

GALA CHORUSES, INC. AND AFFILIATE

**Consolidated Financial Statements for the
Years Ended December 31, 2006 and 2005,
Supplemental Schedules for the Year Ended
December 31, 2006, and Independent
Accountants' Report**

GALA CHORUSES, INC. AND AFFILIATE

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INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
GALA Choruses I, Inc.

We have reviewed the accompanying consolidated statement of financial position of GALA Choruses I, Inc. (a nonprofit organization) and Affiliate as of December 31, 2006 and the related consolidated statements of activities and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these consolidated financial statements is the representation of the management of GALA Choruses I, Inc.

A review consists principally of inquiries of the Organization's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards that are generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the consolidated financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the supplemental schedules listed in the accompanying table of contents is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic consolidated financial statements, and we are not aware of any material modifications that should be made thereto.

The financial statements for the year ended December 31, 2005, were audited by other accountants, and they expressed an unqualified opinion on them in their report dated July 7, 2006, but they have not performed any auditing procedures since that date.

/s/ Grossman Yanak & Ford LLP

August 31, 2007

GALA CHORUSES, INC. AND AFFILIATE**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005**

<u>ASSETS</u>	<u>NOTES</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:			
Cash and cash equivalents	2,3	\$ 23,319	\$ 224,396
Certificate of deposit	2	103,959	-
Accounts receivable	2	790	32,107
Pledges receivable	2	-	1,200
Prepaid expenses and other current assets		<u>4,628</u>	<u>2,509</u>
Total		<u>132,696</u>	<u>260,212</u>
PROPERTY AND EQUIPMENT:			
Furniture and equipment		6,471	19,807
Less accumulated depreciation		<u>3,178</u>	<u>15,796</u>
Property and equipment, net	2	<u>3,293</u>	<u>4,011</u>
TOTAL ASSETS		<u>\$ 135,989</u>	<u>\$ 264,223</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES:			
Accounts payable		\$ 609	
Deferred revenue		<u>-</u>	<u>\$ 807</u>
Total		<u>609</u>	<u>807</u>
LINE OF CREDIT	3	<u>70,415</u>	<u>-</u>
UNRESTRICTED NET ASSETS:			
Board designated	2	-	25,007
Undesignated	2	<u>64,965</u>	<u>238,409</u>
Total		<u>64,965</u>	<u>263,416</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 135,989</u>	<u>\$ 264,223</u>

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

GALA CHORUSES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>NOTES</u>	<u>2006</u>	<u>2005</u>
SUPPORT AND REVENUE:			
Support	2	\$ 30,355	\$ 56,351
Revenue	2	<u>123,568</u>	<u>233,159</u>
Total		<u>153,923</u>	<u>289,510</u>
EXPENSES:			
Program expenses:			
Annual conference	1	121,414	121,658
Association services		74,686	49,316
Equality Forum		-	3,798
Festival		16,901	40,088
General and administrative		108,812	163,769
Fundraising		<u>30,561</u>	<u>43,920</u>
Total		<u>352,374</u>	<u>422,549</u>
DECREASE IN UNRESTRICTED NET ASSETS		(198,451)	(133,039)
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR		<u>263,416</u>	<u>396,455</u>
UNRESTRICTED NET ASSETS - END OF YEAR		<u>\$ 64,965</u>	<u>\$ 263,416</u>

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

GALA CHORUSES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (198,451)	\$ (133,039)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	1,394	2,108
Loss on disposal of assets	-	1,146
Unrealized loss on investments	(123)	120
(Increase) decrease in:		
Receivables	31,317	(18,290)
Pledges receivable	1,200	3,350
Prepaid expenses and other current assets	(1,996)	
Increase (decrease) in:		
Accounts payable and accrued expenses	609	(13,899)
Other liabilities		(76,302)
Deferred revenue	<u>(807)</u>	<u>807</u>
Net cash used in operating activities	<u>(166,857)</u>	<u>(233,999)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(676)	-
Purchase of certificate of deposit	<u>(103,959)</u>	<u>-</u>
Net cash used in investing activities	<u>(104,635)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Line of credit borrowings, net	<u>70,415</u>	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(201,077)	(233,999)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>224,396</u>	<u>458,395</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 23,319</u>	<u>\$ 224,396</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 605</u>	<u>\$ -</u>

See independent accountants' 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, 2006 and 2005.

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, 2006 and 2005.

Cash - 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 2007.

Pledges - On occasion, certain companies and individuals make pledges for future contributions to the Organization. Such pledges are recorded as receivables in the year made. A valuation allowance is provided for those pledges for which collection is estimated as doubtful; uncollectible pledges are written off and charged against the allowance. Management is of the opinion that substantially all outstanding pledges are collectible, therefore no provision for uncollectible pledges has been recorded at December 31, 2006 and 2005.

