
Swallow Hill Music Association

**Financial Report
December 31, 2021**

| | |
|-------------------------------------|------|
| Independent Auditor's Report | 1-2 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Functional Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to Financial Statements | 7-15 |

Independent Auditor's Report

To the Board of Directors
Swallow Hill Music Association

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swallow Hill Music Association (the "Organization"), which comprise the statement of financial position as of December 31, 2021 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and the changes in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Organization and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors
Swallow Hill Music Association

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 11, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2022 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



June 9, 2022

Swallow Hill Music Association

Statement of Financial Position

December 31, 2021

(with summarized comparative totals for 2020)

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,940,221 | \$ 494,755 |
| Accounts receivable | 30,108 | 18,534 |
| Pledges receivable | 85,500 | 62,681 |
| SCFD receivable | 273,606 | 228,601 |
| Other assets | 13,909 | 29,859 |
| Total current assets | 4,343,344 | 834,430 |
| Investments | 786,773 | 724,501 |
| Property and Equipment - Net | 732,962 | 762,708 |
| Construction in Progress | 286,238 | 286,238 |
| Beneficial Interest in Assets Held by Others | 66,467 | 63,749 |
| Total noncurrent assets | 1,872,440 | 1,837,196 |
| Total assets | \$ 6,215,784 | \$ 2,671,626 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 39,915 | \$ 12,105 |
| Deferred concert and class revenue | 144,496 | 246,863 |
| Accrued benefits | 94,846 | 104,779 |
| Current portion of notes payable | 36,175 | 34,617 |
| Current portion of Paycheck Protection Program loan | - | 323,580 |
| Total current liabilities | 315,432 | 721,944 |
| Notes Payable - Net of current portion | 140,585 | 176,269 |
| Paycheck Protection Program Loan - Net of current portion | - | 216,620 |
| Total liabilities | 456,017 | 1,114,833 |
| Net Assets | | |
| Without donor restrictions | 5,056,864 | 947,845 |
| With donor restrictions | 702,903 | 608,948 |
| Total net assets | 5,759,767 | 1,556,793 |
| Total liabilities and net assets | \$ 6,215,784 | \$ 2,671,626 |

Swallow Hill Music Association

Statement of Activities

Year Ended December 31, 2021
(with summarized comparative totals for 2020)

| | 2021 | | | 2020 |
|---|-------------------------------|----------------------------|----------------------------|----------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Total |
| Revenue, Gains, and Other Support | | | | |
| Ticket sales - Net | \$ 389,859 | \$ - | \$ 389,859 | \$ 188,558 |
| Music class tuition | 460,972 | - | 460,972 | 526,571 |
| SCFD support | 926,875 | - | 926,875 | 768,162 |
| Grants and contributions | 429,684 | 104,418 | 534,102 | 784,203 |
| Retail - Net of cost of sales of \$12,246 (2021) and \$24,486 (2020) | 12,806 | - | 12,806 | 22,148 |
| Other revenue | 40 | - | 40 | 5,873 |
| Membership fees | 66,274 | - | 66,274 | 80,649 |
| In-kind donations | 5,781 | - | 5,781 | 27,633 |
| Rental income | 48,198 | - | 48,198 | 26,418 |
| Shuttered Venue Operators Grant | 3,461,619 | - | 3,461,619 | - |
| Gain on debt forgiveness | 468,954 | - | 468,954 | - |
| Investment income - Net | 38,688 | 29,920 | 68,608 | 55,608 |
| Loss on disposal of property and equipment | (2,671) | - | (2,671) | (44,989) |
| Net assets released from restrictions | 40,383 | (40,383) | - | - |
| | <u>6,347,462</u> | <u>93,955</u> | <u>6,441,417</u> | <u>2,440,834</u> |
| Expenses | | | | |
| Program services | 1,619,653 | - | 1,619,653 | 1,929,548 |
| Support services: | | | | |
| Management and general | 443,585 | - | 443,585 | 523,719 |
| Fundraising | 175,205 | - | 175,205 | 216,828 |
| Total support services | <u>618,790</u> | <u>-</u> | <u>618,790</u> | <u>740,547</u> |
| Total expenses | <u>2,238,443</u> | <u>-</u> | <u>2,238,443</u> | <u>2,670,095</u> |
| Increase (Decrease) in Net Assets | 4,109,019 | 93,955 | 4,202,974 | (229,261) |
| Net Assets - Beginning of year | <u>947,845</u> | <u>608,948</u> | <u>1,556,793</u> | <u>1,786,054</u> |
| Net Assets - End of year | <u><u>\$ 5,056,864</u></u> | <u><u>\$ 702,903</u></u> | <u><u>\$ 5,759,767</u></u> | <u><u>\$ 1,556,793</u></u> |

