

Sitar Arts Center

Financial Statements
and Independent Auditors' Report

June 30, 2021 and 2020

Sitar Arts Center

Financial Statements
June 30, 2021 and 2020

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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, 2021 and 2020; 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

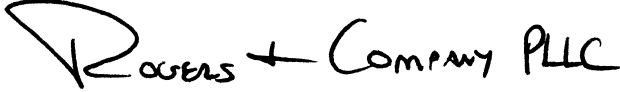
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2021 and 2020, 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.

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

Vienna, Virginia
November 13, 2021

Sitar Arts Center

Statements of Financial Position June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 2,342,594	\$ 978,247
Investments	437,593	355,364
Accounts receivable	1,423	15,465
Grants and contributions receivable, net	1,685,678	1,913,681
Government grants receivable	37,030	54,472
Prepaid expenses and other assets	74,008	45,206
Property and equipment, net	6,818,126	6,898,029
Total assets	\$ 11,396,452	\$ 10,260,464
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 158,080	\$ 222,530
Deferred revenue	13,805	52,400
Loan payable – Paycheck Protection Program	293,185	252,300
Line of credit	73,475	139,142
Forgivable loans	1,520,000	1,630,000
Mortgages payable, net	1,544,680	1,533,035
Total liabilities	3,603,225	3,829,407
Net Assets		
Without donor restrictions:		
Undesignated	4,228,609	3,925,667
Board-designated quasi-endowment fund	437,592	355,364
Total without donor restrictions	4,666,201	4,281,031
Total with donor restrictions	3,127,026	2,150,026
Total net assets	7,793,227	6,431,057
Total liabilities and net assets	\$ 11,396,452	\$ 10,260,464

See accompanying notes.

Sitar Arts Center

Statement of Activities
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions:			
Individuals	\$ 741,155	\$ 1,177,500	\$ 1,918,655
Foundations	579,770	105,000	684,770
Corporate	69,462	9,000	78,462
Other	254,081	-	254,081
Government grants	625,305	-	625,305
In-kind contributions	145,315	-	145,315
Registration income	35,950	-	35,950
Interest and dividends	14,129	-	14,129
Other income	3,604	-	3,604
Released from restrictions	314,500	(314,500)	-
Total operating revenue and support	<u>2,783,271</u>	<u>977,000</u>	<u>3,760,271</u>
Expenses			
Program services:			
Arts After School	523,365	-	523,365
Arts Aftercare Program	243,148	-	243,148
Early Childhood Arts	190,860	-	190,860
Summer Programs	393,118	-	393,118
Teen Programs	163,301	-	163,301
Total program services	<u>1,513,792</u>	<u>-</u>	<u>1,513,792</u>
Supporting services:			
Management and general	438,784	-	438,784
Fundraising	393,730	-	393,730
Total supporting services	<u>832,514</u>	<u>-</u>	<u>832,514</u>
Total expenses	<u>2,346,306</u>	<u>-</u>	<u>2,346,306</u>
Change in Net Assets from Operations	436,965	977,000	1,413,965
Non-Operating Activities			
Unrealized gain on investments	67,169	-	67,169
Realized gain on investments	972	-	972
Depreciation and amortization expense	(229,936)	-	(229,936)
Forgivable loans	110,000	-	110,000
Total non-operating activities	<u>(51,795)</u>	<u>-</u>	<u>(51,795)</u>
Change in Net Assets	<u>385,170</u>	<u>977,000</u>	<u>1,362,170</u>
Net Assets, beginning of year	<u>4,281,031</u>	<u>2,150,026</u>	<u>6,431,057</u>
Net Assets, end of year	<u>\$ 4,666,201</u>	<u>\$ 3,127,026</u>	<u>\$ 7,793,227</u>

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:			
Arts After School	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
Arts Aftercare Program	271,575	-	271,575
Early Childhood Arts	280,971	-	280,971
Summer Programs	414,805	-	414,805
Teen Programs	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.

