

ZUMIX, INC. AND AFFILIATE

Consolidated Financial Statements
and Supplementary Information

March 31, 2021 and 2020

(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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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 17, 2021

ZUMIX, INC. AND AFFILIATE

Consolidated Statements of Financial Position

March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 1,162,171	\$ 723,825
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2021 and 2020	44,450	185,447
Prepaid expenses and other current assets	10,179	26,088
	<u>1,216,800</u>	<u>935,360</u>
Contributions receivable, net of current portion	27,333	-
Property and equipment, net	2,414,476	2,508,665
Amounts held for others	51,324	108,523
	<u>51,324</u>	<u>108,523</u>
Total assets	<u>\$ 3,709,933</u>	<u>\$ 3,552,548</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 61,745	\$ 57,754
Amounts held for others	51,324	108,523
Total current liabilities	<u>113,069</u>	<u>166,277</u>
Note payable	134,280	-
	<u>134,280</u>	<u>-</u>
Total liabilities	<u>247,349</u>	<u>166,277</u>
Net assets:		
Without donor restrictions	3,402,080	3,209,127
With donor restrictions	60,504	177,144
	<u>3,462,584</u>	<u>3,386,271</u>
Total net assets	<u>3,462,584</u>	<u>3,386,271</u>
Total liabilities and net assets	<u>\$ 3,709,933</u>	<u>\$ 3,552,548</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, 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 product	610	-	610
Other income	2	-	2
Net assets released from restriction	174,267	(174,267)	-
Total support and revenue	1,578,818	(116,640)	1,462,178
Expenses:			
Youth programs	958,523	-	958,523
Community arts program	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 Activities and Changes in Net Assets

For the Year Ended March 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals 2020
Support and revenue:			
Individual donations	\$ 200,506	\$ -	\$ 200,506
In-kind donations	43,372	-	43,372
Corporate donations	99,205	-	99,205
Foundation donations	553,990	87,384	641,374
Government grants	76,166	7,260	83,426
Program fees	178,876	-	178,876
Interest income	5,255	-	5,255
Rental income	29,157	-	29,157
Sale of product	803	-	803
Other income	5,568	-	5,568
Net assets released from restriction	141,909	(141,909)	-
Total support and revenue	1,334,807	(47,265)	1,287,542
Expenses:			
Youth programs	921,905	-	921,905
Community arts program	222,669	-	222,669
Total program expenses	1,144,574	-	1,144,574
Management and general	242,448	-	242,448
Fundraising	192,233	-	192,233
Total expenses	1,579,255	-	1,579,255
Decrease in net assets	(244,448)	(47,265)	(291,713)
Net assets, beginning of year	3,453,575	224,409	3,677,984
Net assets, end of year	\$ 3,209,127	\$ 177,144	\$ 3,386,271

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 Arts	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
Professional development	300	150	450	1,901	-	2,351
Bank fees and payroll fees	3,008	75	3,083	7,198	2,291	12,572
Advertising	95	-	95	-	225	320
Marketing and printing	143	-	143	-	5,778	5,921
Supplies	3,057	492	3,549	2,555	260	6,364
Telephone and network	12,837	1,555	14,392	3,089	2,613	20,094
Postage and shipping	-	-	-	235	929	1,164
Rent	1,858	441	2,299	121	6,506	8,926
Equipment rental, maintenance and purchases	2,433	222	2,655	276	183	3,114
Facilities maintenance and repair	11,974	3,505	15,479	6,357	928	22,764
Travel	42	171	213	-	-	213
Meetings	92	423	515	-	7	522
Insurance	19,039	3,207	22,246	2,421	2,240	26,907
Utilities	16,621	3,323	19,944	1,109	1,107	22,160
Depreciation	117,521	-	117,521	7,261	5,411	130,193
Other expenses	2,982	8,443	11,425	-	1,500	12,925
	\$ 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 Statement of Functional Expenses