Swallow Hill Music Association

Statement of Functional Expenses

Year Ended December 31, 2021

(with summarized comparative totals for 2020)

| | Program Services | Management and General | Fundraising | Total | 2020 |
|-------------------------------------|---------------------|---------------------------|-------------------|---------------------|---------------------|
| Salaries | \$ 916,789 | \$ 279,023 | \$ 132,868 | \$ 1,328,680 | \$ 1,649,187 |
| Payroll taxes and benefits | 126,206 | 38,410 | 18,291 | 182,907 | 229,819 |
| Total salaries and related expenses | 1,042,995 | 317,433 | 151,159 | 1,511,587 | 1,879,006 |
| Contract - Performers | 148,564 | - | - | 148,564 | 144,291 |
| Facility rental | 34,269 | - | - | 34,269 | 63,286 |
| Professional services | 147,645 | 36,911 | - | 184,556 | 200,289 |
| Contract - Other | 10,172 | - | - | 10,172 | 25,330 |
| Advertising | - | 14,214 | - | 14,214 | 36,891 |
| Cost of sales | 12,246 | - | - | 12,246 | 24,486 |
| Merchant and bank fees | 29,405 | - | - | 29,405 | 30,521 |
| Depreciation | 45,608 | 14,510 | 8,982 | 69,100 | 69,845 |
| Printing | 88 | - | 10 | 98 | 9,823 |
| Insurance | 16,541 | 5,263 | 3,258 | 25,062 | 47,049 |
| Repairs and maintenance | 12,478 | 3,970 | 2,458 | 18,906 | 17,785 |
| Supplies | 12,253 | 3,899 | 2,413 | 18,565 | 13,561 |
| Other expenses | 5,499 | 1,750 | 1,083 | 8,332 | 10,372 |
| Utilities | 14,380 | 4,575 | 2,833 | 21,788 | 22,705 |
| Dues and licenses | 81,027 | - | - | 81,027 | 42,345 |
| Small instruments | 2,388 | - | - | 2,388 | 10,118 |
| Telephone | 4,051 | 1,289 | 798 | 6,138 | 17,365 |
| Interest | 9,024 | 2,871 | 1,778 | 13,673 | 10,625 |
| Postage | 1,920 | 611 | 378 | 2,909 | 2,053 |
| Travel | 76 | 9 | - | 85 | 7,023 |
| Meals and entertainment | 278 | 89 | 55 | 422 | 1,794 |
| Conferences and workshops | 992 | - | - | 992 | 879 |
| Capital campaign expenses | - | - | - | - | 621 |
| Bad debt expense | - | 36,191 | - | 36,191 | 6,518 |
| Total functional expenses | \$ 1,631,899 | \$ 443,585 | \$ 175,205 | \$ 2,250,689 | \$ 2,694,581 |

