



Financial Statements

For the Year Ended June 30, 2020

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Independent Auditor's Report

**To the Board of Directors
Town Hall Association
Seattle, Washington**

We have audited the accompanying financial statements of Town Hall Association ("THA"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 control 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 audit. We conducted our audit 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of THA as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited THA's 2019 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants
October 21, 2020

TOWN HALL ASSOCIATION

Statement of Financial Position

June 30, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,052,183	\$ 1,572,261
Grants and pledges receivable	660,614	179,684
Prepaid expenses	28,737	65,063
Total Current Assets	1,741,534	1,817,008
Investments	3,841,742	5,646,518
Grants and pledges receivable, net of current portion	8,719	758,569
Land, building, improvements and equipment, net	32,762,437	32,823,183
Donated artwork	66,243	66,243
Total Assets	\$ 38,420,675	\$ 41,111,521
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 147,108	\$ 337,547
Construction payables		1,286,764
Deferred revenue and deposits	24,392	54,659
Line of credit, current portion		2,387,831
Current portion of long-term debt	86,757	
Total Current Liabilities	258,257	4,066,801
Line of credit, net of current portion		2,405,918
Forgivable debt, net of amounts recognized as revenue	309,595	
Long-term debt, net of current portion	2,314,218	
Total Liabilities	2,882,070	6,472,719
Net Assets:		
Without donor restrictions-		
Undesignated, available for operations	1,269,153	3,788,616
Board-designated reserve funds	1,406,414	1,546,943
Net investment in land, building, improvements, equipment and artwork	30,427,705	26,808,913
	33,103,272	32,144,472
With donor restrictions	2,435,333	2,494,330
Total Net Assets	35,538,605	34,638,802
Total Liabilities and Net Assets	\$ 38,420,675	\$ 41,111,521

See accompanying notes.

TOWN HALL ASSOCIATION

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Activities				
Support and Revenue:				
Tickets and rentals	\$ 619,438	\$ -	\$ 619,438	\$ 274,805
Contributions and grants	2,020,487		2,020,487	1,515,418
Forgivable loan revenue	64,998		64,998	
Total Support and Revenue	2,704,923		2,704,923	1,790,223
Program and Operating Expenses:				
Program	1,617,973		1,617,973	1,152,523
Management and general	371,943		371,943	197,729
Fundraising	584,392		584,392	413,430
Total Program and Operating Expenses	2,574,308		2,574,308	1,763,682
Change in Net Assets From Operating Activities Before Depreciation and Loss on Disposal of Assets	130,615		130,615	26,541
Depreciation	1,355,934		1,355,934	195,340
Loss on disposal of assets				16,236
Change in Net Assets From Operating Activities	(1,225,319)		(1,225,319)	(185,035)
Nonoperating Activities				
Capital campaign contributions and grants		3,112,639	3,112,639	9,929,485
Contributions released from restriction	3,112,639	(3,112,639)		
Capital campaign expenses	(791,366)		(791,366)	(1,332,862)
Endowment contributions				2,400,000
Investment return	(137,154)	(58,997)	(196,151)	123,975
Change in Net Assets From Nonoperating Activities	2,184,119	(58,997)	2,125,122	11,120,598
Total Change in Net Assets	958,800	(58,997)	899,803	10,935,563
Net assets, beginning of year	32,144,472	2,494,330	34,638,802	23,703,239
Net Assets, End of Year	\$ 33,103,272	\$ 2,435,333	\$ 35,538,605	\$ 34,638,802

See accompanying notes.

