

**Sitar Arts Center**

Financial Statements  
and Independent Auditors' Report

June 30, 2022 and 2021

**Sitar Arts Center**

Financial Statements  
June 30, 2022 and 2021

**Contents**

Independent Auditors' Report.....	1-2
<i>Financial Statements</i>	
Statements of Financial Position.....	3
Statements of Activities .....	4-5
Statements of Functional Expenses .....	6-7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-24

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Sitar Arts Center

### *Opinion*

We have audited the accompanying financial statements of Sitar Arts Center (“the Organization”), which comprise the statements of financial position as of June 30, 2022 and 2021; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

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, 2022 and 2021, 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.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Vienna, Virginia  
November 17, 2022

## Sitar Arts Center

### Statements of Financial Position June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
Cash and cash equivalents	\$ 2,044,169	\$ 2,342,594
Investments	373,845	437,593
Accounts receivable	-	1,423
Grants and contributions receivable, net	2,030,135	1,685,678
Government grants receivable	55,241	37,030
Prepaid expenses and other assets	55,238	74,008
Property and equipment, net	6,630,704	6,818,126
Deposits	1,000,000	-
	\$ 12,189,332	\$ 11,396,452
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 192,642	\$ 158,080
Deferred revenue	2,155	13,805
Loan payable – Paycheck Protection Program	-	293,185
Line of credit	-	73,475
Forgivable loans	1,410,000	1,520,000
Mortgage payable, net	1,517,139	1,544,680
	3,121,936	3,603,225
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	4,191,268	4,228,609
Board-designated quasi-endowment fund	373,845	437,592
	4,565,113	4,666,201
Total without donor restrictions	4,565,113	4,666,201
Total with donor restrictions	4,502,283	3,127,026
	9,067,396	7,793,227
Total net assets	9,067,396	7,793,227
	\$ 12,189,332	\$ 11,396,452
Total liabilities and net assets	\$ 12,189,332	\$ 11,396,452

See accompanying notes.

**Sitar Arts Center**

Statement of Activities  
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support</b>			
Contributions:			
Individuals	\$ 561,067	\$ 45,000	\$ 606,067
Foundations	550,400	1,162,500	1,712,900
Corporate	104,313	8,400	112,713
Other	296,886	515,000	811,886
Government grants	639,264	-	639,264
In-kind contributions	117,627	-	117,627
Registration income	60,466	-	60,466
Rental income	1,417	-	1,417
Interest and dividends	10,323	-	10,323
Other income	817	-	817
Released from restrictions	355,643	(355,643)	-
<b>Total operating revenue and support</b>	<b>2,698,223</b>	<b>1,375,257</b>	<b>4,073,480</b>
<b>Expenses</b>			
Program services:			
School Year	849,574	-	849,574
Summer	829,533	-	829,533
Aftercare	310,474	-	310,474
<b>Total program services</b>	<b>1,989,581</b>	<b>-</b>	<b>1,989,581</b>
Supporting services:			
Management and general	222,523	-	222,523
Fundraising	403,966	-	403,966
<b>Total supporting services</b>	<b>626,489</b>	<b>-</b>	<b>626,489</b>
<b>Total expenses</b>	<b>2,616,070</b>	<b>-</b>	<b>2,616,070</b>
<b>Change in Net Assets from Operations</b>	<b>82,153</b>	<b>1,375,257</b>	<b>1,457,410</b>
<b>Non-Operating Activities</b>			
Unrealized loss on investments	(77,194)	-	(77,194)
Realized gain on investments	9,037	-	9,037
Depreciation and amortization expense	(225,084)	-	(225,084)
Forgivable loans	110,000	-	110,000
<b>Total non-operating activities</b>	<b>(183,241)</b>	<b>-</b>	<b>(183,241)</b>
<b>Change in Net Assets</b>	<b>(101,088)</b>	<b>1,375,257</b>	<b>1,274,169</b>
<b>Net Assets, beginning of year</b>	<b>4,666,201</b>	<b>3,127,026</b>	<b>7,793,227</b>
<b>Net Assets, end of year</b>	<b>\$ 4,565,113</b>	<b>\$ 4,502,283</b>	<b>\$ 9,067,396</b>