Swallow Hill Music Association

Statement of Cash Flows

Year Ended December 31, 2021
(with summarized comparative totals for 2020)

| | 2021 | 2020 |
|--|---------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Increase (decrease) in net assets | \$ 4,202,974 | \$ (229,261) |
| Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities: | | |
| Depreciation | 69,100 | 69,845 |
| Investment returns | (45,091) | (52,570) |
| Net change in beneficial interest in assets held by others | (2,718) | (4,127) |
| Loss on disposal of property and equipment | 2,671 | 44,989 |
| Bad debt expense | 36,191 | 6,518 |
| Gain on debt forgiveness | (468,954) | - |
| Changes in operating assets and liabilities that (used) provided cash and cash equivalents: | | |
| Accounts and pledges receivable | (70,584) | 74,905 |
| SCFD receivable | (45,005) | 489 |
| Other assets | 15,950 | 8,675 |
| Accounts payable and accrued benefits | 17,877 | (94,280) |
| Deferred concert and class revenue | (102,367) | 130 |
| Net cash and cash equivalents provided by (used in) operating activities | 3,610,044 | (174,687) |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (42,025) | (18,953) |
| Purchases of investments | - | (76,700) |
| Sales of investments | (17,181) | 1,668 |
| Net cash and cash equivalents used in investing activities | (59,206) | (93,985) |
| Cash Flows from Financing Activities | | |
| Borrowings on Paycheck Protection Program loan | - | 540,200 |
| Payments on notes payable | (105,372) | (22,193) |
| Net cash and cash equivalents (used in) provided by financing activities | (105,372) | 518,007 |
| Net Increase in Cash and Cash Equivalents | 3,445,466 | 249,335 |
| Cash and Cash Equivalents - Beginning of year | 494,755 | 245,420 |
| Cash and Cash Equivalents - End of year | <u>\$ 3,940,221</u> | <u>\$ 494,755</u> |
| Supplemental Cash Flow Information - Cash paid for interest | \$ 13,673 | \$ 10,625 |

December 31, 2021

Note 1 - Nature of Business

Swallow Hill Music Association (the "Organization"), a nonprofit corporation, was incorporated in the state of Colorado in 1979 and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Organization serves as a local, regional, and national resource for the teaching, presentation, and preservation of roots, folk, and acoustic music and to make enjoyment of and participation in live performance a vital part of the community's cultural life. The Organization is funded primarily by ticket sales, music class tuition, Scientific and Cultural Facilities District (SCFD or the "District") support, and other grants and contributions.

Note 2 - Significant Accounting Policies

Basis of Accounting

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

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic. First identified in late 2019 and now known as COVID-19, the outbreak has impacted millions of individuals worldwide. In response, many countries have implemented measures to combat the outbreak that have impacted global business operations. As a result, the Organization canceled all in-person school programming and concerts beginning in mid-March 2020 and was not able to resume in-person activities until the summer of 2021. In March 2020, the Organization laid off a significant portion of its staff; however, it began to rehire positions in the late summer of 2021 as in-person activities resumed.

During the pandemic, the Organization started offering online classes, which has continued in conjunction with in-person programming. The Organization has rehired a significant portion of laid-off teachers since online classes began and in-person programming has resumed. The Organization is currently not operating at full capacity since the school reopened in September 2021. A marketing plan is being built to support growth in both the online and in-person schools. All of the 2020 concerts that were rescheduled to 2021 or 2022 have occurred as of the report date. Summer 2022 will include a modified in-person concert series at the Denver Botanic Gardens.

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Organization received \$540,200 as a Paycheck Protection Program (PPP) loan that enabled the Organization to retain some of its instructors. The Organization received notification of forgiveness of approximately \$469,000 of the loan during the year, and the Organization immediately paid back the remaining unforgiven balance. Even with the reduction of revenue-generating classes and concerts, the Organization has been able to operate without using its restricted reserves or accessing its line of credit. In 2021, the Organization also applied for and received a Shuttered Venue Operators Grant totaling \$3,461,619. No impairments were recorded as of the statement of financial position date, as no triggering events or changes in circumstances had occurred as of year end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while the Organization's results of operations, cash flows, and financial position could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

Summarized Comparative Information

The financial information presented for comparative purposes as of and for the year ended December 31, 2020 is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's 2020 financial statements, from which the summarized information was derived.

Cash Equivalents

The Organization considers all investments with an original maturity of three months or less when purchased to be cash equivalents unless held for reinvestment as part of the investment portfolio or otherwise encumbered. Periodically throughout the year, the total amount of bank deposits exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC).

