

ZUMIX, INC. AND AFFILIATE

Consolidated Financial Statements
and Supplementary Information

March 31, 2022 and 2021

(With Independent Auditors' Report Thereon)



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ZUMIX, Inc.:

Opinion

We have audited the consolidated financial statements of ZUMIX, Inc. and its affiliate (together the "Organization"), which comprise the consolidated statements of financial position as of March 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of March 31, 2022 and 2021, and the change in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 other 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 these consolidated 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 for one year after the date that the financial statements are 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 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.

In performing an audit in accordance with GAAS, 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.

Supplementary Information

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, 2022, the supplementary consolidating statement of activities and changes in net assets 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.

Nardello + Taylor LLP

September 28, 2022

ZUMIX, INC. AND AFFILIATE

Consolidated Statements of Financial Position

March 31, 2022 and 2021

<i>Assets</i>	2022	2021
Current assets:		
Cash and cash equivalents	\$ 1,404,600	\$ 1,162,171
Contributions receivable, current portion net of allowance for doubtful accounts of \$20,000 and \$2,000 in 2022 and 2021, respectively	333,188	44,450
Prepaid expenses and other current assets	12,797	10,179
Total current assets	1,750,585	1,216,800
 Cash designated for long-term investment	 1,000,000	 -
Contributions receivable, net of current portion	38,232	27,333
Property and equipment, net	2,422,771	2,414,476
Amounts held for others	70,843	51,324
 Total assets	 \$ 5,282,431	 \$ 3,709,933
 <i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 140,101	\$ 61,745
Deferred revenue	47,373	-
Amounts held for others	70,843	51,324
Total current liabilities	258,317	113,069
 Note payable	 -	 134,280
 Total liabilities	 258,317	 247,349
 Net assets:		
Without donor restrictions	4,648,408	3,402,080
With donor restrictions	375,706	60,504
 Total net assets	 5,024,114	 3,462,584
 Total liabilities and net assets	 \$ 5,282,431	 \$ 3,709,933

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals 2022
Support and revenue:			
Individual donations	\$ 328,889	\$ 85,701	\$ 414,590
Special donation	1,000,000	-	1,000,000
In-kind donations	26,455	-	26,455
Corporate donations	202,169	30,000	232,169
Foundation donations	722,185	172,671	894,856
Government grants	364,708	59,000	423,708
Program fees	194,176	-	194,176
Interest income	1,868	-	1,868
Rental income	2,667	-	2,667
Sale of products	2,498	-	2,498
Other income	626	-	626
Net assets released from restrictions	32,170	(32,170)	-
Total support and revenue	2,878,411	315,202	3,193,613
Expenses:			
Youth programs	1,053,929	-	1,053,929
Community art programs	224,459	-	224,459
Total program expenses	1,278,388	-	1,278,388
Management and general	146,306	-	146,306
Fundraising	207,389	-	207,389
Total expenses	1,632,083	-	1,632,083
Increase in net assets	1,246,328	315,202	1,561,530
Net assets, beginning of year	3,402,080	60,504	3,462,584
Net assets, end of year	\$ 4,648,408	\$ 375,706	\$ 5,024,114

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Totals 2021
Support and revenue:			
Individual donations	\$ 228,970	\$ -	\$ 228,970
In-kind donations	8,954	-	8,954
Corporate donations	93,433	-	93,433
Foundation donations	583,508	54,167	637,675
Government grants	394,934	3,460	398,394
Program fees	88,396	-	88,396
Interest income	3,724	-	3,724
Rental income	2,020	-	2,020
Sale of products	610	-	610
Other income	2	-	2
Net assets released from restrictions	174,267	(174,267)	-
 Total support and revenue	 1,578,818	 (116,640)	 1,462,178
Expenses:			
Youth programs	958,523	-	958,523
Community art programs	161,372	-	161,372
Total program expenses	1,119,895	-	1,119,895
Management and general	121,931	-	121,931
Fundraising	144,039	-	144,039
 Total expenses	 1,385,865	 -	 1,385,865
 Increase (decrease) in net assets	 192,953	 (116,640)	 76,313
Net assets, beginning of year	3,209,127	177,144	3,386,271
Net assets, end of year	\$ 3,402,080	\$ 60,504	\$ 3,462,584