**Sitar Arts Center**

Statement of Activities  
For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support</b>			
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)	-
<b>Total operating revenue and support</b>	<b>2,783,271</b>	<b>977,000</b>	<b>3,760,271</b>
<b>Expenses</b>			
Program services:			
School Year	877,526	-	877,526
Summer	393,118	-	393,118
Aftercare	243,148	-	243,148
<b>Total program services</b>	<b>1,513,792</b>	<b>-</b>	<b>1,513,792</b>
Supporting services:			
Management and general	438,784	-	438,784
Fundraising	393,730	-	393,730
<b>Total supporting services</b>	<b>832,514</b>	<b>-</b>	<b>832,514</b>
<b>Total expenses</b>	<b>2,346,306</b>	<b>-</b>	<b>2,346,306</b>
<b>Change in Net Assets from Operations</b>	<b>436,965</b>	<b>977,000</b>	<b>1,413,965</b>
<b>Non-Operating Activities</b>			
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
<b>Total non-operating activities</b>	<b>(51,795)</b>	<b>-</b>	<b>(51,795)</b>
<b>Change in Net Assets</b>	<b>385,170</b>	<b>977,000</b>	<b>1,362,170</b>
<b>Net Assets, beginning of year</b>	<b>4,281,031</b>	<b>2,150,026</b>	<b>6,431,057</b>
<b>Net Assets, end of year</b>	<b>\$ 4,666,201</b>	<b>\$ 3,127,026</b>	<b>\$ 7,793,227</b>

See accompanying notes.

**Sitar Arts Center**

Statement of Functional Expenses  
For the Year Ended June 30, 2022

	Program Services				Supporting Services			Total Expenses
	School Year	Summer	Aftercare	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 488,283	\$ 577,349	\$ 222,536	\$ 1,288,168	\$ 47,158	\$ 35,369	\$ 82,527	\$ 1,370,695
Payroll taxes	39,560	42,986	14,685	97,231	10,834	8,126	18,960	116,191
Employee benefits	105,234	16,087	6,654	127,975	5,323	3,992	9,315	137,290
Professional fees	51,240	43,207	5,567	100,014	120,465	1,106	121,571	221,585
Interest	18,633	22,488	9,638	50,759	7,710	5,783	13,493	64,252
Occupancy expenses	40,694	49,114	21,049	110,857	16,839	12,629	29,468	140,325
Event expense	6,504	983	-	7,487	-	309,320	309,320	316,807
Supplies	21,368	21,507	5,950	48,825	1,244	3	1,247	50,072
Repairs and maintenance	9,528	10,998	4,714	25,240	3,771	2,828	6,599	31,839
Insurance	9,128	11,016	4,721	24,865	3,777	2,833	6,610	31,475
Printing and publication	4,031	1,775	533	6,339	389	292	681	7,020
Bank charges	1,404	1,317	334	3,055	225	10,333	10,558	13,613
Dues and subscriptions	27,385	11,038	3,208	41,631	2,567	1,925	4,492	46,123
Telephone	2,280	2,752	1,179	6,211	943	708	1,651	7,862
Office supplies and expense	3,955	1,593	671	6,219	536	403	939	7,158
Staff development	13,194	6,380	3,494	23,068	427	7,942	8,369	31,437
Volunteer expenses	2,056	-	-	2,056	-	-	-	2,056
Parking and transportation	897	900	1,041	2,838	315	186	501	3,339
Postage and delivery	200	43	-	243	-	188	188	431
Evaluations	4,000	8,000	4,500	16,500	-	-	-	16,500
<b>Total Expenses</b>	<b>\$ 849,574</b>	<b>\$ 829,533</b>	<b>\$ 310,474</b>	<b>\$ 1,989,581</b>	<b>\$ 222,523</b>	<b>\$ 403,966</b>	<b>\$ 626,489</b>	<b>\$ 2,616,070</b>

See accompanying notes.



