

Sitar Arts Center

Financial Statements
and Independent Auditors' Report

June 30, 2020 and 2019

Sitar Arts Center

Financial Statements
June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sitar Arts Center

We have audited the accompanying financial statements of Sitar Arts Center (“the Organization”), which comprise the statements of financial position as of June 30, 2020 and 2019; the related statements of activities, 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia
December 4, 2020

Sitar Arts Center

Statements of Financial Position June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 978,247	\$ 663,345
Investments	355,364	290,926
Accounts receivable	15,465	8,818
Grants and contributions receivable, net	1,913,681	571,850
Government grants receivable	54,472	50,684
Prepaid expenses and other assets	45,206	34,709
Property and equipment, net	6,898,029	6,718,504
 Total assets	 \$ 10,260,464	 \$ 8,338,836
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 222,530	\$ 227,038
Deferred revenue	52,400	-
Loan payable – Paycheck Protection Program	252,300	-
Line of credit	139,142	-
Forgivable loans	1,630,000	1,740,000
Mortgages payable, net	1,533,035	1,554,955
 Total liabilities	 3,829,407	 3,521,993
 Net Assets		
Without donor restrictions:		
Undesignated	3,925,667	3,756,935
Board-designated quasi-endowment fund	355,364	290,926
 Total without donor restrictions	 4,281,031	 4,047,861
Total with donor restrictions	2,150,026	768,982
 Total net assets	 6,431,057	 4,816,843
 Total liabilities and net assets	 \$ 10,260,464	 \$ 8,338,836

See accompanying notes.

Sitar Arts Center

Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions:			
Individuals	\$ 987,503	\$ 1,464,000	\$ 2,451,503
Foundations	302,251	352,500	654,751
Corporate	57,993	-	57,993
Other	19,702	-	19,702
Government grants	668,479	-	668,479
In-kind contributions	69,848	-	69,848
Registration income	84,633	-	84,633
Fee for service	67,400	-	67,400
Rental income	5,345	-	5,345
Interest and dividends	8,231	-	8,231
Other income	1,775	-	1,775
Released from restrictions	435,456	(435,456)	-
Total operating revenue and support	2,708,616	1,381,044	4,089,660
Expenses			
Program services:			
Art	365,610	-	365,610
Dance	40,925	-	40,925
Drama	96,755	-	96,755
Music	75,108	-	75,108
Digital Writing	24,156	-	24,156
Afterschool Center	271,575	-	271,575
Early Childhood Arts	280,971	-	280,971
Summer	414,805	-	414,805
Teen	136,340	-	136,340
Total program services	1,706,245	-	1,706,245
Supporting services:			
Management and general	433,908	-	433,908
Fundraising	247,641	-	247,641
Total supporting services	681,549	-	681,549
Total expenses	2,387,794	-	2,387,794
Change in Net Assets from Operations	320,822	1,381,044	1,701,866
Non-Operating Activities			
Unrealized gain on investments	7,791	-	7,791
Depreciation and amortization expense	(205,443)	-	(205,443)
Forgivable loans	110,000	-	110,000
Total non-operating activities	(87,652)	-	(87,652)
Change in Net Assets	233,170	1,381,044	1,614,214
Net Assets, beginning of year	4,047,861	768,982	4,816,843
Net Assets, end of year	\$ 4,281,031	\$ 2,150,026	\$ 6,431,057

See accompanying notes.