TOWN HALL ASSOCIATION

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

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	Capital Campaign Fundraising	Total Fundraising	2020 Total
Payroll	\$ 841,778	\$ -	\$ 841,778	\$ 307,896	\$ 385,973	\$ 181,814	\$ 567,787	\$ 1,717,461
Production and other events	464,406	36,091	500,497	2,505	99,014	83,721	182,735	685,737
Printing and advertising	99,720	54,742	154,462		18,866	9,179	28,045	182,507
Bank and loan fees	4,239	1,308	5,547	1,809	19,251		19,251	26,607
Travel and meals	8,267	2,620	10,887	13,244	4,115	279	4,394	28,525
Technology, supplies and office support	47,011	288	47,299	18,899	22,722	16,812	39,534	105,732
Depreciation	1,353,832		1,353,832	2,102				1,355,934
Professional fees	34,452	79,980	114,432	14,314	16,838	9,600	26,438	155,184
Insurance	24,952	31,948	56,900	2,357				59,257
Interest		150,723	150,723					150,723
Occupancy	93,148	132,261	225,409	10,919	17,613		17,613	253,941
Total Expenses	2,971,805	489,961	3,461,766	374,045	584,392	301,405	885,797	4,721,608
Less depreciation	(1,353,832)		(1,353,832)	(2,102)				(1,355,934)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(489,961)	(489,961)			(301,405)	(301,405)	(791,366)
Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets	\$ 1,617,973	\$ -	\$ 1,617,973	\$ 371,943	\$ 584,392	\$ -	\$ 584,392	\$ 2,574,308

See accompanying notes.

TOWN HALL ASSOCIATION

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

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	Capital Campaign Fundraising	Total Fundraising	2019 Total
Payroll	\$ 661,440	\$ -	\$ 661,440	\$ 109,164	\$ 230,614	\$ 452,680	\$ 683,294	1,453,898
Production and other events	331,067	57,762	388,829		123,319	56,934	180,253	569,082
Printing and advertising	97,215	76,388	173,603		9,022		9,022	182,625
Bank and loan fees	940	40,572	41,512	949	6,816		6,816	49,277
Travel and meals	2,258	4,064	6,322	13,203	1,455	10,833	12,288	31,813
Technology, supplies and office support	31,598	15,829	47,427	50,322	24,321	7,629	31,950	129,699
Depreciation	193,238		193,238	2,102				195,340
Professional fees	23,872	353,331	377,203	11,192	16,358	54,321	70,679	459,074
Insurance		32,444	32,444	6,226				38,670
Occupancy	4,133	170,075	174,208	6,673	1,525		1,525	182,406
Total Expenses	1,345,761	750,465	2,096,226	199,831	413,430	582,397	995,827	3,291,884
Less depreciation and amortization	(193,238)		(193,238)	(2,102)				(195,340)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(750,465)	(750,465)			(582,397)	(582,397)	(1,332,862)
Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets	\$ 1,152,523	\$ -	\$ 1,152,523	\$ 197,729	\$ 413,430	\$ -	\$ 413,430	\$ 1,763,682

See accompanying notes.

TOWN HALL ASSOCIATION

**Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 899,803	\$ 10,935,563
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation	1,355,934	195,340
Amortization of capitalized loan fees	27,134	20,006
Unrealized loss (gain) on investments	290,410	(45,766)
Loan forgiveness recognized	(64,998)	
Loss on disposal of assets		16,236
Contributions and grants restricted by donors to investment in long-lived assets and endowment	(2,321,273)	(10,996,623)
Decrease (increase) in operating assets:		
Prepaid expenses	36,326	(24,919)
Grants and pledges receivable	(240,197)	(50,555)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(190,439)	135,771
Deferred revenue and deposits	(30,267)	43,494
Net Cash (Used) Provided by Operating Activities	(237,567)	228,547
Cash Flows From Investing Activities:		
Purchases of long-term investments	(4,023,089)	(4,089,716)
Proceeds from sale of investments	5,537,455	13,031
Purchases of land, building, improvements and equipment	(2,581,952)	(14,700,687)
Net Cash Used by Investing Activities	(1,067,586)	(18,777,372)
Cash Flows From Financing Activities:		
Proceeds from contributions and grants restricted by donors to investment in long-lived assets and endowment	2,830,390	11,539,467
Change in line of credit	(4,825,000)	4,825,000
Proceeds from long-term debt	2,874,593	
Payments on long-term debt	(67,994)	
Loan fees capitalized	(26,914)	(27,500)
Net Cash Provided by Financing Activities	785,075	16,336,967
Net Change in Cash and Cash Equivalents	(520,078)	(2,211,858)
Cash and Cash Equivalents:		
Beginning of year	1,572,261	3,784,119
End of Year	\$ 1,052,183	\$ 1,572,261
Supplemental Cash Flow Disclosures:		
Capital additions purchased through construction payables	\$ -	\$ 1,286,764
Cash paid for interest, excluding \$0 and \$75,073 of capitalized construction-period interest at June 30, 2020 and 2019, respectively	\$ 150,723	\$ 17,048

See accompanying notes.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 1 - Summary of Operations and Significant Accounting Policies

Description of the Organization - Town Hall Association (“THA”) is a nonprofit corporation incorporated in the State of Washington, and operates as Town Hall Seattle.