**Sitar Arts Center**

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

	Program Services				Supporting Services			Total Expenses
	School Year	Summer	Aftercare	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 560,500	\$ 271,249	\$ 155,675	\$ 987,424	\$ 124,080	\$ 135,879	\$ 259,959	\$ 1,247,383
Payroll taxes	48,233	21,673	16,689	86,595	10,220	11,743	21,963	108,558
Employee benefits	64,801	24,060	15,607	104,468	14,956	17,232	32,188	136,656
Professional fees	49,034	13,023	27,553	89,610	139,218	72,399	211,617	301,227
Interest	-	-	-	-	76,052	-	76,052	76,052
Occupancy expenses	27,829	11,132	10,513	49,474	6,187	6,184	12,371	61,845
Event expense	-	-	-	-	-	125,239	125,239	125,239
Supplies	34,228	25,588	2,540	62,356	592	3,858	4,450	66,806
Repairs and maintenance	6,991	2,797	2,641	12,429	1,554	1,554	3,108	15,537
Insurance	17,161	6,865	6,483	30,509	3,814	3,814	7,628	38,137
Printing and publication	2,206	733	730	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	25,435	8,151	2,163	35,749	1,415	4,760	6,175	41,924
Telephone	3,404	1,361	1,285	6,050	755	756	1,511	7,561
Office supplies and expense	1,280	512	484	2,276	290	547	837	3,113
Uncollectible contributions	-	-	-	-	38,053	-	38,053	38,053
Staff development	405	4,693	299	5,397	125	-	125	5,522
Volunteer expenses	1,928	119	-	2,047	-	138	138	2,185
Parking and transportation	1,367	470	444	2,281	291	261	552	2,833
Postage and delivery	242	89	42	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
<b>Total Expenses</b>	<b>\$ 877,526</b>	<b>\$ 393,118</b>	<b>\$ 243,148</b>	<b>\$ 1,513,792</b>	<b>\$ 438,784</b>	<b>\$ 393,730</b>	<b>\$ 832,514</b>	<b>\$ 2,346,306</b>

See accompanying notes.

**Sitar Arts Center**

Statements of Cash Flows  
For the Years Ended June 30, 2022 and 2021

	2022	2021
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,274,169	\$ 1,362,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized loss (gain) on investments	68,157	(68,141)
Depreciation and amortization	225,084	229,936
Amortization of debt issuance costs	1,322	3,012
Forgivable loans	(110,000)	(110,000)
Forgiveness on loan payable – Paycheck Protection Program	(293,185)	(252,300)
Donated securities	(25,156)	(257,625)
Change in allowance for uncollectible receivables	39,951	24,776
Change in present value discount on multi-year grants and contributions receivable	(2,003)	(228)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	1,423	14,042
Grants and contributions receivable	(382,405)	203,455
Government grants receivable	(18,211)	17,442
Prepaid expenses and other assets	18,770	(28,802)
Increase (decrease) in:		
Accounts payable and accrued expenses	34,562	(64,450)
Deferred revenue	(11,650)	(38,595)
Net cash provided by operating activities	820,828	1,034,692
<b>Cash Flows from Investing Activities</b>		
Deposit for purchase of property	(1,000,000)	-
Purchases of property and equipment	(37,662)	(150,033)
Purchases of investments and reinvested interest	(9,183)	(15,059)
Proceeds from sales of investments	29,930	258,596
Net cash (used in) provided by investing activities	(1,016,915)	93,504
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of loan – Paycheck Protection Program	-	293,185
Proceeds from line of credit	-	133,475
Payments on line of credit	(73,475)	(199,142)
Proceeds from borrowings on mortgage payable	-	1,600,000
Principal payments on mortgages payable	(28,863)	(1,591,367)
Net cash (used in) provided by financing activities	(102,338)	236,151
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(298,425)	1,364,347
<b>Cash and Cash Equivalents, beginning of year</b>	2,342,594	978,247
<b>Cash and Cash Equivalents, end of year</b>	\$ 2,044,169	\$ 2,342,594
<b>Supplementary Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 65,574	\$ 76,052
<b>Non-Cash Investing and Financing Transaction</b>		
Gain on forgivable loans	\$ 110,000	\$ 110,000

See accompanying notes.