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, 2022

	Youth Programs	Community Art Programs	Total Program Services	Management and General	Fundraising	2022 Totals
Salaries	\$ 446,167	\$ 141,354	\$ 587,521	\$ 60,358	\$ 91,105	\$ 738,984
Youth stipends	33,259	5,475	38,734	150	-	38,884
Employee benefits	51,586	19,655	71,241	2,262	14,130	87,633
Payroll taxes	38,335	11,631	49,966	4,983	7,513	62,462
Total salaries and related expenses	569,347	178,115	747,462	67,753	112,748	927,963
Consulting	251,892	22,436	274,328	20,964	31,909	327,201
Depreciation	123,192	-	123,192	7,132	5,411	135,735
Facilities maintenance and repair	28,207	6,378	34,585	10,211	3,234	48,030
Equipment rental, maintenance, and purchases	18,955	3,136	22,091	3,993	1,115	27,199
Utilities	18,226	3,540	21,766	1,210	1,228	24,204
Event expenses	-	-	-	-	22,517	22,517
Provision for uncollectible receivables	-	-	-	18,000	-	18,000
Bank fees and payroll fees	4,803	93	4,896	7,409	5,351	17,656
Telephone and network	13,021	1,472	14,493	1,515	1,009	17,017
Other expenses	9,317	2,560	11,877	1,287	600	13,764
Supplies	4,443	1,618	6,061	1,997	3,116	11,174
Insurance	7,732	1,685	9,417	723	1,016	11,156
Advertising	315	1,665	1,980	-	9,035	11,015
Marketing and printing	-	217	217	-	6,207	6,424
Professional development	3,651	275	3,926	1,397	350	5,673
Meetings	542	1,165	1,707	2,694	1,000	5,401
Postage and shipping	146	-	146	21	1,368	1,535
Travel	140	104	244	-	175	419
	\$ 1,053,929	\$ 224,459	\$ 1,278,388	\$ 146,306	\$ 207,389	\$ 1,632,083

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, 2021

	Youth Programs	Community Art Programs	Total Program Services	Management and General	Fundraising	2021 Totals
Salaries	\$ 455,485	\$ 102,761	\$ 558,246	\$ 57,975	\$ 95,508	\$ 711,729
Youth stipends	11,298	6,408	17,706	-	75	17,781
Employee benefits	50,006	13,011	63,017	4,757	3,885	71,659
Payroll taxes	37,461	8,118	45,579	6,427	7,605	59,611
Total salaries and related expenses	554,250	130,298	684,548	69,159	107,073	860,780
Consulting	212,271	9,067	221,338	20,249	6,988	248,575
Depreciation	117,521	-	117,521	7,261	5,411	130,193
Insurance	19,039	3,207	22,246	2,421	2,240	26,907
Facilities maintenance and repair	11,974	3,505	15,479	6,357	928	22,764
Utilities	16,621	3,323	19,944	1,109	1,107	22,160
Telephone and network	12,837	1,555	14,392	3,089	2,613	20,094
Other expenses	2,982	8,443	11,425	-	1,500	12,925
Bank fees and payroll fees	3,008	75	3,083	7,198	2,291	12,572
Rent	1,858	441	2,299	121	6,506	8,926
Supplies	3,057	492	3,549	2,555	260	6,364
Marketing and printing	143	-	143	-	5,778	5,921
Equipment rental, maintenance, and purchases	2,433	222	2,655	276	183	3,114
Professional development	300	150	450	1,901	-	2,351
Postage and shipping	-	-	-	235	929	1,164
Meetings	92	423	515	-	7	522
Advertising	95	-	95	-	225	320
Travel	42	171	213	-	-	213
	\$ 958,523	\$ 161,372	\$ 1,119,895	\$ 121,931	\$ 144,039	\$ 1,385,865

