

ZUMIX, INC. AND AFFILIATE

Consolidated Financial Statements
and Supplementary Information

March 31, 2019 and 2018

(With Independent Auditors' Report Thereon)



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ZUMIX, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ZUMIX, Inc. and its affiliate (together the "Organization"). These comprise the consolidated statements of financial position as of March 31, 2019 and 2018, the related consolidated statements of cash flows for the years then ended, the related consolidated statements of activities and changes in net assets and functional expenses for the year ended March 31, 2019, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2019 and 2018, and cash flows for the years then ended and the change in its net assets and functional expenses for the year ended March 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating statement of financial position as of March 31, 2019, the supplementary consolidating statement of activities and changes in net assets for the year then ended and the supplementary consolidating statement of cash flows for the year then ended are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's March 31, 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nadella Froyler CPA

October 8, 2019

ZUMIX, INC. AND AFFILIATE

Consolidated Statements of Financial Position

March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 789,270	\$ 640,440
Amounts held for others	55,559	34,002
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2019 and 2018.	169,612	68,393
Prepaid expenses and other current assets	<u>25,607</u>	<u>35,210</u>
Total current assets	<u>1,040,048</u>	<u>778,045</u>
Contributions receivable, net of current portion	108,333	33,334
Property and equipment, net	<u>2,636,981</u>	<u>2,782,915</u>
Total assets	<u>\$ 3,785,362</u>	<u>\$ 3,594,294</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 51,819	\$ 43,920
Amounts held for others	<u>55,559</u>	<u>34,002</u>
Total liabilities	<u>107,378</u>	<u>77,922</u>
Net assets:		
Without donor restrictions	3,453,575	3,423,637
With donor restrictions	<u>224,409</u>	<u>92,735</u>
Total net assets	<u>3,677,984</u>	<u>3,516,372</u>
Total liabilities and net assets	<u>\$ 3,785,362</u>	<u>\$ 3,594,294</u>

The accompanying notes are an integral part of these financial statements.

ZUMIX, INC. AND AFFILIATE

Consolidated Statement of Activities and Changes in Net Assets

For the Year Ended March 31, 2019 (With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Support and revenue:				
Individual donations	\$ 361,167	\$ -	\$ 361,167	\$ 133,100
In-kind donations	45,052	-	45,052	68,924
Corporate donations	98,635	-	98,635	58,499
Foundation donations	681,850	185,075	866,925	694,783
Government grants	95,629	6,000	101,629	81,091
Program fees	155,806	-	155,806	122,777
Interest income	4,836	-	4,836	4,407
Rental income	36,674	-	36,674	31,512
Sale of product	7,099	-	7,099	3,835
Other income	302	-	302	12,067
Net assets released from restriction	59,401	(59,401)	-	-
Total support and revenue	1,546,451	131,674	1,678,125	1,210,995
Expenses:				
Youth programs	1,012,879	-	1,012,879	1,043,691
Community arts program	165,592	-	165,592	122,358
Total program expenses	1,178,471	-	1,178,471	1,166,049
Management and general	177,566	-	177,566	128,428
Fundraising	160,476	-	160,476	97,739
Total expenses	1,516,513	-	1,516,513	1,392,216
Increase (decrease) in net assets	29,938	131,674	161,612	(181,221)
Net assets, beginning of year	3,423,637	92,735	3,516,372	3,697,593
Net assets, end of year	<u>\$ 3,453,575</u>	<u>\$ 224,409</u>	<u>\$ 3,677,984</u>	<u>\$ 3,516,372</u>

The accompanying notes are an integral part of these financial statements.