## Sitar Arts Center

### Notes to Financial Statements June 30, 2022 and 2021

#### 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 21<sup>st</sup> 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 those 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 90 days or less at the time of purchase.

## Sitar Arts Center

Notes to Financial Statements  
June 30, 2022 and 2021

### 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 are 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, 2022 and 2021, 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 2.98% and 1.45% at June 30, 2022 and 2021, respectively, using a rate that considers market and credit risks. 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 \$3,974 and \$5,977 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021

### 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, 2022 and 2021, \$1,322 and \$3,012, respectively, of such amortization is included as a component of interest expense in the accompanying statements of activities and functional expenses.

#### 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, 2022 and 2021

### 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 \$49,733 and \$87,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021

### 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, 2022 and 2021 were \$2,540 and \$0, 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 \$65,354 and \$58,315 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021

### 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, 2022 and 2021 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 \$46,491 and \$142 for the years ended June 30, 2022 and 2021, 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.

#### Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 presentation. These reclassifications have no effect on the change in net assets previously reported.



## Sitar Arts Center

Notes to Financial Statements  
June 30, 2022 and 2021

### 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 17, 2022, 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:

	2022	2021
Cash and cash equivalents	\$ 2,044,169	\$ 2,342,594
Investments	373,845	437,593
Accounts receivable	-	1,423
Grants and contributions receivable – due within one year	967,795	620,886
Government grants receivable	55,241	37,030
Total available for general expenditures	<u>\$ 3,441,050</u>	<u>\$ 3,439,526</u>

## Sitar Arts Center

Notes to Financial Statements  
June 30, 2022 and 2021

### 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, 2022 and 2021, a substantial portion of the Organization's revenue was generated from two donors and one donor, respectively. These contributions represent approximately 39% and 13% of the Organization's total operating revenue and support for the years ended June 30, 2022 and 2021, respectively. A potential reduction or change in funding from these donors in the future could significantly impact the Organization's ability to carry out its current program activities.

### 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  
June 30, 2022 and 2021

### 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>2022:</u>				
Mutual fund:				
Moderate growth fund	\$ 373,845	\$ -	\$ -	\$ 373,845
Total investments	\$ 373,845	\$ -	\$ -	\$ 373,845
<u>2021:</u>				
Mutual fund:				
Moderate growth fund	\$ 437,593	\$ -	\$ -	\$ 437,593
Total investments	\$ 437,593	\$ -	\$ -	\$ 437,593

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

	2022	2021
Interest and dividends	\$ 10,323	\$ 14,129
Unrealized (loss) gain	(77,194)	67,169
Realized gain	9,037	972
Total investment return, net	\$ (57,834)	\$ 82,270

The Organization did not have any investment management expenses for the years ended June 30, 2022 and 2021.

## Sitar Arts Center

### Notes to Financial Statements June 30, 2022 and 2021

#### 6. Receivables

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

	2022	2021
Due in less than one year	\$ 967,795	\$ 620,886
Due in one to five years	1,151,485	1,015,989
Due in more than five years	-	100,000
 Total grants and contributions receivable	 2,119,280	 1,736,875
Less: allowance for uncollectible receivables	(3,974)	(5,977)
Less: discount to present value	(85,171)	(45,220)
 Grants and contributions receivable, net	 \$ 2,030,135	 \$ 1,685,678

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:

	2022	2021
Land	\$ 1,400,971	\$ 1,400,971
Building	4,679,658	4,679,658
Building improvements	3,094,130	3,094,000
Furniture and equipment	584,450	546,918
Musical instruments	109,578	109,578
 Total property and equipment	 9,868,787	 9,831,125
Less: accumulated depreciation and amortization	(3,238,083)	(3,012,999)
 Property and equipment, net	 \$ 6,630,704	 \$ 6,818,126

## **Sitar Arts Center**

### Notes to Financial Statements June 30, 2022 and 2021

#### **8. Loan Payable – Paycheck Protection Program**

The Organization applied for two loans 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 (SBA) 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 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 was scheduled to mature on February 22, 2023. At June 30, 2021, the Organization recorded the amount as a loan payable in the accompanying statements of financial position. On April 5, 2022, the SBA 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 in the accompanying statement of activities for the year ended June 30, 2022.