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, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Increase in net assets	\$ 1,561,530	\$ 76,313
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	135,735	130,194
Contributions of property and equipment	(11,000)	(8,954)
Forgiveness of note payable	(134,280)	-
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	(299,637)	113,664
(Increase) decrease in prepaid expenses and other current assets	(2,618)	15,909
Increase in accounts payable and accrued expenses	78,356	3,991
Increase in deferred revenue	47,373	-
Net cash provided by operating activities	1,375,459	331,117
Cash flows from investing activities:		
Purchases of property and equipment	(133,030)	(27,051)
Net cash used in investing activities	(133,030)	(27,051)
Cash flows from financing activities:		
Proceeds from note payable	-	134,280
Net cash provided by financing activities	-	134,280
Net increase in cash and cash equivalents	1,242,429	438,346
Cash and cash equivalents, beginning of year	1,162,171	723,825
Cash and cash equivalents, end of year	\$ 2,404,600	\$ 1,162,171
The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown above:		
Cash and cash equivalents	\$ 1,404,600	\$ 1,162,171
Cash designated for long-term investment	1,000,000	-
Cash and cash equivalents, end of year	\$ 2,404,600	\$ 1,162,171
Supplemental disclosure of non-cash investing and financing activities:		
Contributed property and equipment	\$ 11,000	\$ 8,954
Forgiveness of note payable	\$ 134,280	\$ -

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

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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 successful futures for themselves, transforming lives and communities 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. One hundred fifty-two homicides were recorded that year, and 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 inspire them to be creative rather than destructive, improve their life circumstances, and elevate a neglected and economically depressed neighborhood of the city.

ZUMIX is located in East Boston, MA. Geographically separated from the rest of the city by the Boston Harbor, “Eastie” is home to Logan International Airport, which makes up two-thirds of its landmass.

For over thirty years, ZUMIX has invested in East Boston and surrounding communities, providing innovative arts education and enrichment programs for low-income youth, as well as free concerts and arts experiences for the wider 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—historically an immigrant, working-class neighborhood, with a strong history of community activism. Over the years, our biggest honor was receiving the National Arts and Humanities Youth Programs Award in 2011 by First Lady Michelle Obama in the White House. As East Boston’s challenges shift from gang violence to fair housing, immigrant rights, and economic equality, ZUMIX’s role in the lives of children and families is as vital as ever.

The recent development of luxury real estate and skyrocketing rents pose new challenges, especially for East Boston’s most vulnerable residents. Low-income families are facing unprecedented levels of displacement and financial insecurity. Meanwhile, the COVID-19 pandemic and policies that negatively affect immigrant populations have added to the stress and risk that our young people and their families face every day. At the start of the pandemic, ZUMIX responded to this crisis by launching a mutual support network, increasing support for our families, through food delivery, rental assistance, public health information, and housing security efforts. We also removed all class fees, to ensure that our youth, who were experiencing increased anxiety and depression due to isolation restrictions posed by the pandemic, would continue to have regular contact with caring adults and peers.

When we returned to in-person learning in September of 2021, we noticed a tangible sense of excitement and celebration, as young people began to reconnect with their peers and mentors once again. Our staff have been working hard to address lingering feelings of social anxiety and encouraging youth to open up and share their experiences through their music, and with fellow participants. Whether virtual or in person, ZUMIX continues to be a safe space for our students to collaborate, express themselves, and grow in a stable environment.