ZUMIX, INC. AND AFFILIATE

Consolidated Statement of Functional Expenses

For the Year Ended March 31, 2019 (With Comparative Totals for 2018)

	<u>Youth Programs</u>	<u>Community Arts</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Totals</u>	<u>2018 Totals</u>
Salaries	\$ 492,542	\$ 63,152	\$ 555,694	\$ 53,985	\$ 82,732	\$ 692,411	\$ 626,346
Youth stipends	17,658	5,503	23,161	-	150	23,311	19,154
Employee benefits	31,624	3,562	35,186	48,238	5,561	88,985	73,224
Payroll taxes	35,690	4,570	40,260	3,910	6,011	50,181	48,961
 Total salaries and related expenses	 <u>577,514</u>	 <u>76,787</u>	 <u>654,301</u>	 <u>106,133</u>	 <u>94,454</u>	 <u>854,888</u>	 <u>767,685</u>
Consulting	162,776	21,222	183,998	32,372	3,969	220,339	230,262
Professional development	7,545	428	7,973	2,495	1,231	11,699	15,817
Bank fees and payroll fees	-	833	833	10,943	2,084	13,860	11,622
Advertising	1,266	976	2,242	-	-	2,242	2,378
Marketing and printing	2,729	3,390	6,119	281	13,370	19,770	10,749
Supplies	15,173	35,529	50,702	997	1,419	53,118	5,962
Telephone and network	18,613	3,696	22,309	2,478	2,348	27,135	23,106
Postage and shipping	1,385	421	1,806	310	751	2,867	2,341
Rent	-	7,300	7,300	-	25,183	32,483	6,575
Equipment rental, maintenance and purchases	5,627	4,020	9,647	398	308	10,353	48,545
Facilities maintenance and repair	28,363	4,274	32,637	3,196	2,490	38,323	48,435
Travel	2,865	633	3,498	1,755	288	5,541	4,512
Meetings	6,742	1,543	8,285	3,258	3,825	15,368	12,601
Insurance	20,471	2,007	22,478	1,949	1,949	26,376	21,565
Utilities	22,239	2,533	24,772	1,662	1,396	27,830	24,678
Depreciation	135,576	-	135,576	9,339	5,411	150,326	155,383
Other expenses	3,995	-	3,995	-	-	3,995	-
	<u>\$ 1,012,879</u>	<u>\$ 165,592</u>	<u>\$ 1,178,471</u>	<u>\$ 177,566</u>	<u>\$ 160,476</u>	<u>\$ 1,516,513</u>	<u>\$ 1,392,216</u>

The accompanying notes are an integral part of these financial statements.

ZUMIX, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 161,612	\$ (181,221)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	150,326	155,383
Contributions of property and equipment	-	(3,666)
Changes in operating assets and liabilities:		
Decrease (increase) in contributions receivable	(176,218)	36,035
Decrease (increase) in prepaid expenses and other current assets	9,603	(6,219)
Increase (decrease) in accounts payable and accrued expenses	7,899	(4,473)
Net cash provided by (used in) operating activities	153,222	(4,161)
Cash flows from investing activities:		
Purchases of property and equipment	(4,392)	(22,215)
Net cash used in investing activities	(4,392)	(22,215)
Net increase (decrease) in cash and cash equivalents	148,830	(26,376)
Cash and cash equivalents, beginning of year	640,440	666,816
Cash and cash equivalents, end of year	\$ 789,270	\$ 640,440
Supplemental Information:		
Non-cash activity:		
Workers paid directly by a third party	\$ -	\$ 15,523
Contributions of of property and equipment	-	3,666
Contributions of supplies and items for sale	45,052	88,770
Total non-cash activity	\$ 45,052	\$ 107,959

The accompanying notes are an integral part of these financial statements.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

1. Nature of Operations

Founded in 1991, ZUMIX, Inc. (“ZUMIX”) is a nationally recognized, non-profit cultural organization located in East Boston, MA. The mission of ZUMIX is to empower young people to build futures for themselves, transforming lives and community through music, technology, and creative employment.

The consolidated financial statements of ZUMIX include the accounts of its affiliate, ZUMIX Firehouse, Inc. (“ZFI”), (together, the “Organization”). ZFI is a non-profit organization formed in 2008 for the purpose of purchasing and renovating the Engine Company 40 Firehouse, at 260 Sumner Street in East Boston, MA (the “Firehouse Property”) in order to turn the building into a vibrant youth arts center.