For the Year Ended March 31, 2020

	Youth Programs	Community Arts	Total Program Services	Management and General	Fundraising	2020 Totals
Salaries	\$ 415,548	\$ 126,623	\$ 542,171	\$ 85,029	\$ 98,080	\$ 725,280
Youth stipends	8,833	14,034	22,867	883	100	23,850
Employee benefits	23,241	5,069	28,310	68,565	5,236	102,111
Payroll taxes	34,666	10,364	45,030	6,833	7,900	59,763
Total salaries and related expenses	482,288	156,090	638,378	161,310	111,316	911,004
Consulting	170,713	42,625	213,338	33,327	22,184	268,849
Professional development	4,429	562	4,991	2,727	346	8,064
Bank fees and payroll fees	895	369	1,264	9,498	3,314	14,076
Advertising	95	892	987	390	-	1,377
Marketing and printing	1,758	2,002	3,760	1,028	7,448	12,236
Supplies	1,421	848	2,269	2,951	9,718	14,938
Telephone and network	16,120	2,704	18,824	2,121	1,545	22,490
Postage and shipping	229	47	276	66	2,221	2,563
Rent	5,066	1,874	6,940	328	20,898	28,166
Equipment rental, maintenance and purchases	39,822	1,338	41,160	723	676	42,559
Facilities maintenance and repair	30,449	6,493	36,942	9,086	2,377	48,405
Travel	3,206	372	3,578	1,799	386	5,763
Meetings	2,865	1,760	4,625	4,863	530	10,018
Insurance	18,088	1,108	19,196	4,212	2,698	26,106
Utilities	17,473	3,585	21,058	230	1,165	22,453
Depreciation	126,988	-	126,988	7,789	5,411	140,188
	\$ 921,905	\$ 222,669	\$ 1,144,574	\$ 242,448	\$ 192,233	\$ 1,579,255

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 76,313	\$ (291,713)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	130,194	140,188
Contributions of property and equipment	(8,954)	(7,388)
Changes in operating assets and liabilities:		
Decrease in contributions receivable	113,664	92,498
Decrease (increase) in prepaid expenses and other current assets	15,909	(481)
Increase in accounts payable and accrued expenses	3,991	5,935
Net cash provided by (used in) operating activities	<u>331,117</u>	<u>(60,961)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(27,051)	(4,484)
Net cash used in investing activities	<u>(27,051)</u>	<u>(4,484)</u>
Cash flows from financing activities:		
Proceeds from note payable	134,280	-
Net cash provided by financing activities	<u>134,280</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	438,346	(65,445)
Cash and cash equivalents, beginning of year	<u>723,825</u>	<u>789,270</u>
Cash and cash equivalents, end of year	<u>\$ 1,162,171</u>	<u>\$ 723,825</u>
Supplemental Information:		
Non-cash activity:		
Contributions of property and equipment	\$ 8,954	\$ 7,388
Contributions of supplies and items for sale	-	43,372
Total non-cash activity	<u>\$ 8,954</u>	<u>\$ 50,760</u>

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

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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 dramatically improve their lives and elevate a neglected and economically depressed community.

ZUMIX is located in East Boston. 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 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. 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. ZUMIX has responded to this crisis by launching a mutual support network and increasing our commitment to family stability. 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.

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 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.

On March 13, 2020, ZUMIX closed physical operations due to the COVID-19 pandemic. ZUMIX’s teaching staff didn’t miss a beat and were able to immediately shift to remote classes and lessons. ZUMIX has been able to continue serving students weekly through year-round private and group music lessons, as well as semester-based programs, such as songwriting, Sprouts theater, and African drumming. Due to restrictions around holding in-person events, the space rentals and other community services were put on hold, and most of the earned income channels temporarily stopped. Rather than offering free concerts, ZUMIX shifted the efforts to a Mutual Support network, helping families access free food, affordable housing, unemployment and rental assistance. Our strong roots in the community and our dedicated staff enabled ZUMIX to increase services in response to local needs.