Recent Accomplishments

- In FY22, a total of 52 ZUMIX youth gained paid professional work experience through their employment at ZUMIX as live sound engineers, teaching assistants, performing artists, radio journalists, program co-facilitators, teen leaders, and youth staff. Collectively, they earned \$47,107 in wages.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

- In the fall of 2021, ZUMIX alumnus and Songwriting & Performance Manager Kadahj Bennett was recipient of the prestigious WBUR's ARTery 25 Award, given to outstanding artists of color who are making an impact in the city.
- In the spring of 2021, 100% of our seniors graduated high school, compared to 72% of BPS seniors city-wide, and were accepted to colleges such as Berklee College of Music (full scholarship), Suffolk University (full scholarship), Northeastern University (partial scholarship), the University of Wisconsin (full scholarship), and Tufts University (partial scholarship).
- During the pandemic, our staff committed to "super service." Through our Mutual Support Network, we were able to leverage a total of \$235,815 to support families in paying back rent. Within this sum, 55 families received a \$500 direct payment from our partnership with the Family Independence Initiative (\$27,500 total). We also helped five families receive funds from the Boston Rental Relief Fund (\$32,700 total), and 21 families receive funds from RAFT, the state-level rental assistance program (\$170,615 total). In addition, 10 of our families received a direct payment of \$500 from ZUMIX (\$5,000 total), funded by individual donors.

Funding Highlights

In 2021, ZUMIX received an unsolicited \$1 million gift from philanthropist MacKenzie Scott and her husband, Dan Jewett. We were surprised and humbled by this incredible recognition, and are thoughtfully investing these funds, to allow for future growth and sustainability.

We held our annual Walk for Music in-person this year, raising over \$63,000 to support ZUMIX programs. We also held our annual Gala in-person celebrating our 30th Anniversary, and the creative resilience of our staff and students, raising significant funds to support our efforts.

The ZUMIX Collective, our large-donor giving circle launched in FY21, exceeded our fundraising goal. ZUMIX Collective's fourteen members have pledged \$210,000 of support over three years, and we intend to grow its membership each year.

Last January, ZUMIX received a \$500,000 grant from the Baker-Polito Administration to fund a new collaborative partnership with Eastie Farm and East Boston High School, designed to support underserved youth in East Boston. The bulk of these funds were used to provide increased workforce development opportunities for youth in each of our organizations.

As we close out FY22, and look to the future, we are inspired by the incredible dedication of our staff, resilience of our students, support of our board, success of our alums, and gratitude from our parents. We intend to engage representatives from each of these groups, as we embark on a new strategic planning process in early 2023.

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:

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

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

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, 2022 and 2021.

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.

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, 2021 and 2020. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

The Organization’s revenue from contributions and grants are accounted for under ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, within the scope of ASC Topic 958 *Not-for-Profit Entities*. The Organization’s income from program fees is accounted for under ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

The Organization’s contributions come primarily from the general public, private foundations, corporations and certain governmental agencies. The Organization recognizes income from contributions when assets are received by or unconditionally promised to the organization, whichever occurs first. The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and as net assets released from restrictions in the statement of activities and changes in net asset. The Organization reports contributions with donor-imposed purpose restrictions as unrestricted support if the purpose is met in the same year the contribution is received from the donor.

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.

Revenues which represent fees for programs and events are recognized at the point in time when the program or event takes place. Program fees from students are collected within one month that services are rendered. Program fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or the expenditures are incurred. Rental income is recognized ratably over the period of time that space rental is provided and billed.

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Notes to Consolidated Financial Statements

March 31, 2022 and 2021

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. No cash was held in separate accounts as of March 31, 2022 and 2021.

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 and fixtures	5 – 10 years
Computer and equipment	3 – 7 years
Website	3 years
Motor vehicle	5 years
Building	40 years
Building improvements	30 years

Advertising Expenses

The Organization expenses advertising costs as incurred. Advertising expenses amounted to \$11,015 and \$320 for the years ended March 31, 2022 and 2021, 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, 2022 and 2021, management does not believe that it has taken any tax positions that would require the recording of any additional tax liability for open tax years through March 31, 2022, 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:

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

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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, 2022 or 2021.