Background and History

1990 marked the worst year of violence in Boston’s history. 152 homicides were recorded; many of the victims and perpetrators were youth. ZUMIX was incorporated on April 1, 1991, with \$200, and the belief that giving young people an opportunity to express themselves through music, would dramatically improve their lives and elevate a neglected and economically depressed community.

ZUMIX is located in East Boston - an immigrant, working-class neighborhood, with a strong history of community activism. Geographically separated from the rest of the city by the Boston Harbor, it is home to Logan International Airport, which makes up two-thirds of its landmass.

For 29 years, ZUMIX has invested in this community, providing innovative arts education and enrichment programs for low-income youth, as well as free concerts and arts experiences for the larger community. Initially founded to address the pressing issue of gang violence, ZUMIX has evolved with the changing needs of its constituents and added to the cultural vitality of East Boston. With the recent development of luxury real estate and skyrocketing rents, East Boston is currently facing new challenges, which particularly affect our most vulnerable residents - youth and families. Low-income families are facing unprecedented levels of displacement and housing insecurity. Meanwhile, an upsurge in opioid abuse and the recruitment of local youth to join street gangs continue to hurt many East Boston families. In 2016, East Boston gang-related incidents included six homicides, five non-fatal shootings, four stabbings, and three assaults. Despite these changes, ZUMIX has steadfastly held true to the belief that a young person who carries a guitar will never need to carry a gun.

In 2011, in a ceremony at the White House, former First Lady Michelle Obama recognized ZUMIX’s decades of work in East Boston with the National Arts and Humanities Youth Programs Award. As East Boston’s challenges shift to fair housing, immigrant rights, and economic equality, the role of ZUMIX in the lives of children and familiar is as vital as ever.

Recent Accomplishments

Highlights during the year ended March 31, 2019 include the following:

- In 2018, ZUMIX nominated three seniors, who subsequently received full-tuition scholarships to Berklee College of Music, Northeastern University, and the University of Wisconsin - Madison. These students will receive further education without incurring debt, and their scholarships have an approximate value of \$650,000!
- We are proud of our graduation rates! In 2018, 92% of ZUMIX seniors graduated from high school, compared to 72% of Boston public high school seniors.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

- In 2018, 94.9FM ZUMIX Radio received a prestigious Localore Live Award from the Association of Independents in Radio, and participated at the local level in a national series of live events connecting communities across political, geographic, economic and linguistic divides.
- The ZUMIX Teen Council continued to provide valued voice and representation of our teens. They took leadership roles in our hiring processes, curated their own events, helped design and implement ZUMIX's Summer Concert Series, supported youth-centric social media, and provided critical insight and advice on ZUMIX program operations. ZTC members are paid and receive leadership development training.
- We continue to invest in the professional development of our youth. In 2018, 45 ZUMIX participants earned a collective \$39,000 as program co-facilitators, youth interns, Teen Council Members, performing musicians, live sound technicians, radio producers, studio engineers, and audio storytellers.
- In 2018, ZUMIX students had numerous exciting performance opportunities, including Hot Stove Cool Music, and an invitation to perform with Boston Music Award's Artist of the Year, Will Dailey, at 2019's TEDx Cambridge Live event at the Boston Opera House in front of a sold-out crowd.
- In 2018, ZUMIX launched our first-ever gala - The Muze - which showcased our students and their artistic experimental energy, in a glamorous setting, for a crowd of influential stakeholders. The Muze is a new cornerstone to our business model designed to build a more sustainable future for ZUMIX, merging the spirit of our mission with our long-term operational needs. Our first iteration of the event exceeded all expectations, and we are excited to build upon this success as we prepare for our 30th anniversary in 2021
- In 2018 ZUMIX received a \$190,000 contribution to honor the memory of Cheylan Jones, a beautiful young singer-songwriter. This is the largest gift from an individual in ZUMIX's 28 year history, and while it was unrestricted, ZUMIX plans to use these funds to support young artists for years to come.
- In early 2019, ZUMIX launched a new events series entitled BIG WORLDS, which immersed students and community members in an exploration of race and culture through multiple artistic mediums, including music, food, dance, visual arts, projection, poetry, etc. The events offered opportunities for our youth to present in new ways, and introduced new audiences to our work, and allowed us all to celebrate culture in a proactive way.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to restrictions imposed by donors.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

Net assets with donor restrictions – Net assets subject to restrictions imposed by donors that will be met through the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization has no net assets with donor restrictions that are perpetual in nature as of March 31, 2019 and 2018.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended March 31, 2018, from which the summarized information was derived.