Sitar Arts Center

Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services					Supporting Services			Total Expenses	
	Arts After School	Arts Aftercare Program	Early Childhood Arts	Summer Programs	Teen Programs	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 304,809	\$ 155,675	\$ 143,082	\$ 271,249	\$ 112,609	\$ 987,424	\$ 124,080	\$ 135,879	\$ 259,959	\$ 1,247,383
Payroll taxes	27,276	16,689	11,606	21,673	9,351	86,595	10,220	11,743	21,963	108,558
Employee benefits	36,189	15,607	15,607	24,060	13,005	104,468	14,956	17,232	32,188	136,656
Professional fees	31,199	27,553	4,118	13,023	13,717	89,610	139,218	72,399	211,617	301,227
Interest	-	-	-	-	-	-	76,052	-	76,052	76,052
Occupancy expenses	16,697	10,513	5,566	11,132	5,566	49,474	6,187	6,184	12,371	61,845
Event expense	-	-	-	-	-	-	-	125,239	125,239	125,239
Supplies	29,491	2,540	3,302	25,588	1,435	62,356	592	3,858	4,450	66,806
Repairs and maintenance	4,195	2,641	1,398	2,797	1,398	12,429	1,554	1,554	3,108	15,537
Insurance	10,297	6,483	3,432	6,865	3,432	30,509	3,814	3,814	7,628	38,137
Printing and publication	1,434	730	386	733	386	3,669	596	5,426	6,022	9,691
Bank charges	357	-	-	603	-	960	8,887	2,227	11,114	12,074
Dues and subscriptions	23,145	2,163	1,145	8,151	1,145	35,749	1,415	4,760	6,175	41,924
Telephone	2,042	1,285	681	1,361	681	6,050	755	756	1,511	7,561
Office supplies and expense	768	484	256	512	256	2,276	290	547	837	3,113
Uncollectible contributions	-	-	-	-	-	-	38,053	-	38,053	38,053
Staff development	405	299	-	4,693	-	5,397	125	-	125	5,522
Volunteer expenses	1,928	-	-	119	-	2,047	-	138	138	2,185
Parking and transportation	897	444	235	470	235	2,281	291	261	552	2,833
Postage and delivery	111	42	46	89	85	373	248	1,713	1,961	2,334
Miscellaneous	15,250	-	-	-	-	15,250	11,451	-	11,451	26,701
Evaluations	16,875	-	-	-	-	16,875	-	-	-	16,875
Total Expenses	\$ 523,365	\$ 243,148	\$ 190,860	\$ 393,118	\$ 163,301	\$ 1,513,792	\$ 438,784	\$ 393,730	\$ 832,514	\$ 2,346,306

See accompanying notes.

Sitar Arts Center

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

	Program Services										Supporting Services			Total Expenses
	Arts After School	Dance	Drama	Music	Digital Writing	Arts Aftercare Program	Early Childhood Arts	Summer Programs	Teen Programs	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
Total Expenses	\$ 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

Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 1,362,170	\$ 1,614,214
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(68,141)	(7,791)
Depreciation and amortization	229,936	205,443
Amortization of debt issuance costs	3,012	6,390
Forgivable loans	(110,000)	(110,000)
Forgiveness on loan payable – Paycheck Protection Program	(252,300)	-
Donated securities	(257,625)	(63,846)
Change in allowance for uncollectible receivables	24,776	12,623
Change in present value discount on multi-year grants and contributions receivable	(228)	(2,518)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	14,042	(6,647)
Grants and contributions receivable	203,455	(1,351,936)
Government grants receivable	17,442	(3,788)
Prepaid expenses and other assets	(28,802)	(10,497)
Increase (decrease) in:		
Accounts payable and accrued expenses	(64,450)	(4,508)
Deferred revenue	(38,595)	52,400
Net cash provided by operating activities	1,034,692	329,539
Cash Flows from Investing Activities		
Purchases of property and equipment	(150,033)	(384,968)
Purchases of investments and reinvested interest	(15,059)	(56,456)
Proceeds from sales of investments	258,596	63,655
Net cash provided by (used in) investing activities	93,504	(377,769)
Cash Flows from Financing Activities		
Proceeds from issuance of loan – Paycheck Protection Program	293,185	252,300
Proceeds from line of credit	133,475	150,000
Payment on line of credit	(199,142)	(10,858)
Proceeds from borrowings on mortgage payable	1,600,000	-
Principal payments on mortgages payable	(1,591,367)	(28,310)
Net cash provided by financing activities	236,151	363,132
Net Increase in Cash and Cash Equivalents	1,364,347	314,902
Cash and Cash Equivalents, beginning of year	978,247	663,345
Cash and Cash Equivalents, end of year	\$ 2,342,594	\$ 978,247
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 76,052	\$ 61,939
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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, 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 1.45% and 0.66% at June 30, 2021 and 2020, 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 \$5,977 and \$6,205 for the years ended June 30, 2021 and 2020, 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.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

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.

Debt Issuance Costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense, and is computed using an imputed interest rate on the related loan. During the year ended June 30, 2021 and 2020, \$3,012 and \$6,390, respectively, of such amortization is included as a component of interest expense in the accompanying statements of activities and functional expenses. During the year ended June 30, 2021, unamortized debt issuance costs in the amount of \$9,749 were written off due to the refinanced mortgage, as described in Note 11, and included in amortization expense.

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

Grants and contributions that are nonreciprocal are recognized as revenue when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. The Organization reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated funds to one of the Organization's programs or to a future year.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

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 released from restrictions.

The Organization receives certain promises to give, collected over multiple accounting periods, and classifies the portion receivable in future accounting periods as restricted revenue. The Organization discounts the promises to give using an appropriate discount rate over the contribution period, if material.