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Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions:			
Individuals	\$ 499,653	\$ -	\$ 499,653
Foundations	339,444	349,600	689,044
Corporate	100,191	-	100,191
Other	23,345	-	23,345
Government grants	488,219	125,000	613,219
In-kind contributions	218,434	-	218,434
Registration income	113,606	-	113,606
Fee for service	130,671	-	130,671
Rental income	5,117	-	5,117
Interest and dividends	10,278	-	10,278
Other income	5,236	-	5,236
Released from restrictions	631,647	(631,647)	-
Total operating revenue and support	2,565,841	(157,047)	2,408,794
Expenses			
Program services:			
Art	148,628	-	148,628
Dance	106,962	-	106,962
Drama	83,322	-	83,322
Music	175,343	-	175,343
Digital Writing	57,318	-	57,318
Afterschool Center	387,932	-	387,932
Early Childhood Arts	280,126	-	280,126
Summer	369,147	-	369,147
Teen	144,687	-	144,687
Total program services	1,753,465	-	1,753,465
Supporting services:			
Management and general	466,978	-	466,978
Fundraising	308,180	-	308,180
Total supporting services	775,158	-	775,158
Total expenses	2,528,623	-	2,528,623
Change in Net Assets from Operations	37,218	(157,047)	(119,829)
Non-Operating Activities			
Unrealized gain on investments	7,258	-	7,258
Realized gain on investments	92	-	92
Depreciation and amortization expense	(196,263)	-	(196,263)
Forgivable loans	110,000	-	110,000
Total non-operating activities	(78,913)	-	(78,913)
Change in Net Assets	(41,695)	(157,047)	(198,742)
Net Assets, beginning of year	4,089,556	926,029	5,015,585
Net Assets, end of year	\$ 4,047,861	\$ 768,982	\$ 4,816,843

See accompanying notes.

Sitar Arts Center

Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program Services									Supporting Services			Total Expenses	
	Art	Dance	Drama	Music	Digital Writing	Afterschool Center	Early Childhood Arts	Summer	Teen	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 284,715	\$ 6,801	\$ 10,201	\$ 11,901	\$ 5,101	\$ 140,303	\$ 167,037	\$ 216,749	\$ 88,287	\$ 931,095	\$ 133,249	\$ 108,125	\$ 241,374	\$ 1,172,469
Payroll taxes	28,733	2,263	3,394	3,960	1,697	7,537	6,906	35,262	3,432	93,184	3,533	5,444	8,977	102,161
Employee benefits	24,424	19,539	14,655	29,309	9,770	-	-	-	-	97,697	12,701	11,724	24,425	122,122
Professional fees	3,098	1,457	4,871	12,834	582	68,922	52,296	96,888	2,908	243,856	109,468	3,490	112,958	356,814
Interest	-	-	-	-	-	-	-	-	-	-	75,748	-	75,748	75,748
Occupancy expenses	2,908	2,181	1,454	3,635	1,454	11,632	11,632	12,359	7,270	54,525	9,450	8,724	18,174	72,699
Event expense	1,082	1,182	1,963	1,352	541	4,326	4,326	5,737	2,704	23,213	10,805	78,128	88,933	112,146
Supplies	9,485	3,063	18,109	4,720	1,888	15,183	15,102	19,506	10,273	97,329	12,273	11,413	23,686	121,015
Repairs and maintenance	1,287	965	643	1,608	643	5,146	5,146	5,468	3,216	24,122	4,181	3,860	8,041	32,163
Insurance	1,302	976	651	1,627	651	5,207	5,207	5,532	3,254	24,407	7,264	3,905	11,169	35,576
Printing and publication	106	80	1,543	133	53	425	425	546	2,994	6,305	346	354	700	7,005
Bank charges	-	-	-	-	-	-	-	-	-	-	7,957	-	7,957	7,957
Dues and subscriptions	803	543	5,614	905	362	2,897	2,897	3,306	5,754	23,081	2,671	2,173	4,844	27,925
Telephone	322	242	161	403	161	1,290	1,290	1,370	806	6,045	1,048	967	2,015	8,060
Office supplies and expense	217	163	628	271	108	867	867	921	542	4,584	704	650	1,354	5,938
Uncollectible contributions	-	-	-	-	-	-	-	-	-	-	35,917	-	35,917	35,917
Staff development	146	109	2,332	182	73	583	583	3,354	364	7,726	474	437	911	8,637
Volunteer expenses	120	-	3,638	-	165	-	-	89	-	4,012	-	-	-	4,012
Parking and transportation	190	106	1,711	177	71	566	566	609	354	4,350	459	425	884	5,234
Postage and delivery	10	8	356	13	5	42	42	44	26	546	251	2,835	3,086	3,632
Miscellaneous	1,662	1,247	831	2,078	831	6,649	6,649	7,065	4,156	31,168	5,409	4,987	10,396	41,564
Evaluations	5,000	-	24,000	-	-	-	-	-	-	29,000	-	-	-	29,000
Totals	\$ 365,610	\$ 40,925	\$ 96,755	\$ 75,108	\$ 24,156	\$ 271,575	\$ 280,971	\$ 414,805	\$ 136,340	\$ 1,706,245	\$ 433,908	\$ 247,641	\$ 681,549	\$ 2,387,794

See accompanying notes.