Principles of Consolidation

ZUMIX has the power to appoint a voting majority of board members of ZFI and has made an equity contribution in the amount of \$166,000 to ZFI. Management has deemed that these factors together constitute both an "economic interest" and "control," requiring consolidation under GAAP. The accounts of ZFI are included as of December 31, 2018 and 2017. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

The Organization recognizes income from contributions when assets are received by or unconditionally promised to the organization, whichever occurs first. Revenues which represent fees for programs and events are recognized at the time the program or event takes place.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions of long-lived assets (including enhancements to property and equipment) and amounts restricted for the purchase of long-lived assets, for which the donor does not specify a particular period of use, are treated as increases in net assets with donor restrictions when received and re-classified as net assets at the time the asset is placed in service.

The Organization's contributions come primarily from the general public, private foundations, corporations and certain governmental agencies.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Certain grants require the Organization to hold cash in separate bank accounts. The total amount of cash held in separate accounts was \$550 as of March 31, 2018. No cash was held in separate accounts as of March 31, 2019.

Property and Equipment

Property and equipment are recorded at cost if purchased and estimated fair market value at the time of donation if donated to the Organization. Contributed services that create or enhance long-lived assets are capitalized and recognized at the estimated fair market value at the time of donation. It is the Organization's policy to capitalize all purchases or contributions of assets with an expected useful life greater than one year that have an initial purchase price or donated value equal to or in excess of \$1,000. Expenditures for repairs and maintenance are charged to expense as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in income. Depreciation is provided using the straight-line method over the estimated useful life of the assets as follows:

Furniture, fixtures and equipment	5 - 10 years
Website	3 years
Vehicle	5 years
Building	40 years
Building improvements	30 years

Advertising Expenses

The Organization expenses advertising costs as incurred. Advertising expenses amounted to \$2,242 and \$2,378 for the years ended March 31, 2019 and 2018, respectively.

Income Taxes

ZUMIX and ZFI are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and Massachusetts state income tax under Massachusetts General Law 180. ZUMIX and ZFI qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations other than a private foundation under Section 509(a)(2).

Management evaluates all significant tax positions as required by GAAP. As of March 31, 2019 and 2018, management does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months.

Fair Value Measurement

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The carrying value of financial instruments in the financial statements approximates fair value.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expenditure classification. Expenses that are common to several programs or supporting services are allocated on a reasonable basis that is consistently applied. Salaries and employee benefits are allocated based on estimated time and effort. Payroll taxes are allocated as a percentage of salaries.

Long-lived Asset Impairment

In accordance with U.S. generally accepted accounting principles, the Organization reviews long-lived assets for impairment whenever circumstances and situations indicate that the carrying amounts may not be recovered. In such circumstances, the Organization will estimate the future cash flows expected to result from the use of the asset and its eventual disposition. Future cash flows are the future cash inflows expected to be generated by an asset less the future outflows expected to be necessary to obtain those inflows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying value of the asset, the Organization will recognize an impairment loss to adjust the fair value of the asset. The Organization did not identify the need to record an impairment charge to any of its long-lived assets during the years ended March 31, 2019 or 2018.

Adoption of New Accounting Guidance

During the year ended March 31, 2019, the Organization implemented ASU 2016-14, Financial Statements of Not-for-Profit Entities. Accordingly, net assets are classified into two categories: without donor restrictions and with donor restrictions. The ASU requires additional disclosures about the liquidity and availability of funds.