Recent Accomplishments

- In FY21, ZUMIX paid 40 students a collective \$43,906 as course co-facilitators, youth interns, Teen Council Members, performing musicians, live sound technicians, radio producers, studio engineers, and audio storytellers.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

- ZUMIX alumnus Corey DePina received a 2020 Black Excellence on the Hill award from the Massachusetts State House through the Massachusetts Black and Latino Caucus for his work at ZUMIX and as the founder of the FOGO Project. Corey was recently promoted from our Songwriting and Performance Manager to ZUMIX's Director of Programs.
- In 2020, many ZUMIX students graduated and moved on to exciting colleges and careers. Among them, video and radio student Aaron Arias received a full-tuition scholarship to Suffolk University where he is currently a full-time student. Bass and live sound student Lesley Monroy received a full-tuition POSSE scholarship to Bucknell University.
- Rock Ed and radio student Gabi Barossa received a Light of Dawnn Scholarship from Foundation to be Named Later. This award is given to students who have been committed members and volunteers within their community.
- Through our Mutual Support Network, 133 families have received additional resources during the pandemic. Mutual Support has been able to help families receive over \$100,000 in financial support to help pay bills, buy food, and cover back rent. ZUMIX was also the conduit for 55 families who received \$500 cash payments (\$27,500 in total) from the Family Independence Initiative.

Funding Highlights

In early FY21 we received and have since been forgiven the PPP loan of \$175,532. In February of 2021, ZUMIX received a second round PPP loan for \$134,280, which we anticipate to be forgiven in FY22. In FY21 we also launched The ZUMIX Collective, a giving circle for large donors, who pledge three-years of support at various levels. We are excited by the initial interest, and to see this initiative grow as we continue to build stronger relationships with these important members of our community.

Throughout FY21 Covid required that we could not have space rentals, events, and other contracted services that we had planned. For families experiencing hardship we waived class fees which also negatively impacted our earned revenue. We were able to offset those one-time losses by increased government unrestricted support, specifically Massachusetts Cultural Council and the City of Boston.

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.

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

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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, 2021 and 2020.

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, 2020 and 2019. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

On April 1, 2020, the Organization adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, using the modified retrospective method applied to those contracts that were not completed as of March 31, 2020. Results for reporting periods beginning after March 31, 2020 are presented under Topic 606. This adoption did not have material impact on the prior period retained earnings as of March 31, 2020.

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 point in time when the program or event takes place. Program fees are collected from students within one month that services are rendered. Rental income is recognized ratably over the period of time that space rental is provided and billed.

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.

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

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, 2021 and 2020.

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Notes to Consolidated Financial Statements

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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
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 \$320 and \$1,377 for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, 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:

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.

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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, 2021 or 2020.

Adoption of New Accounting Guidance

During the year ended March 31, 2021, the Organization implemented ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASC 606 sets forth a new revenue recognition model that requires identifying the contract(s) with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations and recognizing the revenue upon satisfaction of performance obligations. The Organization adopted the provisions of ASU 2014-09 and related subsequently-issued amendments beginning on April 1, 2020.

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

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	2021	2020
Cash balance - Zumix, Inc.	\$ 981,973	\$ 548,185
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2021 and 2020.	44,450	185,447
Management designated capital asset replacement reserve	<u>(515,531)</u>	<u>(470,549)</u>
Fiscal assets available for operations within one year	<u>\$ 510,892</u>	<u>\$ 263,083</u>
Average monthly operating expenses	\$ 107,818	\$ 120,072
Months of operating funds available within one year	4.74	2.19

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:

	2021	2020
Less than one year	\$ 46,450	\$ 187,447
Between one and five years	27,333	-
	<u>73,783</u>	<u>187,447</u>
Allowance for bad debts	<u>(2,000)</u>	<u>(2,000)</u>
	<u>\$ 71,783</u>	<u>\$ 185,447</u>

5. Property and Equipment

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

	2021	2020
Furniture and fixtures	\$ 44,357	\$ 32,026
Motor vehicle	19,047	19,047
Computer equipment	389,555	365,881
Website	16,000	16,000
Land	227,998	227,998
Building and improvements	<u>3,444,682</u>	<u>3,444,682</u>
	4,141,639	4,105,634
Less accumulated depreciation and amortization	<u>(1,727,163)</u>	<u>(1,596,970)</u>
Property and equipment, net	<u>\$ 2,414,476</u>	<u>\$ 2,508,664</u>

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

As of March 31, 2021 and 2020, building and improvements include \$54,461 and \$57,290 net of accumulated amortization of \$30,414 and \$27,584, respectively, of capitalized interest costs incurred during the period of construction.

6. 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, 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

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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. The Company intends to use the entire amount of the Note for qualifying expenses.