Conditional contributions contain a donor-imposed condition that represents a barrier that must be overcome before the Organization is entitled to the assets transferred or promised. Failure to overcome the barrier gives the donor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Additionally, the Organization has agreements with government agencies. The agreements contain substantial conditions that must be met prior to recognition of revenue. The donor-imposed conditions primarily consist of qualifying expenditures that must be incurred by the Organization before the governmental agency will reimburse those expenditures. Conditional contributions are recognized as revenue, either with or without donor restrictions, when donor-imposed conditions are substantially met, and any barriers are overcome. Donor restrictions are also satisfied when qualifying expenditures are incurred for the donor-specified program.

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.

The Organization receives donated services in the form of teaching, consulting, and other professional services, which totaled \$87,000 and \$51,028 for the years ended June 30, 2021 and 2020, 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.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for in Accordance with Contribution Accounting (continued)

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 revenue recognition.

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, 2021 and 2020 were \$0 and \$15,622, 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 \$58,315 and \$3,198 for the years ended June 30, 2021 and 2020, respectively.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when the Organization satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Organization expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Organization combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statements of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Revenue Accounted for as Contracts with Customers (continued)

Revenue from events is recognized when the events are held and services are provided. 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. All deferred revenue amounts at June 30, 2021 and 2020 relate to registration fees for the gala event.

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 \$142 and \$217 for the years ended June 30, 2021 and 2020, 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.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 13, 2021, the date the financial statements were available to be issued.

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.

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,342,594	\$ 978,247
Investments	437,593	355,364
Accounts receivable	1,423	15,465
Grants and contributions receivable – due within one year	620,886	903,497
Government grants receivable	<u>37,030</u>	<u>54,472</u>
Total available for general expenditures	<u>\$ 3,439,526</u>	<u>\$ 2,307,045</u>

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

4. Concentrations of Risk

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 years ended June 30, 2021 and 2020, a substantial portion of the Organization's revenue was recognized from one and two donors, respectively. These contributions represent approximately 13% and 37% of the Organization's total operating revenue and support for the years ended June 30, 2021 and 2020, respectively.

5. Investments and Fair Value Measurements

The Organization follows Financial Accounting Standards Board Accounting Standards Codification 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.

Sitar Arts Center

Notes to Financial Statements
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5. Investments and Fair Value Measurements (continued)

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>2021:</u>				
Mutual fund:				
Moderate growth fund	\$ 437,593	\$ -	\$ -	\$ 437,593
Total investments	\$ 437,593	\$ -	\$ -	\$ 437,593
 <u>2020:</u>				
Mutual fund:				
Moderate growth fund	\$ 355,364	\$ -	\$ -	\$ 355,364
Total investments	\$ 355,364	\$ -	\$ -	\$ 355,364

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

	2021	2020
Interest and dividends	\$ 14,129	\$ 8,231
Unrealized gain	67,169	7,791
Realized gain	972	-
Total investment return, net	\$ 82,270	\$ 16,022

The Organization did not have any investment management expenses for the years ended June 30, 2021 and 2020.

Sitar Arts Center

Notes to Financial Statements June 30, 2021 and 2020

6. Receivables

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

	<u>2021</u>	<u>2020</u>
Due in less than one year	\$ 620,886	\$ 903,497
Due in one to five years	1,015,989	936,833
Due in more than five years	<u>100,000</u>	<u>100,000</u>
Total grants and contributions receivable	1,736,875	1,940,330
Less: allowance for uncollectible receivables	(5,977)	(6,205)
Less: discount to present value	<u>(45,220)</u>	<u>(20,444)</u>
Grants and contributions receivable, net	<u><u>\$ 1,685,678</u></u>	<u><u>\$ 1,913,681</u></u>

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

7. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,400,971	\$ 1,400,971
Building	4,679,658	4,679,658
Building improvements	3,094,000	2,987,268
Furniture and equipment	546,918	504,648
Musical instruments	<u>109,578</u>	<u>109,578</u>
Total property and equipment	9,831,125	9,682,123
Less: accumulated depreciation and amortization	<u>(3,012,999)</u>	<u>(2,784,094)</u>
Property and equipment, net	<u><u>\$ 6,818,126</u></u>	<u><u>\$ 6,898,029</u></u>

Sitar Arts Center

Notes to Financial Statements June 30, 2021 and 2020

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.

The Organization borrowed \$252,300 on April 11, 2020 at a 1.00% fixed interest rate under the PPP. The loan was scheduled to mature on April 11, 2022. On July 1, 2021, the Small Business Administration approved full forgiveness of the loan, and remitted the forgiveness amount to the financial institution, including applicable interest accruals. The Organization recorded the forgiveness of the loan as contribution revenue reflected in the accompanying statement of activities for the year ended June 30, 2021.