3. Liquidity and Availability

Historically, the Organization has maintained a stable financial position by achieving reasonable, modest end-of-year surpluses. With increased growth, the Organization has increased its commitment to financial stability by: 1) budgeting for depreciation, 2) designating capital asset replacement reserve, and 3) striving to maintain up to three months of unrestricted operating funds.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

Months of operating funds that will be available to the Organization were calculated as follows as of March 31:

	2019	2018
Cash balance - Zumix, Inc.	\$ 614,317	\$ 466,170
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2019 and 2018.	169,612	68,393
Management designated capital asset replacement reserve	(413,181)	(367,831)
Fiscal assets available for operations within one year	\$ 370,748	\$ 166,732
Average monthly operating expenses	\$ 126,376	\$ 116,018
Months of operating funds available within one year	2.93	1.44

4. Contributions Receivable

Contributions receivable are stated at the amounts management expects to collect from outstanding balances. Based on management's assessment of the credit history with donors having outstanding balances, and current relationships with them, it has been determined that realized losses from balances outstanding at year-end are immaterial.

Contributions receivable are due to be collected according to the following schedule as of March 31:

	2019	2018
Less than one year	\$ 171,612	\$ 70,393
Between one and five years	108,333	33,334
	279,945	103,727
Allowance for bad debts	(2,000)	(2,000)
	\$ 277,945	\$ 101,727

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

5. Property and Equipment

The value of property and equipment, net consist of the following as of March 31:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 32,026	\$ 32,026
Motor vehicle	19,047	19,047
Computer equipment	354,009	349,617
Website	16,000	16,000
Land	227,998	227,998
Building and improvements	<u>3,444,682</u>	<u>3,444,682</u>
	4,093,762	4,089,370
Less accumulated depreciation and amortization	<u>(1,456,781)</u>	<u>(1,306,455)</u>
Property and equipment, net	<u>\$ 2,636,981</u>	<u>\$ 2,782,915</u>

As of March 31, 2019 and 2018, building and improvements include \$60,119 and \$62,948 net of accumulated amortization of \$24,756 and \$21,927, respectively, of capitalized interest costs incurred during the period of construction.

6. Contingent Note Payable

During the year ended March 31, 2017 ZFI amended its outstanding note payable to East Boston CDC in such a manner that payment on the note is only due in the event of a default on the part of ZFI (described below) prior to the loan's maturity date of June 20, 2046. As the Organization did not, as of the date of amendment, believe it was probable that an event of default would occur prior to the due date of the loan, the amendment was considered to be an in-substance forgiveness of the loan.

Actions or events that would constitute default under the amended loan agreement between ZFI and East Boston CDC are as follows:

- a) The failure by ZFI at any time, in the reasonable judgment of East Boston CDC and beyond any applicable notice and cure period, substantially to adhere to the general purposes of any of the covenants, conditions and restrictions set forth in the deed to the Firehouse Property from the City of Boston to ZFI dated December 19, 2008 and recorded in the Suffolk County Registry of Deeds at Book 44360, Page 324, notwithstanding that the deed provides for an expiration of the covenants, conditions and restrictions.
- b) The violation by ZFI, beyond any applicable notice and cure period of any of the material provisions of the mortgage, security agreement, and assignment of leases and rents on the Firehouse Property.
- c) The permanent discontinuation by ZFI of its current use of the Firehouse Property or any substantially similar use.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

- d) The cessation of business or operations by ZFI, dissolution of ZFI, the filing of a bankruptcy petition (voluntary or involuntary) that is not dismissed within ninety days, assignment for the benefit of creditors or other insolvency petition brought by or against ZFI that is not dismissed within ninety days.

For the purposes of item “c” above, a period of one hundred consecutive days constitutes a rebuttable presumption that ZFI has permanently discontinued its use of the Firehouse Property.

In the event of default, East Boston CDC has the right to receive payment from ZFI of the unpaid principal amount of a loan totaling \$600,000, as well as “default interest,” calculated at a rate of 4% per annum, on the outstanding principal balance. In the event of default payments of principal and interest are payable in equal installments on the first date of each month. Such payments are to be amortized from the date of the event of default to the maturity date. If no default event occurs by the maturity date, the principal sum of the loan will be forgiven by East Boston CDC. The loan otherwise bears no interest and requires no payment.