Accounts Receivable

Accounts receivable are stated at net invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal customer payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. Management has reviewed accounts receivable as of December 31, 2021 and determined that an allowance would be insignificant to the financial statements as a whole; therefore, an allowance was not recorded.

SCFD Support and Receivable

Scientific and Cultural Facilities District support and receivable represents the Organization's share of proceeds from a tax assessed by the Scientific and Cultural Facilities District. The tax was first implemented in 1989, and the proceeds are distributed by the District to various Colorado cultural arts organizations. The amount distributed to these tier II organizations (including the Organization) is based on the revenue and paid attendance of each eligible organization. The Organization considers the SCFD receivable to be fully collectible based on past history; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Investments

Investment securities are classified based on the Organization's intent with respect to holding securities.

Note 2 - Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost. Donated fixed assets are capitalized at fair value at the date of the donation. The straight-line method is used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets. Construction in progress is not depreciated until construction is complete and the assets are placed in service. Costs of maintenance and repairs are charged to expense when incurred.

| | |
|------------------------------------|-----------------------------|
| | Depreciable Life - Years |
| | <hr/> |
| Building and building improvements | 10 to 40 |
| Furniture and equipment | 3 to 7 |

Deferred Concert and Class Revenue

Revenue from ticket sales and tuition receipts is deferred and recognized as income over the period when the services are provided or when the event occurs and the related expenses are incurred. Ticket sales are recorded net of any seat and sales tax.

Revenue Recognition

The Organization's revenue from contracts with customers primarily consists of membership fees, ticket sales, class tuition, and retail sales. These revenue contracts generally have single or multiple performance obligations. Revenue is reported net of variable consideration and consideration payable to customers, including applicable discounts, returns, unsalable product, and other costs. Amounts billed and due from customers are classified as receivables and require payment on a short-term basis; therefore, the Organization does not have any significant financing components.

Membership Fees

This revenue represents annual membership fees to join the Organization. Members receive access to discounts for class tuition and concerts over a defined annual membership period. Revenue is deferred at payment and is recognized over the membership term, and the discounts are recognized at a point in time as the member uses the discount.

Ticket Sales

This revenue represents tickets to concerts and events sponsored by the Organization. Revenue is deferred at payment and is recognized in the month of the concert or event.

Class Tuition

This revenue represents course registration to classes sponsored by the Organization. Revenue is deferred at payment and is recognized over the course term or the single day class or workshop.

Retail

This revenue represents merchandise and food and beverage sales at concerts and events sponsored by the Organization. Revenue is recognized at the point of sale.

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Contributions

Unconditional promises to give cash and other assets to the Organization are reported at fair value on the date the promise is received. The gifts are reported as either contributions without restrictions or contributions with restrictions 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 restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions that have restrictions met in the year in which the contributions are received are reported as without donor contributions in the accompanying financial statements.

Pledges receivable that are expected to be collected within one year are recorded 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. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible. As of December 31, 2021, no allowance was deemed necessary.

Donated Services and Assets

Donated services that create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and that would typically be purchased if not provided by donation are reflected in the financial statements. The value of those services is determined based on their estimated fair value. Other donated services are not reflected in the financial statements because the services are not recordable under accounting principles generally accepted in the United States of America. Donated assets are reflected in the financial statements at their estimated values.

As described in Note 11, the amount of donated services and assets recognized as in-kind contributions and support in the statement of activities during the year ended December 31, 2021 was \$5,781.

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2021 was \$14,214.

