,293</u>	<u>121,414</u>
Total		<u>309,067</u>	<u>352,374</u>
DECREASE IN UNRESTRICTED NET ASSETS		(67,698)	(198,451)
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR		<u>64,965</u>	<u>263,416</u>
UNRESTRICTED NET ASSETS - END OF YEAR		<u>\$ (2,733)</u>	<u>\$ 64,965</u>

See independent auditors' report and the notes to consolidated financial statements.

GALA CHORUSES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	(67,698)	(198,451)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,786	1,394
Loss on disposal of assets	1,559	-
Unrealized gain on investments	-	(123)
(Increase) decrease in:		
Receivables	(20,235)	31,317
Pledges receivable	-	1,200
Prepaid expenses and other current assets	(169,302)	(1,996)
Increase (decrease) in:		
Accounts payable	12,500	609
Deferred revenue	646,975	(807)
Accrued payroll	<u>2,487</u>	<u>-</u>
Net cash provided by (used in) operating activities:	<u>408,072</u>	<u>(166,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,893)	(676)
Purchase of certificate of deposit	<u>(4,535)</u>	<u>(103,959)</u>
Net cash used in investing activities	<u>(11,428)</u>	<u>(104,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit borrowings (repayments), net	<u>(70,415)</u>	<u>70,415</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	326,229	(201,077)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>23,319</u>	<u>224,396</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 349,548</u>	<u>\$ 23,319</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 5,975</u>	<u>\$ 605</u>

See independent auditors' report and the notes to consolidated financial statements.

GALA CHORUSES, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PURPOSE

Principles of Consolidation - The consolidated financial statements of GALA Choruses I, Inc. and Subsidiary (collectively "GALA" or the "Organization") include the accounts of GALA Choruses I, Inc. (the "Parent") and its common controlled affiliate, GALA Choruses Foundation, Inc. (the "Foundation"). All significant intercompany accounts and transactions are eliminated from the consolidated financial statements.

Organization, Purpose and Operations - GALA Choruses, Inc. was incorporated in the state of California on July 26, 1983. The Organization was a national association of choruses dedicated to providing leadership and inspiration to the lesbian and gay movement through excellence in the choral arts. The Organization staged festivals, conferences, and other events featuring its member choruses.

On April 1, 2006 GALA Choruses, Inc. was merged into GALA Acquisition Corporation, a Delaware corporation formed on January 11, 2006, with the surviving entity being GALA Acquisition Corporation. On the same day, the name of GALA Acquisition Corporation was changed to GALA Choruses I, Inc.

On January 11, 2006 GALA Choruses Foundation, Inc. was created to serve as a fundraising entity. The Foundation was formed as a nonprofit corporation with no capital stock. A majority of the board of directors of the Foundation are also directors of GALA Choruses I, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenditures when incurred.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Financial Statement Presentation - In accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements for Not-For-Profit Organizations*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted. In addition, a statement of cash flows must be presented.

Unrestricted net assets are the net assets that are neither permanently nor temporarily restricted by donor or grantor-imposed stipulations. Unrestricted net assets may be subdivided into those funds which have been designated for particular purposes by the Board of Directors and funds which are undesignated. Temporarily restricted net assets result from contributions or other inflows of assets whose use by the Organization is limited by the donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant of those stipulations. There were no temporarily restricted net assets as of December 31, 2007 and 2006.

Permanently restricted net assets result from contributions, grants and other inflows of assets whose use by the Organization is limited by donor or grantor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. There were no permanently restricted net assets as of December 31, 2007 and 2006.

Cash and Cash Equivalents - The Organization considers all monies available for current use in checking, savings and certificates of deposit with initial maturities of three months or less to be cash equivalents. The Organization maintains, at financial institutions, cash which, at times, may exceed federally insured limits and which may at times exceed consolidated statement of financial position amounts due to outstanding checks.

Certificate of Deposit - The certificate of deposit has an original maturity of twelve months and was renewed in January 2008.

Accounts Receivable - A valuation allowance is provided for those receivables for which collection is doubtful; uncollectible accounts are written off and charged against the allowance. Past due accounts are determined based primarily upon how recently payments have been received. Increases in the allowance are charged to general expenses. No allowance was deemed to be necessary at December 31, 2007 and 2006.

Contributions - In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions are reclassified to unrestricted net assets upon occurrence of a specific event or passage of time.

Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the financial statements as support are offset by like amounts included in expenses or property and equipment, when applicable. No such contributions were made during the years ended December 31, 2007 and 2006.

Property and Equipment - Property and equipment are stated at cost. Expenditures for property and equipment, if significant, are capitalized. Maintenance and repairs are charged to expense when incurred; betterments and renewals are capitalized. Depreciation is provided on the straight-line

basis over the estimated useful lives of the assets, typically five years, and totaled \$1,786 and \$1,394 for the years ended December 31, 2007 and 2006, respectively.