Sitar Arts Center

Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services										Supporting Services			Total Expenses
	Art	Dance	Drama	Music	Digital Writing	Afterschool Center	Early Childhood Arts	Summer	Teen	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 100,896	\$ 80,849	\$ 60,538	\$ 121,075	\$ 40,358	\$ 159,068	\$ 137,217	\$ 126,558	\$ 83,210	\$ 909,769	\$ 79,466	\$ 101,585	\$ 181,051	\$ 1,090,820
Payroll taxes	7,719	6,185	4,631	9,262	3,087	12,169	10,497	9,682	6,366	69,598	5,882	7,771	13,653	83,251
Employee benefits	8,669	5,787	4,340	8,680	2,893	23,689	8,826	13,070	8,344	84,298	2,823	9,924	12,747	97,045
Professional fees	2,745	1,191	4,694	12,392	405	67,507	50,881	95,385	2,024	237,224	95,268	2,429	97,697	334,921
Interest	-	-	-	-	-	-	-	-	-	-	72,239	-	72,239	72,239
Occupancy expenses	2,756	2,067	1,378	3,446	1,378	11,026	11,026	11,715	6,891	51,683	8,958	8,269	17,227	68,910
Event expense	884	-	-	-	-	5,815	860	3,103	1,129	11,791	10,805	132,104	142,909	154,700
Supplies	11,239	5,318	3,481	10,025	5,385	51,226	30,334	71,738	17,404	206,150	22,627	20,971	43,598	249,748
Repairs and maintenance	2,980	2,235	1,490	3,725	1,490	11,919	11,919	12,664	7,449	55,871	9,684	8,939	18,623	74,494
Insurance	1,328	996	664	1,660	664	5,311	5,311	5,643	3,320	24,897	7,348	3,983	11,331	36,228
Printing and publication	493	183	122	502	122	9,293	1,014	3,740	610	16,079	794	767	1,561	17,640
Bank charges	-	-	-	-	-	-	-	-	-	-	20,225	-	20,225	20,225
Dues and subscriptions	1,081	811	1,091	1,352	643	5,708	4,325	5,985	2,703	23,699	3,831	3,244	7,075	30,774
Telephone	300	225	150	374	150	1,198	1,198	1,273	749	5,617	974	899	1,873	7,490
Office supplies and expense	433	325	216	541	216	1,731	1,731	1,840	1,082	8,115	1,407	1,298	2,705	10,820
Uncollectible contributions	-	-	-	-	-	-	-	-	-	-	114,183	-	114,183	114,183
Staff development	686	514	343	857	343	2,742	2,742	2,914	1,714	12,855	2,228	2,057	4,285	17,140
Volunteer expenses	5,280	-	-	220	-	-	-	772	-	6,272	-	-	-	6,272
Parking and transportation	1,139	276	184	1,232	184	2,245	2,245	2,337	1,692	11,534	1,196	1,105	2,301	13,835
Postage and delivery	-	-	-	-	-	485	-	728	-	1,213	251	2,835	3,086	4,299
Miscellaneous	-	-	-	-	-	-	-	-	-	-	6,789	-	6,789	6,789
Evaluations	-	-	-	-	-	16,800	-	-	-	16,800	-	-	-	16,800
Totals	\$ 148,628	\$ 106,962	\$ 83,322	\$ 175,343	\$ 57,318	\$ 387,932	\$ 280,126	\$ 369,147	\$ 144,687	\$ 1,753,465	\$ 466,978	\$ 308,180	\$ 775,158	\$ 2,528,623