Functional Allocation of Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Costs have been allocated between the program and support services on several bases and estimates. Certain wages and benefits have been allocated based on time and effort. Certain supplies, postage, shipping, and insurance expenses have been allocated based on usage. Maintenance and facility expenses have been allocated based on square footage. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

December 31, 2021

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with 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 date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncement

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The ASU provides for additional disclosures to support clearer financial information about important noncash contributions that charities and other not-for-profit organizations receive, known as gifts in kind (GIKs). Contributed nonfinancial assets will be reported by category within the financial statements, and there will be additional disclosures included for each category, including whether the nonfinancial assets were monetized or used during the reporting period, the policy for monetizing nonfinancial contributions, and a description of the fair value techniques used to arrive at a fair value measurement. The new guidance will be effective for the Organization's year ending June 30, 2022 and will be applied using the retrospective method.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 9, 2022, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Note 3 - Liquidity and Availability of Resources

The Organization has \$4,329,435 of financial assets available within one year of December 31, 2021 to meet cash needs for general expenditure, consisting of cash of \$3,940,221, accounts receivable of \$30,108, pledges receivable of \$85,500, and SCFD receivable of \$273,606. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

The Organization has a goal to maintain financial assets, which consist of cash and receivables, on hand to meet 30 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Organization invests cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Note 4 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following table presents information about the Organization's assets measured at fair value on a recurring basis at December 31, 2021 and the valuation techniques used by the Organization to determine those fair values.

| | Assets Measured at Fair Value on a Recurring Basis at December 31, 2021 | | | |
|---|--|--|--|------------------------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2021 |
| Assets | | | | |
| Cash held for investment | \$ 8,037 | \$ - | \$ - | \$ 8,037 |
| Mutual funds | 411,023 | - | - | 411,023 |
| Index funds | 367,713 | - | - | 367,713 |
| Beneficial interest in assets held by others | - | - | 66,467 | 66,467 |
| Total assets | <u>\$ 786,773</u> | <u>\$ -</u> | <u>\$ 66,467</u> | <u>\$ 853,240</u> |

The following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds and Index Funds

Valued at the closing price reported on the active market on which the mutual funds or individual securities are traded.

Beneficial Interest in Assets Held by Others

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Community First Foundation (CFF or the "Foundation"), the fair value of which is based upon information determined and reported by CFF and corroborated with CFF's audited financial statements by management. The fair value of investments held at CFF include Level 1, 2, and 3 classifications; however, the Organization's pro rata share of the pooled investments does not have an active market and is, therefore, classified under Level 3 in the fair value hierarchy.

There were no changes in the valuation methodologies during the year.

Investment Returns

Investment return in the statement of activities consists of the following:

| | |
|--|------------------|
| Dividends and interest income | \$ 1,408 |
| Net realized and unrealized gains on investments | 71,602 |
| Management fees | (4,402) |
| Total | <u>\$ 68,608</u> |

December 31, 2021

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

| | |
|------------------------------------|--------------------------|
| Land | \$ 115,192 |
| Building and building improvements | 1,169,121 |
| Furniture and equipment | <u>510,189</u> |
| Total cost | 1,794,502 |
| Accumulated depreciation | <u>1,061,540</u> |
| Net property and equipment | <u><u>\$ 732,962</u></u> |

Depreciation expense for the year ended December 31, 2021 was \$69,100.

Note 6 - Beneficial Interest in Assets Held by Others

The Organization's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2013, the Organization established an endowment fund with the Community First Foundation for operational purposes. The Foundation has variance power over the funds. Under the terms of the endowment, the contributions are held in perpetuity. Amounts appropriated for expenditure are calculated using 5 percent of the average of the net fair market values of three preceding calendar years. As of December 31, 2021, the Organization's beneficial interest had a fair value of \$66,467.

| | Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2021 | | |
|---|--|---------------------------|------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment net assets - Beginning of year | \$ - | \$ 63,749 | \$ 63,749 |
| Investment return: | | | |
| Investment income | - | 1,402 | 1,402 |
| Net appreciation - Net of fees | - | 4,271 | 4,271 |
| Total investment return | - | 5,673 | 5,673 |
| Appropriation of endowment assets for expenditure | - | (2,955) | (2,955) |
| Endowment net assets - End of year | <u>\$ -</u> | <u>\$ 66,467</u> | <u>\$ 66,467</u> |

