

ZUMIX, INC. AND AFFILIATE

Consolidated Financial Statements
and Supplementary Information

March 31, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, and the change in its net assets, functional expenses 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, 2020, 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 18, 2020

ZUMIX, INC. AND AFFILIATE

Consolidated Statements of Financial Position

March 31, 2020 and 2019

<i>Assets</i>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 723,825	\$ 789,270
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2020 and 2019.	185,447	169,612
Prepaid expenses and other current assets	<u>26,088</u>	<u>25,607</u>
Total current assets	<u>935,360</u>	<u>984,489</u>
Contributions receivable, net of current portion	-	108,333
Property and equipment, net	2,508,665	2,636,981
Amounts held for others	<u>108,523</u>	<u>55,559</u>
Total assets	<u>\$ 3,552,548</u>	<u>\$ 3,785,362</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 57,754	\$ 51,819
Amounts held for others	<u>108,523</u>	<u>55,559</u>
Total liabilities	<u>166,277</u>	<u>107,378</u>
Net assets:		
Without donor restrictions	3,209,127	3,453,575
With donor restrictions	<u>177,144</u>	<u>224,409</u>
Total net assets	<u>3,386,271</u>	<u>3,677,984</u>
Total liabilities and net assets	<u>\$ 3,552,548</u>	<u>\$ 3,785,362</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, 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)	-
	1,334,807	(47,265)	1,287,542
Total support and revenue			
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
	1,579,255	-	1,579,255
Total expenses			
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 Activities and Changes in Net Assets

For the Year Ended March 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals 2019
Support and revenue:			
Individual donations	\$ 361,167	\$ -	\$ 361,167
In-kind donations	45,052	-	45,052
Corporate donations	98,635	-	98,635
Foundation donations	681,850	185,075	866,925
Government grants	95,629	6,000	101,629
Program fees	155,806	-	155,806
Interest income	4,836	-	4,836
Rental income	36,674	-	36,674
Sale of product	7,099	-	7,099
Other income	302	-	302
Net assets released from restriction	59,401	(59,401)	-
Total support and revenue	1,546,451	131,674	1,678,125
Expenses:			
Youth programs	1,012,879	-	1,012,879
Community arts program	165,592	-	165,592
Total program expenses	1,178,471	-	1,178,471
Management and general	177,566	-	177,566
Fundraising	160,476	-	160,476
Total expenses	1,516,513	-	1,516,513
Increase in net assets	29,938	131,674	161,612
Net assets, beginning of year	3,423,637	92,735	3,516,372
Net assets, end of year	\$ 3,453,575	\$ 224,409	\$ 3,677,984

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 Statement of Functional Expenses

For the Year Ended March 31, 2019

	<u>Youth Programs</u>	<u>Community Arts</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2019 Totals</u>
Salaries	\$ 492,542	\$ 63,152	\$ 555,694	\$ 53,985	\$ 82,732	\$ 692,411
Youth stipends	17,658	5,503	23,161	-	150	23,311
Employee benefits	31,624	3,562	35,186	48,238	5,561	88,985
Payroll taxes	35,690	4,570	40,260	3,910	6,011	50,181
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Total salaries and related expenses	577,514	76,787	654,301	106,133	94,454	854,888
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Consulting	162,776	21,222	183,998	32,372	3,969	220,339
Professional development	7,545	428	7,973	2,495	1,231	11,699
Bank fees and payroll fees	-	833	833	10,943	2,084	13,860
Advertising	1,266	976	2,242	-	-	2,242
Marketing and printing	2,729	3,390	6,119	281	13,370	19,770
Supplies	15,173	35,529	50,702	997	1,419	53,118
Telephone and network	18,613	3,696	22,309	2,478	2,348	27,135
Postage and shipping	1,385	421	1,806	310	751	2,867
Rent	-	7,300	7,300	-	25,183	32,483
Equipment rental, maintenance and purchases	5,627	4,020	9,647	398	308	10,353
Facilities maintenance and repair	28,363	4,274	32,637	3,196	2,490	38,323
Travel	2,865	633	3,498	1,755	288	5,541
Meetings	6,742	1,543	8,285	3,258	3,825	15,368
Insurance	20,471	2,007	22,478	1,949	1,949	26,376
Utilities	22,239	2,533	24,772	1,662	1,396	27,830
Depreciation	135,576	-	135,576	9,339	5,411	150,326
Other expenses	3,995	-	3,995	-	-	3,995
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	\$ 1,012,879	\$ 165,592	\$ 1,178,471	\$ 177,566	\$ 160,476	\$ 1,516,513
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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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (291,713)	\$ 161,612
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	140,188	150,326
Contributions of property and equipment	(7,388)	-
Changes in operating assets and liabilities:		
Decrease (increase) in contributions receivable	92,498	(176,218)
(Increase) decrease in prepaid expenses and other current assets	(481)	9,603
Increase in accounts payable and accrued expenses	5,935	7,899
Net cash (used in) provided by operating activities	(60,961)	153,222
Cash flows from investing activities:		
Purchases of property and equipment	(4,484)	(4,392)
Net cash used in investing activities	(4,484)	(4,392)
Net (decrease) increase in cash and cash equivalents	(65,445)	148,830
Cash and cash equivalents, beginning of year	789,270	640,440
Cash and cash equivalents, end of year	\$ 723,825	\$ 789,270
Supplemental Information:		
Non-cash activity:		
Contributions of property and equipment	\$ 7,388	\$ -
Contributions of supplies and items for sale	43,372	45,052
Total non-cash activity	\$ 50,760	\$ 45,052