Sitar Arts Center

Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 1,614,214	\$ (198,742)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(7,791)	(7,350)
Depreciation and amortization	205,443	196,263
Amortization of debt issuance costs	6,390	5,470
Forgivable loans	(110,000)	(110,000)
Donated securities	(63,846)	(98,607)
Change in allowance for uncollectible receivables	12,623	(9,663)
Change in present value discount on multi-year grants and contributions receivable	(2,518)	(18,971)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(6,647)	(8,392)
Grants and contributions receivable	(1,351,936)	216,010
Government grants receivable	(3,788)	75,793
Prepaid expenses and other assets	(10,497)	14,545
(Decrease) increase in:		
Accounts payable and accrued expenses	(4,508)	26,763
Deferred revenue	52,400	(5,600)
	329,539	77,519
Cash Flows from Investing Activities		
Purchases of property and equipment	(384,968)	(18,886)
Purchases of investments and reinvested interest	(56,456)	(47,118)
Proceeds from sales of investments	63,655	100,683
	(377,769)	34,679
Cash Flows from Financing Activities		
Proceeds from issuance of loan – Paycheck Protection Program	252,300	-
Proceeds from line of credit	150,000	-
Payment on line of credit	(10,858)	-
Principal payments on mortgages payable	(28,310)	(46,882)
	363,132	(46,882)
Net Increase in Cash and Cash Equivalents	314,902	65,316
Cash and Cash Equivalents, beginning of year	663,345	598,029
Cash and Cash Equivalents, end of year	\$ 978,247	\$ 663,345
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 61,939	\$ 72,239
Non-Cash Investing and Financing Transaction		
Gain on forgivable loans	\$ 110,000	\$ 110,000

See accompanying notes.

Sitar Arts Center

Notes to Financial Statements
June 30, 2020 and 2019

1. Nature of Operations

The Sitar Arts Center (“the Organization”) was incorporated on June 26, 1998. The mission of the Organization is to offer possibilities that transform the lives of children and teens born into a world of unequal access to opportunity. The Organization engages children and teens in the highest quality visual, performing, and digital arts so that students learn about themselves and gain critical life skills for learning and work in the 21st century.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Organization’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-designated quasi-endowment fund for operations, as described in Note 13.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are 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.

Cash Equivalents

For the purpose of the statements of financial position and the statements of cash flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Sitar Arts Center

Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of activities.

Accounts Receivable

Accounts receivable are all due within one year and recorded at net realizable value. Management determines the allowance for doubtful accounts by using historical experience. There is no provision for doubtful accounts, based on management's evaluation of the accounts receivable at June 30, 2020 and 2019, as management deems all accounts receivable to be fully collectible.

Grants and Contributions Receivable

Grants and contributions receivable are reflected at either net realizable value or at net present value based on projected cash flows. Amounts receivable in more than one year were discounted to net present value at an average annual rate of 0.66% and 2.0% at June 30, 2020 and 2019, respectively, using a rate that considers market and credit risk. Management reviews receivables on an annual basis to determine if any receivables are potentially uncollectible. Receivable balances that are determined to be uncollectible are included in the overall allowance for uncollectible receivables, which reduces receivables in the statements of financial position. The allowance for uncollectible receivables was \$6,205 and \$8,723 for the years ended June 30, 2020 and 2019, respectively.

Government Grants Receivable

Government grants receivable principally represent amounts due from federal and other government agencies. The entire amount of government grants receivable is expected to be collected within one year and is recorded at net realizable value. No allowance for doubtful accounts has been recorded, as management believes that all receivables are fully collectible.

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Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment purchased at a cost of \$1,000 or more and with a useful life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method of depreciation and amortization over the estimated useful lives of the individual assets, as follows:

Musical instruments	5 years
Furniture and equipment	5 – 7 years
Building and building improvements	10 – 40 years

Land is not depreciated or amortized. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts, and the resulting gain or loss is included in revenue or expenses.

Revenue Recognition

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports contributions and grants as restricted support if they are received with donor or grantor 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 to net assets without donor restrictions and reported in the statements of activities as net assets without donor restrictions.

Government grants that are cost reimbursable in nature are recognized as revenue as the related expenditures are incurred. Costs incurred in excess of cash received are reflected as government grants receivable, and cash received in excess of costs incurred is reflected as refundable advances in the accompanying statements of financial position.

Forgivable loans are treated as government grants, as there is reasonable assurance that the Organization will meet the terms necessary for forgiveness of the loans provided. These forgivable loans are described in Note 10, and revenue is recognized as loans are forgiven over the terms of the agreements as non-operating activities in the accompanying statements of activities.

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Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue from events is recognized at the time of the event. Any amounts received in advance are reflected as deferred revenue until the event occurs, at which time the performance obligation is met, and revenue is recognized.