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:

	<u>2021</u>	<u>2020</u>
Purpose restrictions:		
Acquisition of program equipment and other capital expenditures	\$ 1,877	\$ 27,384
Ted Rock scholarship	1,000	5,000
	<u>2,877</u>	<u>32,384</u>
Time restrictions:		
Amounts restricted for use in future periods	57,627	144,760
Total net assets with donor restrictions	<u>\$ 60,504</u>	<u>\$ 177,144</u>

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:

	<u>2021</u>	<u>2020</u>
Expiration of donor-imposed time restrictions	\$ 144,760	\$ 141,909
Purpose restrictions accomplished:		
Program expenses	29,507	-
Net assets released from donor restrictions	<u>\$ 174,267</u>	<u>\$ 141,909</u>

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. The Organization had outstanding balances from purchases of \$0 and \$1,014 as of March 31, 2021 and 2020, respectively, which are included in accounts payable and accrued expenses. As of March 31, 2021 and 2020, the Organization had remaining credit available for purchases of \$32,700 and \$27,100, and cash advances of \$11,200 and \$5,600, respectively. Minimum monthly payments, which vary according to the outstanding balances, are due under the agreement including interest at 14.99% for purchases and 25.24% for cash advances, as of March 31, 2021.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2021 and 2020

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, 2021 and 2020, the Organization recognized expenses for its contributions to the plan amounting to \$3,407 and \$7,008, 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 September 17, 2021 the date the financial statements were available to be issued.

In June 2021, shortly after the mark of ZUMIX’s 30th anniversary, ZUMIX received an unsolicited surprise unrestricted gift of \$1 million dollars from billionaire McKenzie Scott and her husband, Dan Jewett. Their support is a reflection of the long track record of exceptional programming, deep roots in the community, and strong leadership, especially throughout the pandemic. As of September 17, 2021, the funds have been received and are being held until the Board of Directors decides how best to invest them and where is most applicable to spend these funds, outside of our annual operating work. This is a transformational gift which will allow ZUMIX to make key investments to ensure ZUMIX will thrive for the next 30 years.

Additionally, COVID-19 continues to significantly impact the East Boston community altering events and various programmatic events. As we look to FY22, we have started offering some programming in-person, with goals to expand in-person offerings in the fall and re-instate our annual fundraising gala, The Muse, as vaccinations improve and we hope that Covid numbers continue to fall.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Financial Position

(Supplementary Information)

March 31, 2020

<i>Assets</i>	<u>ZUMIX, Inc.</u>	<u>ZUMIX Firehouse, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
Current assets:				
Cash and cash equivalents	\$ 981,973	\$ 180,198	\$ -	\$ 1,162,171
Contributions receivable, net	44,450	-	-	44,450
Prepaid expenses and other current assets	10,179	-	-	10,179
Total current assets	<u>1,036,602</u>	<u>180,198</u>	<u>-</u>	<u>1,216,800</u>
Contributions receivable, net of curret portion	27,333	-	-	27,333
Due from affiliate	2,109,562	23,100	(2,132,662)	-
Property and equipment, net	50,189	2,676,137	(311,850)	2,414,476
Amounts held for others	51,324	-	-	51,324
Interest in the net assets of ZUMIX Firehouse, Inc.	166,000	-	(166,000)	-
Total assets	<u>\$ 3,441,010</u>	<u>\$ 2,879,435</u>	<u>\$ (2,610,512)</u>	<u>\$ 3,709,933</u>
<i>Liabilities and Net Assets</i>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 57,745	\$ 4,000	\$ -	\$ 61,745
Amounts held for others	51,324	-	-	51,324
Total current liabilities	<u>109,069</u>	<u>4,000</u>	<u>-</u>	<u>113,069</u>
Due to affiliate	23,100	2,109,562	(2,132,662)	-
Note payable	134,280	-	-	134,280
Total liabilities	<u>266,449</u>	<u>2,113,562</u>	<u>(2,132,662)</u>	<u>247,349</u>
Net assets:				
Without donor restrictions	3,114,057	765,873	(477,850)	3,402,080
With donor restrictions	60,504	-	-	60,504
Total net assets	<u>3,174,561</u>	<u>765,873</u>	<u>(477,850)</u>	<u>3,462,584</u>
Total liabilities and net assets	<u>\$ 3,441,010</u>	<u>\$ 2,879,435</u>	<u>\$ (2,610,512)</u>	<u>\$ 3,709,933</u>