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

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

1. Nature of Operations

Founded in 1991, ZUMIX, Inc. (“ZUMIX”) is a nationally recognized, non-profit cultural organization located in East Boston, MA. The mission of ZUMIX is to empower young people to build 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. 152 homicides were recorded; many of the victims and perpetrators were youth. ZUMIX was incorporated on April 1, 1991, with \$200, and the belief that giving young people an opportunity to express themselves through music, would dramatically improve their lives and elevate a neglected and economically depressed community.

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

For 29 years, ZUMIX has invested in this community, providing innovative arts education and enrichment programs for low-income youth, as well as free concerts and arts experiences for the larger community. Initially founded to address the pressing issue of gang violence, ZUMIX has evolved with the changing needs of its constituents and added to the cultural vitality of East Boston. With the recent development of luxury real estate and skyrocketing rents, East Boston is currently facing new challenges, which particularly affect our most vulnerable residents - youth and families. Low-income families are facing unprecedented levels of displacement and financial insecurity. Meanwhile, the COVID-19 Pandemic and policies that negatively affect immigrant populations have only added to the stress and risk that our young people and their families face every day. 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 to fair housing, immigrant rights, and economic equality, the role of ZUMIX in the lives of children and families is as vital as ever.

Recent Accomplishments

Highlights during the year ended March 31, 2020 include the following:

- ZUMIX paid 50 students a collective \$45,800 in 2019 as course co-facilitators, youth interns, Teen Council Members, performing musicians, live sound technicians, radio producers, studio engineers, and audio storytellers.
- In the 2018-2019 school year, 92% of ZUMIX seniors graduated from high school and are pursuing post-graduation plans. We are proud to announce that three of our seniors have received full-tuition scholarships to universities, one of whom was also East Boston High School’s valedictorian. The schools include Berklee College of Music, University of Wisconsin’s New Wave Hip-Hop program, and Northeastern University.
- ZUMIX students were invited to perform with Will Dailey at 2019’s TEDx Cambridge to a sold-out show at the Boston Opera House of 2,500 people.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

- ZUMIX audio production and radio students were honored to record voices for a 2019-2020 Institute of Contemporary Art exhibit When Home Won't Let You Stay. The piece was a focal point of the entryway to the museum.

COVID-19 Update

On March 13, 2020, ZUMIX closed physical operations due to the COVID-19 pandemic. ZUMIX's teaching staff did not miss a beat and was able to immediately shift to remote classes and lessons. ZUMIX has been able to continue serving students weekly through private lessons. Semester-based group programs have also continued, with appropriate adjustments to subject offerings and schedules. However, due to the restrictions around holding in-person events, all live events and youth sound service has been cancelled. These restrictions have also hindered ZUMIX's performing ensembles ability to perform at external paid events. With the firehouse building not being open to the public, space rentals and other modest earned income channels have stopped. ZUMIX believes their long-term financial health has enabled the Organization to weather this storm to date, and while FY21 will be impacted by the pandemic, the mission continues and youth are still given access to critical music education and youth development opportunities.

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 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, 2020 and 2019.

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.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Revenue Recognition

The Organization recognizes income from contributions when assets are received by or unconditionally promised to the organization, whichever occurs first. Revenues which represent fees for programs and events are recognized at the time the program or event takes place. Rental income is recognized when studio 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, 2020 and 2019.

Property and Equipment

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

Furniture 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 \$1,377 and \$2,242 for the years ended March 31, 2020 and 2019, respectively.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

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, 2020 and 2019, 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.

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, 2020 or 2019.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Adoption of New Accounting Guidance

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

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which replaces the current revenue accounting guidance (the “New Revenue Standard”). The core principle of the New Revenue Standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply a five-step model to 1) identify the contract(s) with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation.

Due to the COVID-19 pandemic described in note 11, in June 2020 the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) – *Effective Dates for Certain Entities*. The ASU defers the effective date of the New Revenue Standard to annual periods beginning after December 15, 2019. The Organization is in the process of determining the impact of the New Revenue Standard on the Organization’s financial statements.