Revenue from all other sources is recognized when earned.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Advertising

The Organization expenses advertising costs as incurred. Advertising expenses totaled \$217 and \$219 for the years ended June 30, 2020 and 2019, respectively.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities and excludes realized and unrealized gains and losses on investments, depreciation and amortization expense, and forgivable loans.

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Notes to Financial Statements
June 30, 2020 and 2019

2. Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in these financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 4, 2020, the date the financial statements were available to be issued. The Organization has disclosed certain subsequent events that occurred after June 30, 2020, as described in Notes 9, 11, and 14.

3. Liquidity and Availability

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Organization's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity are invested in various short-term investments and highly liquid securities.

Additionally, the Organization considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization also considers its Board-designated quasi-endowment fund, which is comprised of funds set aside for use in operations, to be available to meet cash needs for general expenditures.

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

3. Liquidity and Availability (continued)

Financial assets that are available for general expenditures within one year of the statements of financial position date comprise the following at June 30:

	2020	2019
Cash and cash equivalents	\$ 978,247	\$ 663,345
Investments	355,364	290,926
Accounts receivable	15,465	8,818
Grants and contributions receivable – due within one year	903,497	369,244
Government grants receivable	54,472	50,684
Total available for general expenditures	<u>\$ 2,307,045</u>	<u>\$ 1,383,017</u>

4. Concentrations

Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Organization maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Organization has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

Revenue Risk

During the year ended June 30, 2020, a substantial portion of the Organization's revenue was recognized from two donors. These contributions represent approximately 37% of the Organization's total operating revenue and support. There was no concentration in revenue donations during the year ended June 30, 2019.

Sitar Arts Center

Notes to Financial Statements
June 30, 2020 and 2019

5. Investments and Fair Value Measurements

The Organization follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Organization's fair value hierarchy for those investments measured on a recurring basis at June 30:

	Level 1	Level 2	Level 3	Total
<u>2020:</u>				
Mutual fund:				
Moderate growth fund	\$ 355,364	\$ -	\$ -	\$ 355,364
Total investments	\$ 355,364	\$ -	\$ -	\$ 355,364
<u>2019:</u>				
Mutual fund:				
Moderate growth fund	\$ 290,926	\$ -	\$ -	\$ 290,926
Total investments	\$ 290,926	\$ -	\$ -	\$ 290,926

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

5. Investments and Fair Value Measurements (continued)

Net investment return consists of the following for the years ended June 30:

	2020	2019
Interest and dividends	\$ 8,231	\$ 10,278
Unrealized gain	7,791	7,258
Realized gain	-	92
	<u>\$ 16,022</u>	<u>\$ 17,628</u>

The Organization did not have any investment management expenses for the years ended June 30, 2020 and 2019.

6. Receivables

Grants and contributions receivable are promised as follows at June 30:

	2020	2019
Due in less than one year	\$ 903,497	\$ 369,244
Due in one to five years	936,833	219,150
Due in more than five years	100,000	-
	<u>1,940,330</u>	<u>588,394</u>
Total grants and contributions receivable		
Less: allowance for uncollectible receivables	(6,205)	(8,723)
Less: discount to present value	(20,444)	(7,821)
	<u>\$ 1,913,681</u>	<u>\$ 571,850</u>

The entire amount of government grants receivable is expected to be collected within one year and is recorded at net realizable value.

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Notes to Financial Statements June 30, 2020 and 2019

7. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land	\$ 1,400,971	\$ 1,400,971
Building	4,679,658	4,679,658
Building improvements	2,987,268	2,706,557
Furniture and equipment	504,648	430,994
Musical instruments	109,578	109,578
	<u>9,682,123</u>	<u>9,327,758</u>
Total property and equipment	9,682,123	9,327,758
Less: accumulated depreciation and amortization	<u>(2,784,094)</u>	<u>(2,609,254)</u>
Property and equipment, net	<u>\$ 6,898,029</u>	<u>\$ 6,718,504</u>

8. Loan Payable – Paycheck Protection Program

The Organization applied for a loan under the Paycheck Protection Program (PPP) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 coronavirus, for which the Organization qualified. After the loans are granted, the Small Business Administration (SBA) will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses (which primarily consist of payroll costs, costs used to continue group healthcare benefits, rent, and utilities).