Impairment of Long-Lived Assets - Management evaluates the valuation and depreciation, as applicable, of the Organizations's various long-lived assets. Management's evaluation considers both current and future levels of undiscounted cash flows generated by the related assets to determine when impairment has occurred. Any writedowns due to impairment are charged to the statement of activities at the time the impairment is identified.

Deferred Revenue - Amounts reflected as deferred revenue on the statement of financial position result from advance registration fees associated with the quadrennial program, Festival, in 2008. Related expenses are presented as prepaid expenses.

Restricted Revenues - Donor-restricted income is classified as unrestricted if restrictions are satisfied in the same fiscal year in which the income is received.

Advertising - Advertising costs are expensed as incurred. Advertising expense was \$350 and \$1,228 for the years ended December 31, 2007 and 2006, respectively.

Income Taxes - The Organization meets the requirements to be treated as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

3. LINE OF CREDIT

In January 2006, the Organization established a line of credit with Bank of America that is secured by a certificate of deposit totaling \$108,494 at December 31, 2007. Maximum borrowings under the line of credit were \$100,000 at December 31, 2007 and 2006, and the outstanding balance at December 31, 2006 was \$70,415. There was no outstanding balance at December 31, 2007. Interest is payable monthly at the prime rate plus .25%. The prime rate was 7.25% and 8.25% at December 31, 2007 and 2006, respectively. Interest expense was \$5,975 and \$605 for the years ended December 31, 2007 and 2006, respectively.

GALA CHORUSES, INC. AND AFFILIATE

**SUPPLEMENTAL SCHEDULES OF SUPPORT AND REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2007**

Support:	
Contributions	\$ <u>59,291</u>
TOTAL SUPPORT	\$ <u><u>59,291</u></u>
Revenue:	
Registration fees	\$ 56,710
Advertising	8,800
Merchandise	3,103
Membership dues	76,281
Special events	19,184
Assets released from designation	<u>18,000</u>
TOTAL REVENUE	\$ <u><u>182,078</u></u>

See independent auditors' report.

GALA CHORUSES, INC. AND AFFILIATE

SUPPLEMENTAL SCHEDULE OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Administration</u>	<u>Association Services</u>	<u>Fund Development</u>	<u>Annual Conference</u>	<u>Total</u>
Advertising costs				\$ 350	\$ 350
Audio recording		\$ 16		-	16
Audit	\$ 2,000	-		-	2,000
Bank service charges	405	448	\$ 67	507	1,427
Building rentals	285	-	-	463	748
Contract labor	1,561	-	-	-	1,561
Depreciation	1,786	-	-	-	1,786
Design services	158	4,285	-	3,725	8,168
Employee benefits	80	-	-	-	80
Equipment rental	532	-	-	10,451	10,983
Filing fees	49	-	-	-	49
Flowers or awards	457	1,079	-	-	1,536
Food & catering	72	2,644	-	24,532	27,248
Grant expense - commission matching	-	18,000	-	-	18,000
Insurance	2,737	-	-	1,103	3,840
Internet services	1,149	-	-	-	1,149
License fees	-	-	-	398	398
Marketing expense	189	-	-	-	189
Merchandise consignment	-	-	-	1,753	1,753
Merchandise	-	1,652	-	1,188	2,840
Miscellaneous	3,764	-	(3)	-	3,761
Music lease / purchase	-	-	-	584	584
Office supplies	2,163	-	-	2,442	4,605
Payroll expense	140	-	-	-	140
Payroll taxes & unemployment	4,853	-	-	-	4,853
Photocopying	125	-	-	446	571
Postage	1,426	1,392	-	826	3,644
Printing	426	6,435	1,097	4,645	12,603
Professional development	363	-	650	-	1,013
Professional services	3,300	-	750	7,560	11,610
Props and set materials	-	-	-	1,418	1,418
Registration service fees	-	-	-	1,876	1,876
Salaries	71,713	29,512	5,550	26,500	133,275
Shipping	38	-	-	-	38
Storage facilities	2,776	-	-	-	2,776
Telephone	4,314	555	-	-	4,869
Transportation	-	-	-	2,220	2,220
Travel and lodging presenters	235	-	-	6,066	6,301
Travel and lodging staff	10,369	4,227	-	5,295	19,891
Web development	1,595	3,280	-	945	5,820
Other income (expense)	<u>3,086</u>	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>3,078</u>
Total expenses	<u>\$ 122,146</u>	<u>\$ 73,525</u>	<u>\$ 8,103</u>	<u>\$ 105,293</u>	<u>\$ 309,067</u>

See independent auditors' report.