The Organization borrowed an additional \$293,185 on February 22, 2021 at a 1.00% fixed interest rate under the PPP. The loan is scheduled to mature on February 22, 2026. Management utilized 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 contribution revenue in the statements of activities, which is expected to occur in fiscal year 2022. At June 30, 2021, the Organization recorded \$293,185 as a loan payable, which is reflected in the accompanying statements of financial position.

9. Lines of Credit

Through 2020, the Organization maintained 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 was secured by the Organization's non-realty assets and was due on demand. When the line was utilized, interest-only payments were due on a monthly basis. There was an outstanding balance on this line of credit amounting to \$139,142 at June 30, 2020. The line of credit was closed during the year ended June 30, 2021.

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, which was 3.25% at June 30, 2021. Interest-only payments commenced on November 29, 2020 on any outstanding principal balances, and the sum is due in full on October 29, 2022. There was an outstanding balance on this line of credit amounting to \$73,475 at June 30, 2021.

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Notes to Financial Statements June 30, 2021 and 2020

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, 2021 and 2020 was \$80,000 and \$100,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

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, 2021 and 2020 was \$1,440,000 and \$1,530,000 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 a financial institution in the amount of \$1,185,000. The mortgage was secured by its property's deed of trust and was scheduled to mature on November 14, 2024. The mortgage required monthly principal and interest payments of \$6,387, and interest was calculated at the rate of 4.125% per annum. The balance of this mortgage as of June 30, 2020 was \$1,038,753, and is included in mortgages payable in the accompanying statements of financial position. This mortgage was refinanced on October 29, 2020, as described below.

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. In conjunction with the purchase, the Organization borrowed \$561,258 from two financial institutions resulting in a primary mortgage and a subordinated mortgage.

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Notes to Financial Statements June 30, 2021 and 2020

11. Mortgages Payable (continued)

The primary mortgage amounted to \$460,000 and was secured by the property's deed of trust. The primary mortgage was scheduled to mature on September 1, 2020, and interest was paid monthly at the rate of 4.125% per annum.

The subordinated mortgage was also secured by the property's deed of trust, and amounted to \$115,000. This subordinated mortgage was scheduled to mature on September 1, 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 is included in mortgages payable in the accompanying statements of financial position. The primary and subordinated mortgages were extended 90 days to December 1, 2020, and were refinanced on October 29, 2020, as described below.

On October 29, 2020, the Organization refinanced its mortgage obligations and consolidated all 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, 2050, bearing a fixed interest rate of 3.94%. The balance of this refinanced mortgage as of June 30, 2021 was \$1,544,680, net of \$38,790 of unamortized debt issuance costs, and is included in mortgages payable in the accompanying statements of financial position.

The future principal payments under the mortgage payable are as follows at June 30:

2022	\$	29,324
2023		30,500
2024		31,724
2025		32,997
2026		34,320
Thereafter		<u>1,424,605</u>
Total payments		1,583,470
Less: unamortized debt issuance costs		<u>(38,790)</u>
Total future principal payments	\$	<u><u>1,544,680</u></u>

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

12. Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Program restricted:		
Capital Campaign	\$ 2,610,000	\$ 1,790,000
Infant to 14 – Arts and Education		
Learning Fund	200,000	-
Workforce development	55,000	-
Pandemic support	46,250	-
Camp Sitar	34,000	-
Gala	25,000	-
Instrumental Academy	15,000	12,500
Youth services	6,776	17,276
Suite 102	-	120,000
Video to DVD project	-	250
Time restricted	<u>135,000</u>	<u>210,000</u>
Total net assets with donor restrictions	<u>\$ 3,127,026</u>	<u>\$ 2,150,026</u>

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.

Sitar Arts Center

Notes to Financial Statements
June 30, 2021 and 2020

13. Board-Designated Quasi-Endowment (continued)

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:

	2021	2020
Beginning balance	\$ 355,364	\$ 290,926
Purchases	-	49,563
Interest and dividend income	13,817	8,231
Unrealized gain	68,411	7,644
Appropriation of assets for expenditure	-	(1,000)
Ending balance	<u>\$ 437,592</u>	<u>\$ 355,364</u>

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.

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Notes to Financial Statements
June 30, 2021 and 2020

13. Board-Designated Quasi-Endowment (continued)

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.

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 [Date of Report], the date the financial statements were available to be issued.

15. Related Party Transactions

During the years ended June 30, 2021 and 2020, the Organization's Board members and their families made contributions to the Organization amounting to \$127,329 and \$128,428, respectively.

16. 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.

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Notes to Financial Statements June 30, 2021 and 2020

16. Retirement Plan (continued)

The Organization's contributions to the plan for the years ended June 30, 2021 and 2020 were \$20,348 and \$17,783, respectively.

17. 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.

18. 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.

19. 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.