The loan was granted to the Organization on April 11, 2020 in the amount of \$252,300 and it is management's intention to use the entire loan amount for qualifying expenses in order to apply for full forgiveness. Once the loan is, in part or wholly, forgiven and legal release is received, the Organization will reduce the liability by the amount forgiven and record a gain on extinguishment in the statements of activities, which is expected to occur in fiscal year 2021. If the Organization is not approved for full forgiveness by the SBA, the loan would bear interest at a fixed rate of 1.00%, which is payable monthly commencing on October 12, 2020 and maturing on April 11, 2022. The proceeds from this loan may be repaid by the Organization at any time prior to maturity with no prepayment penalties should full forgiveness not be granted. At June 30, 2020, the Organization recorded \$252,300 as a loan payable, which is reflected in the accompanying statements of financial position.

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

8. Loan Payable – Paycheck Protection Program (continued)

Principal payments on the loan obligation are as follows for the years ending June 30:

2021	\$	125,677
2022		<u>126,623</u>
Total principal payments	\$	<u><u>252,300</u></u>

9. Line of Credit

The Organization maintains a \$150,000 line of credit with a bank, under which the Organization may borrow, at the variable interest rate of one-month LIBOR plus 3.5%. The line of credit is secured by the Organization's non-realty assets and is due on demand. When the line is utilized, interest-only payments are due on a monthly basis. There is an outstanding balance on this line of credit amounting to \$139,142 and \$0 at June 30, 2020 and 2019, respectively.

Subsequent to year end on October 29, 2020, the Organization opened a new revolving line of credit with a bank in the amount of \$1,700,000. The line of credit bears interest at a variable interest rate based on the Wall Street Journal Prime Rate. Interest-only payments commence on November 29, 2020 on any outstanding principal balances, and the sum is due in full on October 29, 2022.

10. Forgivable Loans

On June 20, 2005, the Organization received a forgivable loan of \$400,000 from the District of Columbia's Department of Housing and Community Development. The loan is unsecured and bears a 0% interest rate and matures on June 20, 2025. Beginning June 20, 2006, at each anniversary date of this loan, \$20,000 of the principal balance will be forgiven as long as the loan is not in default. The revenue is recorded as amortization of forgivable loans and is included as a non-operating activity in the accompanying statements of activities. The balance of the loan at June 30, 2020 and 2019 was \$100,000 and \$120,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

10. Forgivable Loans (continued)

On February 13, 2006, the Organization received another forgivable loan of \$1,800,000 from the District of Columbia's Department of Housing and Community Development for the purchase of property. The loan bears a 0% interest rate. This loan is secured by the property's deed of trust and matures on February 13, 2036. Beginning February 13, 2017, at each anniversary date of this loan, \$90,000 of the principal balance will be forgiven as long as the note is not in default. In the event of the sale of the property or noncompliance with loan requirements, the obligation is payable in accordance with the stipulated loan provisions. The revenue is recorded as amortization of forgivable loans and included as a non-operating activity in the accompanying statements of activities. The balance of the loan at June 30, 2020 and 2019 was \$1,530,000 and \$1,620,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

11. Mortgages Payable

On October 30, 2014, the Organization entered into a mortgage with Capital One, NA in the amount of \$1,185,000. The mortgage is secured by its property's deed of trust and matures on November 14, 2024. The mortgage requires monthly principal and interest payments of \$6,387, and interest is calculated at the rate of 4.125% per annum. The balance of this mortgage as of June 30, 2020 and 2019 was \$1,038,753 and \$1,051,517, respectively, and is included in mortgages payable in the accompanying statements of financial position.

On August 28, 2015, the Organization purchased unit #102 at 1700 Kalorama Road, NW, in Washington, D.C. for the amount of \$1,300,000. The Organization purchased this suite in response to the community need for high quality creative youth development programs. To purchase this property, the Organization borrowed \$561,258 from two financial institutions resulting in a primary loan and a subordinated loan. The primary loan amounted to \$460,000 and is secured by the property's deed of trust. The primary loan matures on August 28, 2020, and interest is paid monthly at the rate of 4.125% per annum.