Town Hall Seattle’s mission is to foster an engaged community through civic, arts, and educational programs that reflect and inspire the region’s best impulses: creativity, empathy, and the belief that we all deserve a voice. Presenting or hosting 425+ programs for more than 110,000+ visitors annually, THA is a shared resource for nearly 90 community organizations that rely on the facility as an affordable performance and meeting home, as well as a source of production and promotional support. These community producers create half of the programs appearing on THA’s season calendar.

Town Hall Seattle produces the other 200+ programs annually, spanning science, civics, the arts, and culture. From chamber, world, and family concerts to public policy forums and scientific discovery, THA’s season is a present-tense reflection of life on the Puget Sound. With wide-open doors and deeply affordable ticket prices, THA is where the community comes together to take part, be inspired, and use their voices to shape the future.

Town Hall Seattle is located in a renovated church dating back to 1916. Continuously used and well-maintained for over 80 years, this First Hill landmark was purchased in 1998 from the Fourth Church of Christ Scientist by a group of 16 civic-minded Seattle citizens for conversion into the community culture center it is today. THA transitioned from tenant to landlord, assuming ownership of the building itself in late 2007.

Balancing historic preservation with critical infrastructure improvements and seismic retrofits, construction on Town Hall Seattle began in August 2017. During the project, Town Hall Seattle went “Inside/Out” and continued producing events offsite at over 45 diverse venues across Seattle. THA celebrated an official reopening and ribbon cutting with a month-long Homecoming Festival in September 2019.

Capital Campaign - THA is housed in a federally designated historic landmark that turned 100 in 2016. During the fiscal years 2018 and 2019, THA completed a major project to preserve and revitalize THA’s historic building. The capital renovation included significant seismic, structural, and ADA upgrades. It also introduced a climate control system to allow for year round operations and added a third performance space. The changes prepared the organization for its next century of service to the community through state-of-the-art performance and productions enhancements.

COVID-19 Pandemic - In March 2020, the World Health Organization categorized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result of the spread of COVID-19, and at the government’s direction, beginning on March 11, 2020, THA has canceled or postponed all in-person performances. As a result, THA has experienced negative impacts to its operating revenues. As of the date these financial statements were available to be issued, the COVID-19 pandemic was ongoing and the related governmental preventive and protective measures continued, and as a result, the related financial impact and duration of the pandemic cannot be reasonably estimated at this time. To mitigate the financial impacts of the pandemic, THA has taken several actions. Town Hall Seattle resumed operations on a digital stage within two weeks of closing, presenting 91 virtual and livestreamed programs from late March through June 30. THA management also applied for and received a loan through the Federal Paycheck Protection Program (Note 6). Management is continuing to monitor the financial impact of the pandemic and take steps as possible to alleviate its impact on the organization.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 1 - Continued

Basis of Accounting - The financial statements of THA have been prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by THA are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation - Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of THA and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met by actions of THA and/or the passage of time.

Capital campaign contributions are reported as increases in net assets with donor restrictions and then released to net assets without donor restrictions in the period the related asset is placed in service. Other contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized, otherwise they are reported as increases in net assets with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from donor restrictions. Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as increases to net assets with donor restrictions. When the long-lived assets are placed into service, THA reflects the expiration of the donor-imposed restriction as a release of net assets.

Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash and cash equivalents include all cash on hand and in banks except for cash associated with the investment accounts. THA maintains its cash in accounts that, at times, exceed the limits insured by the Federal Deposit Insurance Corporation.

Investments - Investments are reported at fair value. Realized and unrealized gains and losses are reflected in the statement of activities and changes in net assets.

Board-Designated Reserve Funds - Board-designated reserve funds represent cash and investments that the Board of Directors has set aside for operating and long-term reserves.