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:

	<u>2020</u>	<u>2019</u>
Cash balance - Zumix, Inc.	\$ 548,185	\$ 614,317
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000 in 2020 and 2019.	185,447	169,612
Management designated capital asset replacement reserve	<u>(470,549)</u>	<u>(413,181)</u>
Fiscal assets available for operations within one year	<u>\$ 263,083</u>	<u>\$ 370,748</u>
Average monthly operating expenses	\$ 120,072	\$ 126,376
Months of operating funds available within one year	2.19	2.93

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:

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

	2020	2019
Less than one year	\$ 187,447	\$ 171,612
Between one and five years	-	108,333
	187,447	279,945
Allowance for bad debts	(2,000)	(2,000)
	\$ 185,447	\$ 277,945

5. Property and Equipment

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

	2020	2019
Furniture and fixtures	\$ 32,026	\$ 32,026
Motor vehicle	19,047	19,047
Computer equipment	365,881	354,009
Website	16,000	16,000
Land	227,998	227,998
Building and improvements	3,444,682	3,444,682
	4,105,634	4,093,762
Less accumulated depreciation and amortization	(1,596,970)	(1,456,781)
Property and equipment, net	\$ 2,508,664	\$ 2,636,981

As of March 31, 2020 and 2019, building and improvements include \$57,290 and \$60,119 net of accumulated amortization of \$27,584 and \$24,756, respectively, of capitalized interest costs incurred during the period of construction.

6. Contingent Note Payable

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

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

- a) The failure by ZFI at any time, in the reasonable judgment of East Boston CDC and beyond any applicable notice and cure period, substantially to adhere to the general purposes of any of the covenants, conditions and restrictions set forth in the deed to the Firehouse Property from the City of Boston to ZFI dated December 19, 2008 and recorded in the Suffolk County Registry of Deeds at Book 44360, Page 324, notwithstanding that the deed provides for an expiration of the covenants, conditions and restrictions.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

- 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.

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, 2020.

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:

	2020	2019
Purpose restrictions:		
Acquisition of program equipment and other capital expenditures	\$ 27,384	\$ -
Ted Rock scholarship	5,000	-
	32,384	-
Time restrictions:		
Amounts restricted for use in future periods	144,760	224,409
Total net assets with donor restrictions	\$ 177,144	\$ 224,409

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:

	2020	2019
Expiration of donor-imposed time restrictions	\$ 141,909	\$ 53,666
Purpose restrictions accomplished:		
Program expenses	-	5,735
Net assets released from donor restrictions	\$ 141,909	\$ 59,401

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Notes to Consolidated Financial Statements

March 31, 2020 and 2019

8. Credit Card Line of Credit

The Organization has a business line of credit available from a credit card company allowing for purchases or cash borrowings. As of March 31, 2020 the Organization had no outstanding balance or cash advance and as of March 31, 2019, the Organization had outstanding balances from purchases of \$1,014, which are included in accounts payable and accrued expenses, and no cash advances. As of March 31, 2020 and 2019, the Organization had remaining credit available for purchases of \$27,100 and \$26,824, and cash advances of \$5,600 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, 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, 2020 and 2019, the Organization recognized expenses for its contributions to the plan amounting to \$7,008 and \$6,676, 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 18, 2020 the date the financial statements were available to be issued.

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

COVID-19, an infectious disease, was identified and has been fast-spreading in the United States since February 2020. This has resulted in a significant disruption of the Organization’s program activities and operations. Future revenues and collection of receivables, which come primarily from contributions and program income, may be negatively impacted by the pandemic. While the disruption is currently expected to be temporary, the related financial impact and duration cannot be reasonably estimated at this time.

ZUMIX, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Considering the disruption related to COVID-19, the availability of liquid funds is important for ZUMIX to be a going concern. As of September 18, 2020, ZUMIX's liquidity and availability of funds can be summarized as the following:

	<u>September 18, 2020</u>
Cash balance - Zumix, Inc.	\$ 730,546
Contributions receivable, current portion net of allowance for doubtful accounts of \$2,000	69,943
Management designated capital asset replacement reserve	<u>(470,549)</u>
Fiscal assets available for operations within one year	<u><u>\$ 329,940</u></u>

ZUMIX, INC. AND AFFILIATE

Consolidating Statement of Financial Position

(Supplementary Information)