As of the date these financial statements were available to be issued the Organization believes it is not probable that an event of default will occur on or prior to the loan’s maturity and therefore no liability is recognized in the financial statements as of March 31, 2019.

7. Net Assets with Donor Restrictions

Net assets with donor restrictions (all of which are temporary in nature) consist of the following as of March 31:

	2019	2018
Amounts restricted for use in future periods	\$ 224,409	\$ 92,500
Amounts restricted for acquisition of program equipment and other capital expenditures	-	235
Total net assets with donor restrictions	\$ 224,409	\$ 92,735

Net assets released from temporary donor restrictions by incurring expenses or otherwise satisfying the purpose restrictions specified by donors were as follows during the years ended March 31:

	2019	2018
Expiration of donor-imposed time restrictions:	\$ 53,666	\$ 103,500
Purpose restrictions accomplished:		
Strategic planning activities	-	16,667
Program expenses	5,735	-
	5,735	16,667
Net assets released from donor restrictions	\$ 59,401	\$ 120,167

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2019

8. Credit Card Line of Credit

The Organization has a business line of credit available from a credit card company allowing for purchases or cash borrowings. As of March 31, 2018, the Organization had outstanding balances from purchases of \$2,391, respectively, which are included in accounts payable and accrued expenses, and no cash advances. As of March 31, 2019 and 2018, the Organization had remaining credit available for purchases of \$26,824 and \$30,308, respectively, and \$5,600 and \$11,200 for cash advances. Minimum monthly payments, which vary according to the outstanding balances, are due under the agreement including interest at 14.99% for purchases and 21.99% for cash advances, as of March 31, 2019.

9. Concentrations of Credit Risk

Financial instruments which subject the Organization to credit risk consist principally of temporary cash investments. The Federal Deposit Insurance Corporation (“FDIC”) provides insurance of up to \$250,000 per depositor, per insured bank. The Organization places its temporary cash investments with a Massachusetts chartered savings bank which is a member of the Depositors Insurance Fund (“DIF”). DIF insures all amounts in excess of FDIC insured limits deposited with member banks.

10. Retirement Plan

ZUMIX sponsors a defined contribution retirement plan for eligible employees. Annual contributions are at the discretion of ZUMIX. During the years ended March 31, 2019 and 2018, the Organization recognized expenses for its contributions to the plan amounting to \$6,676 and \$6,017, respectively, which represents 1% of the gross salary of eligible ZUMIX employees for each of the fiscal years then-ended.

11. Subsequent Events

The Organization has evaluated subsequent events through October 8, 2019 the date the financial statements were available to be issued.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Financial Position

(Supplementary Information)

March 31, 2019

	ZUMIX, Inc.	ZUMIX Firehouse, Inc.	Elimination	Consolidated
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 614,317	\$ 174,953	\$ -	\$ 789,270
Amounts held for others	55,559	-	-	55,559
Contributions receivable, net	169,612	-	-	169,612
Prepaid expenses and other current assets	25,607	-	-	25,607
Total current assets	865,095	174,953	-	1,040,048
Contributions receivable, net of curret portion	108,333	-	-	108,333
Due from affiliate	2,109,562	23,100	(2,132,662)	-
Property and equipment, net	56,268	2,924,963	(344,250)	2,636,981
Interest in the net assets of ZUMIX Firehouse, Inc.	166,000	-	(166,000)	-
Total assets	\$ 3,305,258	\$ 3,123,016	\$ (2,642,912)	\$ 3,785,362
<i>Liabilities and Net Assets</i>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 51,819	\$ -	\$ -	\$ 51,819
Amounts held for others	55,559	-	-	55,559
Total current liabilities	107,378	-	-	107,378
Due to affiliate	23,100	2,109,562	(2,132,662)	-
Total liabilities	130,478	2,109,562	(2,132,662)	107,378
Net assets:				
Without donor restrictions	2,950,371	1,013,454	(510,250)	3,453,575
With donor restrictions	224,409	-	-	224,409
Total net assets	3,174,780	1,013,454	(510,250)	3,677,984
Total liabilities and net assets	\$ 3,305,258	\$ 3,123,016	\$ (2,642,912)	\$ 3,785,362