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Notes to Financial Statements June 30, 2020 and 2019

11. Mortgages Payable (continued)

The subordinated loan is also secured by the property's deed of trust, and amounted to \$115,000. This subordinated loan was scheduled to mature on August 28, 2020. Principal and interest is due monthly, payable at the rate of 4% per annum on a 25-year amortization. The balance of each loan was \$404,521 and \$101,640 at June 30, 2020 and \$416,973 and \$104,734 at June 30, 2019, respectively, and is included in mortgages payable in the accompanying statements of financial position.

The Organization incurred debt issuance costs in the refinancing of its mortgage obligation. These costs are being amortized over the term of the related debt using the effective interest method. Debt issuance costs, net of amortization, are reported as a direct deduction from the face amount of the mortgage payable to which such costs relate. Deferred debt issuance costs totaled \$11,879 and \$18,269 at June 30, 2020 and 2019, respectively. Amortization expense was \$6,390 and \$5,470 for the years ended June 30, 2020 and 2019, respectively, and is included as a component of interest expense in the accompanying statements of activities.

Subsequent to year end, on October 29, 2020, the Organization refinanced its mortgage obligations with a new lender for the principal sum of \$1,600,000. The new loan commenced on October 29, 2020, and is scheduled to mature on October 29, 2027, bearing a fixed interest rate of 3.94%.

The future principal payments under these mortgages payable are as follows at June 30:

2021	\$ 540,904
2022	36,224
2023	37,768
2024	39,276
2025	<u>878,863</u>
Total future principal payments	<u>\$ 1,533,035</u>

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

12. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at June 30:

	2020	2019
Program restricted:		
Capital Campaign – 1724 Purchase	\$ 1,790,000	\$ -
Instrumental Academy	12,500	15,000
Camp Sitar	-	120,206
Suite 102	120,000	120,000
Youth services	17,276	13,276
Video to DVD project	250	250
Time restricted	210,000	500,250
Total net assets with donor restrictions	\$ 2,150,026	\$ 768,982

13. Board-Designated Quasi-Endowment

The Organization's Board-designated quasi-endowment fund was established by the governing Board to invest donations without restrictions from donors into a fund in which the principal is invested to provide income and sustain the Organization for the long-term. The principal of the fund resulted from internal designation and is classified as net assets without donor restrictions. Accordingly, the Board-designated quasi-endowment fund is not subject to the D.C. Uniform Prudent Management of Institutional Funds Act.

Composition of Funds and Changes in Board-Designated Quasi-Endowment Fund

Composition of funds and changes in the Board-designated quasi-endowment fund were as follows for the years ended June 30:

	2020	2019
Beginning balance	\$ 290,926	\$ 233,434
Purchases	49,563	51,201
Interest and dividend income	8,231	12,779
Unrealized gain (loss)	7,644	(4,488)
Appropriation of assets for expenditure	(1,000)	(2,000)
Ending balance	\$ 355,364	\$ 290,926

Sitar Arts Center

Notes to Financial Statements
June 30, 2020 and 2019

13. Board-Designated Quasi-Endowment (continued)

Return Objectives, Risk Parameters, and Strategies

The Organization's investment policy provides for a strategy of long-term growth of the Board-designated quasi-endowment fund. Under this policy, the endowment assets are invested with the goal of maximizing total return while avoiding unnecessary risk and maintaining the purchasing power of the underlying assets.

The investment objective is to achieve a real rate of return (net of inflation and expenses) sufficient to generate gains and income on the total funds invested. Risk is evaluated in terms of total portfolio rather than individual investment. To minimize the risk, the portfolio allows for diversification across asset classes, economic sectors, industry groups, and individual securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a strategy in which investment returns are achieved through continued reinvestment of realized capital gains and earned income. The Organization employs a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Investment Policy and How the Investment Objectives Relate to Spending Policy

The Organization's governing Board guides the financial management of the Board-designated quasi-endowment fund, and makes decisions on the expenditures of the earnings. The income earned from the fund is utilized for the Organization's programs and operations.

14. Commitments and Contingencies

Government Grants

Funds received from federal and other government agencies are subject to an audit under the provisions of the grant agreements. The ultimate determination of amounts received under these grants is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grants are closed out, a potential contingency exists to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability exists.