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, 2006 and 2005.

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, 2006 and 2005.

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 \$1,394 and \$2,108 for the years ended December 31, 2006 and 2005, 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.

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 \$1,228 and \$816 for the years ended December 31, 2006 and 2005, 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.

Reclassifications - Certain amounts in the 2005 financial statements were reclassified to conform to the 2006 financial statement presentation.

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 \$103,959 at December 31, 2006. Maximum borrowings under the line of credit were \$100,000 at December 31, 2006 and the outstanding balance at December 31, 2006 was \$70,415. Interest is payable monthly at the prime rate plus .25%. The prime rate was 8.25% at December 31, 2006. Interest expense was \$605 for the year ended December 31, 2006.

GALA CHORUSES, INC. AND AFFILIATE

**SUPPLEMENTAL SCHEDULES OF SUPPORT AND REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2006**

Support:		
Contributions		<u>\$ 30,355</u>
	TOTAL SUPPORT	<u>\$ 30,355</u>
Revenue:		
Registration fees		\$ 34,594
Advertising		1,796
Merchandise		221
Membership dues		73,656
Special events		6,974
Interest		4,230
Other income		<u>2,097</u>
	TOTAL REVENUE	<u>\$ 123,568</u>

See independent accountants' report.

GALA CHORUSES, INC. AND AFFILIATE

SUPPLEMENTAL SCHEDULE OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Administration</u>	<u>Association Services</u>	<u>Festival</u>	<u>Fund Development</u>	<u>Annual Conferences</u>	<u>Foundation</u>	<u>Total</u>
Administrative services	-	-	-	-	-	\$ 316	\$ 316
Advertising costs	\$ 207	-	-	-	\$ 1,021	-	1,228
Audit	8,640	-	-	-	-	-	8,640
Bank service charges	2,534	-	-	-	-	-	2,534
Building rent for GALA HQ	9,513	\$ 9,513	\$ 3,804	\$ 5,707	9,513	-	38,050
Building rentals - other	-	20	-	-	5,292	-	5,312
Contract labor	3,551	-	4,354	-	10,726	-	18,631
Depreciation	1,394	-	-	-	-	-	1,394
Design services	10,814	-	-	-	5,730	978	17,522
Employee benefits	1,334	4,247	533	800	1,334	-	8,248
Equipment rental	391	50	-	-	13,069	-	13,510
Filing fees	990	-	-	-	-	-	990
Financial consultant	18,985	-	-	-	-	-	18,985
Flowers or awards	58	-	-	-	-	-	58
Food & catering	2,321	-	-	-	18,447	-	20,768
Grant expense - commission matching	-	2,000	-	-	-	-	2,000
Grant expense	-	-	-	-	-	10,000	10,000
Guest artist fees	-	-	-	-	11,989	-	11,989
Insurance	754	-	-	-	-	-	754
Internet services	1,151	1,151	462	691	1,151	-	4,606
License fees	-	-	-	-	187	-	187
Member product sales	-	80	-	-	-	-	80
Merchandise consignment	-	1,683	-	-	-	-	1,683
Merchandise	-	7	7	-	3,739	-	3,753
Miscellaneous	(6,838)	17	-	-	370	182	(6,269)
Music lease / purchase	-	-	-	-	1,034	-	1,034
Office equipment lease	-	-	-	-	-	-	-
Office supplies	325	325	130	195	941	-	1,916
Payroll expense	1,329	-	-	-	-	-	1,329
Payroll taxes & unemployment	1,790	4,212	717	1,075	1,790	-	9,584
Photocopying	-	-	-	-	573	-	573
Postage	633	450	-	-	1,387	-	2,470
Printing	6,833	-	-	-	7,142	-	13,975
Production	-	-	-	-	5,700	-	5,700
Professional development	965	75	-	195	-	-	1,235
Professional services	5,460	200	-	-	-	-	5,660
Salaries	16,001	46,700	6,401	9,601	16,001	-	94,704
Shipping	1,016	13	20	-	314	-	1,363
Storage facilities	864	-	-	-	-	-	864
Subscriptions / Membership	825	-	-	-	-	-	825
Taxes (non-payroll)	-	-	-	-	(1,546)	-	(1,546)
Telephone	1,081	1,081	433	649	1,081	-	4,325
Travel & lodging presenters	-	-	-	-	1,472	-	1,472
Travel & lodging staff	14,067	2,062	40	172	2,957	-	19,298
Video recording	-	800	-	-	-	-	800
Web development	1,820	-	-	-	-	-	1,820
Total expenses	\$ 108,812	\$ 74,686	\$ 16,901	\$ 19,085	\$ 121,414	\$ 11,476	\$ 352,374

See independent accountants' report.