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.

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

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Notes to Consolidated Financial Statements

March 31, 2022 and 2021

	2022	2021
Cash balance - Zumix, Inc.	\$ 2,220,062	\$ 981,973
Cash designated for long term investment	(1,000,000)	-
Cash balance less designated funds	1,220,062	981,973
Contributions receivable, current portion, net of allowance for doubtful accounts of \$20,000 and \$2,000 in 2022 and 2021, respectively	333,188	44,450
Management designated capital asset replacement reserve	(500,000)	(515,531)
Fiscal assets available for operations within one year	\$ 1,053,250	\$ 510,892
Average monthly operating expenses	\$ 116,685	\$ 107,818
Months of operating funds available within one year	9.03	4.74

4. Contributions Receivable

Contributions receivable are stated at the amount 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:

	2022	2021
Less than one year	\$ 353,188	\$ 46,450
Between one and five years	38,232	27,333
	391,420	73,783
Allowance for doubtful accounts	(20,000)	(2,000)
	\$ 371,420	\$ 71,783

5. Property and Equipment

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

	2022	2021
Furniture and fixtures	\$ 46,234	\$ 44,357
Motor vehicle	19,047	19,047
Computer and equipments	419,671	389,555
Website	52,400	16,000
Land	227,998	227,998
Building and improvements	3,520,321	3,444,682
	4,285,671	4,141,639
Less accumulated depreciation and amortization	(1,862,900)	(1,727,163)
Property and equipment, net	\$ 2,422,771	\$ 2,414,476

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

As of March 31, 2022 and 2021, respectively, building and improvements included \$51,632 and \$54,461, net of accumulated amortization of \$33,243 and \$30,414, of capitalized interest costs incurred during the period of construction.

6. Amounts Held for Others

ZUMIX acts as a fiscal agent for several nonprofit entities located in the Boston area and receives and expends cash on their behalf. These funds are reported as assets and liabilities in the statement of financial position. Amounts held for others were \$70,843 and \$51,324 as of March 31, 2022 and 2021, respectively.

7. Notes Payable

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.
- 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. The loan is 100% guaranteed by ZUMIX. 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, 2022.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

Notes Payable

In April 2020, ZUMIX was granted a note (the “Note”) from a bank in the amount of \$175,532 pursuant to the Small Business Administration (the “SBA”) Paycheck Protection Program (the “PPP”) under a federal government stimulus program. The Note matures on April 15, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on November 16, 2020. The Loan is 100% guaranteed by the SBA and may be prepaid by ZUMIX at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, up to the full amount of principal and accrued interest may be forgiven if the funds are used for qualifying expenses. ZUMIX used the entire amount of the Note for qualifying expenses and the principal and interest were forgiven by the bank in November 2020. The forgiven Note was recognized as government grants in the consolidated statement of activities and changes in net assets for the year ended March 31, 2021.

In January 2021, ZUMIX was granted a second note (the “Note”) from a bank in the amount of \$134,280 pursuant to the Small Business Administration Paycheck Protection Program (the “PPP”) under a federal government stimulus program. The Note matures in January 2026, and bears interest at a rate of 1% per annum, payable monthly commencing in May 2022. The Loan is 100% guaranteed by the SBA and may be prepaid by ZUMIX at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, up to the full amount of principal and accrued interest may be forgiven if the funds are used for qualifying expenses. ZUMIX used the entire amount of the Note for qualifying expenses and the principal and interest were forgiven by the bank in September 2021. The forgiven Note was recognized as government grants in the consolidated statement of activities and changes in net assets for the year ended March 31, 2022.