Note 7 - Paycheck Protection Program Loan

During the year ended December 31, 2020, the Organization received a Paycheck Protection Program loan in the amount of \$540,200. The PPP loan program was created under the Coronavirus Aid, Relief, and Economic Security Act and is administered by the Small Business Administration (SBA). Under the terms of this program, the loan may be fully or partially forgiven if the loan proceeds are spent on qualifying expenses and if staffing level and salary maintenance requirements are met. The Organization may use the funds on qualifying expenses over a covered period of up to 24 weeks. At the conclusion of the covered period, any balance that is not forgiven by the SBA will be repaid over a period of two years, with interest accruing at a rate of 1.00 percent and monthly payments of principal and interest beginning 10 months after the conclusion of the covered period. Based on the loan amount, irrespective of any potential forgiveness that may be granted in the future, monthly principal payments would be \$54,268 during the repayment period, which begins in July 2021. The note payable matures in April 2022.

December 31, 2021

Note 7 - Paycheck Protection Program Loan (Continued)

The Organization received notification of forgiveness of approximately \$469,000 of the loan during the year, and the Organization immediately paid back the remaining unforgiven balance. The Organization has recognized the forgiven amount in the gain for debt forgiveness on the statement of activities.

Note 8 - Line of Credit

Under a line of credit agreement with a bank, the Organization has available borrowings of \$50,000. Interest is payable at the prime rate (an effective rate of 4.35 percent at December 31, 2021). The line of credit was closed effective February 8, 2021.

Note 9 - Long-term Debt

The Organization has a note payable with a bank, which accrues interest at 4.35 percent annually. Payments of principal are due monthly through the maturity date in March 2026. The note is secured by a deed of trust on the Organization's real property. At December 31, 2021, the outstanding balance on the loan totaled \$176,760. The balance of the above debt matures as follows:

| Years Ending | Amount |
|--------------|-------------------|
| 2022 | \$ 36,175 |
| 2023 | 37,803 |
| 2024 | 39,494 |
| 2025 | 41,282 |
| 2026 | 22,006 |
| Total | <u>\$ 176,760</u> |

Interest expense for the year ended December 31, 2021 was \$13,673.

Note 10 - Net Assets

Net assets with donor restrictions consist of the following as of December 31, 2021:

| | |
|--|-------------------|
| Net assets with donor restrictions: | |
| Capital improvements | \$ 472,539 |
| Outreach | 146,009 |
| Endowment | 66,467 |
| Scholarships | 17,888 |
| Total net assets with donor restrictions | <u>\$ 702,903</u> |

Note 11 - In-kind Contributions

In-kind donations recognized by the Organization for the year ended December 31, 2021 are as follows:

| | |
|-------------------------|-----------------|
| Donated instruments | \$ 2,775 |
| Legal | 3,006 |
| Total in-kind donations | <u>\$ 5,781</u> |

The Organization received over 1,500 hours of volunteer services that are not recordable under generally accepted accounting principles. The value of the volunteer services is not disclosed since no objective basis is available to measure the value of such services.

Note 12 - Operating Leases

The Organization is obligated under operating leases primarily for facilities, expiring at various dates through May 3, 2024. Total rent expense under these leases was \$616 for 2021.

Future minimum annual commitments under these operating leases are as follows:

| <u>Years Ending December 31</u> | <u>Amount</u> |
|-------------------------------------|-----------------|
| 2022 | \$ 2,898 |
| 2023 | 1,047 |
| 2024 | 849 |
| Total | <u>\$ 4,794</u> |

Note 13 - Shuttered Venue Operators Grant

The Shuttered Venue Operators Grant (SVOG) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and amended by the American Rescue Plan Act. The program includes over \$16 billion to shuttered venues and is administered by the Small Business Administration's Office of Disaster Assistance. In 2021, the Organization applied for and was awarded \$3,461,619 under the SVOG, which allowed funds to be used for specific expenses incurred due to the shutdown of operations between March 2020 and September 2021. The grant award amount was received in full on November 15, 2021. This amount has been recognized as grant revenue as of December 31, 2021, as all eligible expenses were incurred as of that date.