March 31, 2020

<i>Assets</i>	ZUMIX, Inc.	ZUMIX Firehouse, Inc.	Elimination	Consolidated
Current assets:				
Cash and cash equivalents	\$ 548,185	\$ 175,640	\$ -	\$ 723,825
Contributions receivable, net	185,447	-	-	185,447
Prepaid expenses and other current assets	26,088	-	-	26,088
Total current assets	759,720	175,640	-	935,360
Due from affiliate	2,109,562	23,100	(2,132,662)	-
Property and equipment, net	36,164	2,800,551	(328,050)	2,508,665
Amounts held for others	108,523	-	-	108,523
Interest in the net assets of ZUMIX Firehouse, Inc.	166,000	-	(166,000)	-
Total assets	\$ 3,179,969	\$ 2,999,291	\$ (2,626,712)	\$ 3,552,548
<i>Liabilities and Net Assets</i>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 57,754	\$ -	\$ -	\$ 57,754
Amounts held for others	108,523	-	-	108,523
Total current liabilities	166,277	-	-	166,277
Due to affiliate	23,100	2,109,562	(2,132,662)	-
Total liabilities	189,377	2,109,562	(2,132,662)	166,277
Net assets:				
Without donor restrictions	2,813,448	889,729	(494,050)	3,209,127
With donor restrictions	177,144	-	-	177,144
Total net assets	2,990,592	889,729	(494,050)	3,386,271
Total liabilities and net assets	\$ 3,179,969	\$ 2,999,291	\$ (2,626,712)	\$ 3,552,548

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

	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	\$ 200,506	\$ -	\$ 200,506	\$ -	\$ -	\$ -	\$ -	\$ 200,506
In-kind donations	43,372	-	43,372	-	-	-	-	43,372
Corporate donations	147,205	-	147,205	-	-	-	(48,000)	99,205
Foundation donations	553,990	87,384	641,374	-	-	-	-	641,374
Government grants	76,166	7,260	83,426	-	-	-	-	83,426
Program fees	178,876	-	178,876	-	-	-	-	178,876
Interest income	4,533	-	4,533	722	-	722	-	5,255
Rental income	29,157	-	29,157	48,000	-	48,000	(48,000)	29,157
Sale of product	803	-	803	-	-	-	-	803
Other income	5,568	-	5,568	-	-	-	-	5,568
Net assets released from restrictions	141,909	(141,909)	-	-	-	-	-	-
Total support and revenue	1,382,085	(47,265)	1,334,820	48,722	-	48,722	(96,000)	1,287,542
Expenses:								
Youth programs	856,530	-	856,530	149,050	-	149,050	(83,675)	921,905
Community arts program	234,510	-	234,510	6,120	-	6,120	(17,961)	222,669
Total program expenses	1,091,040	-	1,091,040	155,170	-	155,170	(101,636)	1,144,574
Management and general	239,074	-	239,074	8,656	-	8,656	(5,282)	242,448
Fundraising	188,894	-	188,894	8,621	-	8,621	(5,282)	192,233
Total expenses	1,519,008	-	1,519,008	172,447	-	172,447	(112,200)	1,579,255
Increase (decrease) in net assets	(136,923)	(47,265)	(184,188)	(123,725)	-	(123,725)	16,200	(291,713)
Net assets, beginning of year	2,950,371	224,409	3,174,780	1,013,454	-	1,013,454	(510,250)	3,677,984
Net assets, end of year	<u>\$ 2,813,448</u>	<u>\$ 177,144</u>	<u>\$ 2,990,592</u>	<u>\$ 889,729</u>	<u>\$ -</u>	<u>\$ 889,729</u>	<u>\$ (494,050)</u>	<u>\$ 3,386,271</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:				
Decrease in net assets	\$ (184,188)	\$ (123,725)	\$ 16,200	\$ (291,713)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:				
Depreciation	31,976	124,412	(16,200)	140,188
Contributions of of property and equipment	(7,388)	-	-	(7,388)
Changes in operating assets and liabilities:				
Decrease in contributions receivable	92,498	-	-	92,498
Increase in prepaid expenses and other current assets	(481)	-	-	(481)
Increase in accounts payable and accrued expenses	5,935	-	-	5,935
Net cash (used in) provided by operating activities	(61,648)	687	-	(60,961)
Cash flows from investing activities:				
Purchases of property and equipment	(4,484)	-	-	(4,484)
Net cash used in investing activities	(4,484)	-	-	(4,484)
Net (decrease) increase in cash and cash equivalents	(66,132)	687	-	(65,445)
Cash and cash equivalents, beginning of year	614,317	174,953	-	789,270
Cash and cash equivalents, end of year	\$ 548,185	\$ 175,640	\$ -	\$ 723,825
Supplemental Information:				
Non-cash activity:				
Contributions of of property and equipment	\$ 7,388	\$ -	\$ -	\$ 7,388
Contributions of supplies and items for sale	43,372	-	-	43,372
Total non-cash activity	\$ 50,760	\$ -	\$ -	\$ 50,760

See accompanying independent auditors' report.