8. 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:

	2022	2021
Purpose restrictions:		
Acquisition of program equipment and other capital expenditures	\$ 16,119	\$ 1,877
Ted Rock scholarship	-	1,000
	16,119	2,877
Time restrictions:		
Amounts restricted for use in future periods	359,587	57,627
Total net assets with donor restrictions	\$ 375,706	\$ 60,504

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:

	2022	2021
Expiration of donor-imposed time restrictions	\$ 29,293	\$ 144,760
Purpose restrictions accomplished:		
Program expenses	2,877	29,507
Net assets released from donor restrictions	\$ 32,170	\$ 174,267

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

9. 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. The Organization had outstanding balances from purchases of \$337 and \$0 as of March 31, 2022 and 2021, respectively, which are included in accounts payable and accrued expenses. As of March 31, 2022 and 2021, the Organization had remaining credit available for purchases of \$31,036 and \$32,700, and cash advances of \$5,600 and \$11,200, respectively. Minimum monthly payments, which vary according to the outstanding balances, are due under the agreement including interest at 14.99% for purchases and 25.99% for cash advances, as of March 31, 2022.

10. 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.

11. 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, 2022 and 2021, the Organization recognized expenses for its contributions to the plan amounting to \$7,276 and \$6,838, respectively, which represents 1% of the gross salary of eligible ZUMIX employees for each of the fiscal years then-ended.

12. Subsequent Events

The Organization has evaluated subsequent events through September 28, 2022, the date the financial statements were available to be issued.

In April 2022, ZUMIX entered into a credit agreement with a financial institution. Under the agreement, ZUMIX was extended a revolving line of credit, which is available for advances of up to \$300,000 until April 12, 2023. Interest on the line is at 1% plus the prime rate. The loan agreement is secured by all assets and intellectual property owned by ZUMIX. There were no amounts outstanding on the line at the report date.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Financial Position

(Supplementary Information)

March 31, 2022

	ZUMIX, Inc.	ZUMIX Firehouse, Inc.	Elimination	Consolidated
<i>Assets</i>				
Current assets:				
Cash and cash equivalents	\$ 1,220,062	\$ 184,538	\$ -	\$ 1,404,600
Contributions receivable, net	333,188	-	-	333,188
Prepaid expenses and other current assets	12,797	-	-	12,797
Total current assets	1,566,047	184,538	-	1,750,585
Cash designated for long-term investment	1,000,000	-	-	1,000,000
Contributions receivable, net of curret portion	38,232	-	-	38,232
Due from affiliate	2,109,562	23,100	(2,132,662)	-
Property and equipment, net	166,697	2,551,724	(295,650)	2,422,771
Amounts held for others	70,843	-	-	70,843
Interest in the net assets of ZUMIX Firehouse, Inc.	166,000	-	(166,000)	-
Total assets	\$ 5,117,381	\$ 2,759,362	\$ (2,594,312)	\$ 5,282,431
<i>Liabilities and Net Assets</i>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 140,101	\$ -	\$ -	\$ 140,101
Deferred revenue	47,373	-	-	47,373
Amounts held for others	70,843	-	-	70,843
Total current liabilities	258,317	-	-	258,317
Due to affiliate	23,100	2,109,562	(2,132,662)	-
Total liabilities	281,417	2,109,562	(2,132,662)	258,317
Net assets:				
Without donor restrictions	4,460,258	649,800	(461,650)	4,648,408
With donor restrictions	375,706	-	-	375,706
Total net assets	4,835,964	649,800	(461,650)	5,024,114
Total liabilities and net assets	\$ 5,117,381	\$ 2,759,362	\$ (2,594,312)	\$ 5,282,431