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, 2020

	<u>ZUMIX, Inc.</u>			<u>ZUMIX Firehouse, Inc.</u>			<u>Elimination</u>	<u>Consolidated</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>		
Support and revenue:								
Individual donations	\$ 228,970	\$ -	\$ 228,970	\$ -	\$ -	\$ -	\$ -	\$ 228,970
In-kind donations	8,954	-	8,954	-	-	-	-	8,954
Corporate donations	141,433	-	141,433	-	-	-	(48,000)	93,433
Foundation donations	583,508	54,167	637,675	-	-	-	-	637,675
Government grants	394,934	3,460	398,394	-	-	-	-	398,394
Program fees	88,396	-	88,396	-	-	-	-	88,396
Interest income	3,121	-	3,121	603	-	603	-	3,724
Rental income	2,020	-	2,020	48,000	-	48,000	(48,000)	2,020
Sale of product	610	-	610	-	-	-	-	610
Other income	2	-	2	-	-	-	-	2
Net assets released from restrictions	174,267	(174,267)	-	-	-	-	-	-
Total support and revenue	1,626,215	(116,640)	1,509,575	48,603	-	48,603	(96,000)	1,462,178
Expenses:								
Youth programs	885,314	-	885,314	159,972	-	159,972	(86,763)	958,523
Community arts program	175,831	-	175,831	-	-	-	(14,459)	161,372
Total program expenses	1,061,145	-	1,061,145	159,972	-	159,972	(101,222)	1,119,895
Management and general	121,154	-	121,154	6,266	-	6,266	(5,489)	121,931
Fundraising	143,307	-	143,307	6,221	-	6,221	(5,489)	144,039
Total expenses	1,325,606	-	1,325,606	172,459	-	172,459	(112,200)	1,385,865
Increase (decrease) in net assets	300,609	(116,640)	183,969	(123,856)	-	(123,856)	16,200	76,313
Net assets, beginning of year	2,813,448	177,144	2,990,592	889,729	-	889,729	(494,050)	3,386,271
Net assets, end of year	<u>\$ 3,114,057</u>	<u>\$ 60,504</u>	<u>\$ 3,174,561</u>	<u>\$ 765,873</u>	<u>\$ -</u>	<u>\$ 765,873</u>	<u>\$ (477,850)</u>	<u>\$ 3,462,584</u>

See accompanying independent auditors' report.

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Cash Flows

(Supplementary Information)

For the Year Ended March 31, 2020

	ZUMIX, Inc.	ZUMIX Firehouse, Inc.	Elimination	Consolidated
Cash flows from operating activities:				
Increase (decrease) in net assets	\$ 183,969	\$ (123,856)	\$ 16,200	\$ 76,313
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation	21,980	124,414	(16,200)	130,194
Contributions of of property and equipment	(8,954)	-	-	(8,954)
Changes in operating assets and liabilities:				
Decrease in contributions receivable	113,664	-	-	113,664
Decrease in prepaid expenses and other current assets	15,909	-	-	15,909
Increase (decrease) in accounts payable and accrued expenses	(9)	4,000	-	3,991
Net cash provided by operating activities	326,559	4,558	-	331,117
Cash flows from investing activities:				
Purchases of property and equipment	(27,051)	-	-	(27,051)
Net cash used in investing activities	(27,051)	-	-	(27,051)
Cash flows from financing activities:				
Proceeds from note payable	134,280	-	-	134,280
Net cash provided by financing activities	134,280	-	-	134,280
Net increase in cash and cash equivalents	433,788	4,558	-	438,346
Cash and cash equivalents, beginning of year	548,185	175,640	-	723,825
Cash and cash equivalents, end of year	\$ 981,973	\$ 180,198	\$ -	\$ 1,162,171
Supplemental Information:				
Non-cash activity:				
Contributions of of property and equipment	\$ 8,954	\$ -	\$ -	\$ 8,954

See accompanying independent auditors' report.