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Notes to Financial Statements
June 30, 2020 and 2019

14. Commitments and Contingencies (continued)

Operating Lease

The Organization entered into an operating lease for office equipment commencing in May 2019 and is scheduled to expire in April 2024. This lease requires fixed monthly payments of \$275.

Future minimum lease payments under the operating lease are as follows for the years ending June 30:

2021	\$	3,305
2022		3,305
2023		3,305
2024		<u>2,754</u>
Total future principal payments	\$	<u><u>12,669</u></u>

Guarantor Commitment

Subsequent to year end, on July 16, 2020, the Organization became a guarantor for Platform for Hope, an organization seeking its tax-exempt status on a line of credit opened by its fiscal sponsor, Jubilee Housing, Inc. Under the line of credit, Platform for Hope may borrow up to \$75,000 to finance short-term working capital needs. The line of credit is secured by the Jubilee Housing, Inc.'s assets at the bank. As the guarantor, the Organization may be held responsible to pay outstanding balances on the line of credit upon demand.

Future Purchase Commitment

On September 29, 2019, the Organization signed a letter of intent to purchase property located at 1724 Kalorama Road, NW, in Washington, D.C. The terms of the purchase include a purchase price of \$4,300,569, and an agreement that the Organization will allow the seller to utilize space located in the property under a shared space agreement. A purchase agreement has not yet been entered into as of December 4, 2020, the date the financial statements were available to be issued.

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Notes to Financial Statements
June 30, 2020 and 2019

15. In-Kind Contributions

Donated Services

The Organization receives donated services in the form of teaching and other professional services, which totaled \$51,028 and \$141,087 for the years ended June 30, 2020 and 2019, respectively. Services are recognized only when they create or enhance nonfinancial assets, or require specialized skills, are provided by qualified individuals, and would typically be purchased if not donated. Donated services are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used. These donated services are included in in-kind contributions in the accompanying statements of activities.

The Organization also receives a substantial amount of services donated by volunteers in carrying out its program services. These donated services are not reflected in the accompanying financial statements since they do not meet the criteria for recognition under FASB ASC 958, *Accounting for Contributions Received and Contributions Made*.

Donated Goods

Donated goods consist of various items contributed to the Organization for use in programs and activities. These goods are recorded as in-kind contributions in the accompanying statements of activities at their estimated value at the date of receipt. Donated goods for the years ended June 30, 2020 and 2019 were \$15,622 and \$23,371, respectively.

Additionally, the Organization receives donated goods for the gala and silent auction event. Donated auction items are recorded at their estimated fair value at the date of donation, and subsequently adjusted based on the proceeds received. Donated auction items totaled \$3,198 and \$53,976 for the years ended June 30, 2020 and 2019, respectively.

16. Related Party Transactions

During the years ended June 30, 2020 and 2019, the Organization's Board members and their families made contributions to the Organization amounting to \$128,428 and \$40,780, respectively.

Sitar Arts Center

Notes to Financial Statements June 30, 2020 and 2019

17. Retirement Plan

The Organization maintains a SIMPLE IRA retirement plan for the benefit of its employees. All employees are eligible to participate and the Organization matches employee contributions up to 3% of each employee's compensation. The Organization's contributions to the plan for the years ended June 30, 2020 and 2019 were \$17,783 and \$14,500, respectively.

18. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocates the majority of its expenses utilizing an indirect cost allocation methodology. Expenses that are allocated include salaries, payroll taxes, and employee benefits, which are allocated on the basis of estimates of time and effort. Additionally, the remaining expenses are allocated using an overhead general administrative allocation, which is based on the actual staff allocations of time and efforts of programming.

19. Income Taxes

The Organization is recognized as a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3), and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant unrelated business taxable income. Contributions to the Organization are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management has evaluated the Organization's tax positions and concluded that the Organization's financial statements do not include any uncertain tax positions.

20. COVID-19 Pandemic

The COVID-19 outbreak in the United States and around the world has caused operational disruption and the need for the Organization to update its programming to an online platform to continue to serve its mission. The Organization's management has been monitoring the safety protocols and guidelines from the Government of the District of Columbia in order to safely continue operations. While the disruption is expected to be temporary, there is considerable uncertainty around its duration, and the full financial impact cannot be reasonably estimated at this time.