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, 2022

	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	\$ 328,889	\$ 85,701	\$ 414,590	\$ -	\$ -	\$ -	\$ -	\$ 414,590
Special donation	1,000,000	-	1,000,000	-	-	-	-	1,000,000
In-kind donations	26,455	-	26,455	-	-	-	-	26,455
Corporate donations	230,169	30,000	260,169	-	-	-	(28,000)	232,169
Foundation donations	722,185	172,671	894,856	-	-	-	-	894,856
Government grants	364,708	59,000	423,708	-	-	-	-	423,708
Program fees	194,176	-	194,176	-	-	-	-	194,176
Interest income	1,648	-	1,648	220	-	220	-	1,868
Rental income	2,667	-	2,667	48,000	-	48,000	(48,000)	2,667
Sale of products	2,498	-	2,498	-	-	-	-	2,498
Other income	507	-	507	119	-	119	-	626
Net assets released from restrictions	32,170	(32,170)	-	-	-	-	-	-
Total support and revenue	2,906,072	315,202	3,221,274	48,339	-	48,339	(76,000)	3,193,613
Expenses:								
Youth programs	984,259	-	984,259	142,770	-	142,770	(73,100)	1,053,929
Community arts program	229,139	-	229,139	5,200	-	5,200	(9,880)	224,459
Total program expenses	1,213,398	-	1,213,398	147,970	-	147,970	(82,980)	1,278,388
Management and general	142,695	-	142,695	8,221	-	8,221	(4,610)	146,306
Fundraising	203,778	-	203,778	8,221	-	8,221	(4,610)	207,389
Total expenses	1,559,871	-	1,559,871	164,412	-	164,412	(92,200)	1,632,083
Increase (decrease) in net assets	1,346,201	315,202	1,661,403	(116,073)	-	(116,073)	16,200	1,561,530
Net assets, beginning of year	3,114,057	60,504	3,174,561	765,873	-	765,873	(477,850)	3,462,584
Net assets, end of year	\$ 4,460,258	\$ 375,706	\$ 4,835,964	\$ 649,800	\$ -	\$ 649,800	\$ (461,650)	\$ 5,024,114

See accompanying independent auditors' report.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Cash Flows

(Supplementary Information)

For the Year Ended March 31, 2022

	<u>ZUMIX, Inc.</u>	<u>ZUMIX Firehouse, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 1,661,403	\$ (116,073)	\$ 16,200	\$ 1,561,530
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	27,522	124,413	(16,200)	135,735
Contributions of of property and equipment	(11,000)	-	-	(11,000)
Forgiveness of note payable	(134,280)	-	-	(134,280)
Changes in operating assets and liabilities:				
Increase in contributions receivable	(299,637)	-	-	(299,637)
Increase in prepaid expenses and other current assets	(2,618)	-	-	(2,618)
Increase (decrease) in accounts payable and accrued expenses	82,356	(4,000)	-	78,356
Increase in deferred revenue	47,373	-	-	47,373
Net cash provided by operating activities	<u>1,371,119</u>	<u>4,340</u>	<u>-</u>	<u>1,375,459</u>
Cash flows from investing activities:				
Purchases of property and equipment	(133,030)	-	-	(133,030)
Net cash used in investing activities	<u>(133,030)</u>	<u>-</u>	<u>-</u>	<u>(133,030)</u>
Net increase in cash and cash equivalents	1,238,089	4,340	-	1,242,429
Cash and cash equivalents, beginning of year	<u>981,973</u>	<u>180,198</u>	<u>-</u>	<u>1,162,171</u>
Cash and cash equivalents, end of year	<u>\$ 2,220,062</u>	<u>\$ 184,538</u>	<u>\$ -</u>	<u>\$ 2,404,600</u>
Cash and cash equivalents reconciliation:				
Cash and cash equivalents	\$ 1,220,062	\$ 184,538	\$ -	\$ 1,404,600
Cash designated for long-term investment	1,000,000	-	-	1,000,000
Cash and cash equivalents, end of year	<u>\$ 2,220,062</u>	<u>\$ 184,538</u>	<u>\$ -</u>	<u>\$ 2,404,600</u>
Supplemental disclosure of non-cash investing and financing activities:				
Contributed property and equipment	<u>\$ 11,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,000</u>
Forgiveness of note payable	<u>\$ 134,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 134,280</u>

See accompanying independent auditors' report.