#### **9. Line of Credit**

On October 29, 2020, the Organization opened a 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 4.75% and 3.25% at June 30, 2022 and 2021, respectively. Interest-only payments commenced on November 29, 2020 on any outstanding principal balances, and the sum of any balances was due in full on October 29, 2022. There was an outstanding balance on this line of credit amounting to \$0 and \$73,475 at June 30, 2022 and 2021, respectively.

## Sitar Arts Center

### Notes to Financial Statements June 30, 2022 and 2021

#### **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, 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, 2022 and 2021 was \$60,000 and \$80,000, 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, 2022 and 2021 was \$1,350,000 and \$1,440,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

#### **11. Mortgage Payable**

On October 29, 2020, the Organization refinanced its mortgage obligations and consolidated all mortgage obligations with a new lender under one mortgage for the principal sum of \$1,600,000. The 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, 2022 and 2021 was \$1,515,817 and \$1,544,680, respectively, net of \$37,468 and \$38,790 of unamortized debt issuance costs, respectively, and is included in mortgages payable in the accompanying statements of financial position.

## Sitar Arts Center

### Notes to Financial Statements June 30, 2022 and 2021

#### 11. Mortgage Payable (continued)

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

2023	\$	30,500
2024		31,724
2025		32,997
2026		34,320
2027		35,697
Thereafter		<u>1,389,369</u>
Total payments		1,554,607
Less: unamortized debt issuance costs		<u>(37,468)</u>
Total future principal payments	\$	<u><u>1,517,139</u></u>

#### 12. Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Program restricted:		
Capital Campaign	\$ 3,186,598	\$ 2,610,000
Arts Internship program	901,009	-
Infant to 14 – Arts and Education Learning Fund	175,000	200,000
Workforce development	55,000	55,000
Student database upgrade	30,000	-
Gala	25,000	25,000
Camp Sitar	8,400	34,000
Youth services	6,776	6,776
Arts and Humanities Education project	5,000	-
Pandemic support	-	46,250
Instrumental Academy	-	15,000
Time restricted	<u>109,500</u>	<u>135,000</u>
Total net assets with donor restrictions	<u><u>\$ 4,502,283</u></u>	<u><u>\$ 3,127,026</u></u>

## Sitar Arts Center

Notes to Financial Statements  
June 30, 2022 and 2021

### 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:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 437,592	\$ 355,364
Interest and dividend income	9,187	13,817
Unrealized (loss) gain	(77,721)	68,411
Realized and capital gains	9,037	-
Appropriation of assets for expenditure	<u>(4,250)</u>	<u>-</u>
Ending balance	<u>\$ 373,845</u>	<u>\$ 437,592</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.



## Sitar Arts Center

Notes to Financial Statements  
June 30, 2022 and 2021

### 13. Board-Designated Quasi-Endowment (continued)

#### 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.

#### 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.

On June 29, 2022, the Organization entered into a purchase and sale agreement for the property located at 1724 Kalorama Road which clarified the terms of the letter of intent. The terms of the agreement include a purchase price of \$4,300,000 and a nonrefundable deposit of \$1,000,000. The deposit as of June 30, 2022 is \$1,000,000, and is recorded as deposits in the accompanying statement of financial position.

## **Sitar Arts Center**

### Notes to Financial Statements June 30, 2022 and 2021

#### **15. Related Party Transactions**

During the years ended June 30, 2022 and 2021, the Organization's Board members and their families made contributions to the Organization amounting to \$105,437 and \$127,329, 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. The Organization's contributions to the plan for the years ended June 30, 2022 and 2021 were \$19,493 and \$20,348, 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.