See accompanying independent auditors' report.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Activities and Changes in Net Assets

(Supplementary Information)

For the Year Ended March 31, 2019

	ZUMIX, Inc.			ZUMIX Firehouse, Inc.			Elimination	Consolidated
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Support and revenue:								
Individual donations	\$ 361,167	\$ -	\$ 361,167	\$ -	\$ -	\$ -	\$ -	\$ 361,167
In-kind donations	45,052	-	45,052	-	-	-	-	45,052
Corporate donations	146,635	-	146,635	-	-	-	(48,000)	98,635
Foundation donations	681,850	185,075	866,925	-	-	-	-	866,925
Government grants	95,629	6,000	101,629	-	-	-	-	101,629
Program fees	155,806	-	155,806	-	-	-	-	155,806
Interest income	4,117	-	4,117	719	-	719	-	4,836
Rental income	36,674	-	36,674	48,000	-	48,000	(48,000)	36,674
Sale of product	7,099	-	7,099	-	-	-	-	7,099
Other income	302	-	302	-	-	-	-	302
Net assets released from restrictions	59,401	(59,401)	-	-	-	-	-	-
Total support and revenue	1,593,732	131,674	1,725,406	48,719	-	48,719	(96,000)	1,678,125
Expenses:								
Youth programs	953,882	-	953,882	150,377	-	150,377	(91,380)	1,012,879
Community arts program	170,392	-	170,392	4,800	-	4,800	(9,600)	165,592
Total program expenses	1,124,274	-	1,124,274	155,177	-	155,177	(100,980)	1,178,471
Management and general	174,517	-	174,517	8,659	-	8,659	(5,610)	177,566
Fundraising	157,465	-	157,465	8,621	-	8,621	(5,610)	160,476
Total expenses	1,456,256	-	1,456,256	172,457	-	172,457	(112,200)	1,516,513
Increase (decrease) in net assets	137,476	131,674	269,150	(123,738)	-	(123,738)	16,200	161,612
Net assets, beginning of year	2,812,895	92,735	2,905,630	1,137,192	-	1,137,192	(526,450)	3,516,372
Net assets, end of year	\$ 2,950,371	\$ 224,409	\$ 3,174,780	\$ 1,013,454	\$ -	\$ 1,013,454	\$ (510,250)	\$ 3,677,984

See accompanying independent auditors' report.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Cash Flows

(Supplementary Information)

For the Year Ended March 31, 2019

	ZUMIX, Inc.	ZUMIX Firehouse, Inc.	Elimination	Consolidated
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 269,150	\$ (123,738)	\$ 16,200	\$ 161,612
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	42,108	124,418	(16,200)	150,326
Changes in operating assets and liabilities:				
Increase in contributions receivable	(176,221)	3.00	-	(176,218)
Decrease in prepaid expenses and other current assets	9,603	-	-	9,603
Increase in accounts payable and accrued expenses	7,899	-	-	7,899
Net cash provided by operating activities	152,539	683	-	153,222
Cash flows from investing activities:				
Purchases of property and equipment	(4,392)	-	-	(4,392)
Net cash used in investing activities	(4,392)	-	-	(4,392)
Net increase in cash and cash equivalents	148,147	683	-	148,830
Cash and cash equivalents, beginning of year	466,170	174,270	-	640,440
Cash and cash equivalents, end of year	\$ 614,317	\$ 174,953	\$ -	\$ 789,270
Supplemental Information:				
Non-cash activity:				
Contributions of supplies and items for sale	\$ 45,052	\$ -	\$ -	\$ 45,052
Total non-cash activity	\$ 45,052	\$ -	\$ -	\$ 45,052

See accompanying independent auditors' report.