Grants and Pledges Receivable - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 1 - Continued

Land, Building, Improvements and Equipment - THA capitalizes assets with an estimated useful life greater than one year. Land, buildings, improvements and equipment are stated at cost if purchased and estimated fair value if donated. Depreciation of buildings, improvements, and equipment is computed using straight-line methods over the following estimated useful lives:

Equipment	3 - 7 years
Furniture	7 years
Building improvements	15 - 27.5 years
Building	40 years

Federal Income Tax - THA has been notified by the Internal Revenue Service that it is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Ticket and rental revenues are recognized as revenue when they are earned. Advance sales of tickets or advance rental deposits are deferred to the applicable period in which the event occurs. Unconditional promises to give and contributions are recorded at fair value as cash or receivables, and as revenues in the period received, in accordance with donor-imposed restrictions.

Concentrations of Credit Risk - THA had two donors representing 82% of grants and pledges receivable and two donors representing 50% of contributions and grants revenue for the year ended June 30, 2020. THA had three donors representing 51% of grants and pledges receivable and two donors representing 40% of contributions and grants revenue for the year ended June 30, 2019.

Donated Artwork - Donations of artwork are recorded upon receipt at the established fair value. Artwork is capitalized as an asset and reassessed annually for impaired value.

Operating and Nonoperating Activities - All activities are considered operating except for capital and endowment related transactions, and investment income. Gains or losses on disposal of property and equipment are reported as operating activities in accordance with U.S. GAAP.

Methods Used for Allocation of Expenses Among Program and Supporting Services - Whenever possible, THA directly traces expenses to the corresponding function and records them appropriately. Payroll expenses are entered as direct expenses to the corresponding function. Shared expenses that cannot be directly traced, including technology, telephone, office expense, and professional fees, are allocated to functions using headcount as the allocation base.

Summarized Information for Prior Year - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with THA's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

TOWN HALL ASSOCIATION

**Notes to Financial Statements
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

Note 1 - Continued

Subsequent Events - THA has evaluated subsequent events through October 21, 2020, the date on which the financial statements were available to be issued.

Note 2 - Promises to Give

Promises to give as of June 30 are as follows:

	Capital Campaign	Operations	2020 Total	2019 Total
Amounts due in less than one year	\$ 244,602	\$ 424,122	\$ 668,724	\$ 912,828
Amounts due in one to five years	<u>9,430</u>		<u>9,430</u>	<u>53,284</u>
	254,032	424,122	678,154	966,112
Present value discount (1.0%)	(711)		(711)	(1,185)
Allowance for uncollectible pledges	<u>(3,869)</u>	<u>(4,241)</u>	<u>(8,110)</u>	<u>(26,674)</u>
	<u>\$ 249,452</u>	<u>\$ 419,881</u>	<u>\$ 669,333</u>	<u>\$ 938,253</u>

Note 3 - Investments and Fair Value Measurements

Investments at June 30 were comprised of the following:

	2020	2019
Money market funds	\$ 3,841,742	\$ 513,111
Mutual funds-		
Stock funds		1,189,171
Bond funds		3,887,663
Exchange traded funds-		
Stock funds		<u>56,573</u>
Total Investments	<u>\$ 3,841,742</u>	<u>\$ 5,646,518</u>

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 3 - Continued

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Investments using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. All investments held by THA are valued using Level 1 inputs.

Following is a description of the valuation methodologies used for investments. There have been no changes in the methodologies used at June 30, 2020.

Money Market Funds - Valued at cost plus accrued interest, which approximates fair value.

Mutual Funds and Exchange Traded Funds - Valued at the closing price reported on the active market on which the securities are traded.

Investment return was as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 112,812	\$ 90,845
Realized and unrealized (losses) gains	(290,410)	45,766
Investment fees	<u>(18,553)</u>	<u>(12,636)</u>
Total Investment Return	<u>\$ (196,151)</u>	<u>\$ 123,975</u>

Note 4 - Land, Building, Improvements and Equipment

Land, building, improvements and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 3,265,730	\$ 3,265,730
Building and building improvements	29,933,792	28,799,359
Furniture	493,771	453,157
Equipment	1,482,440	1,432,299
Construction in progress	<u>70,000</u>	
	35,245,733	33,950,545
Less accumulated depreciation	<u>(2,483,296)</u>	<u>(1,127,362)</u>
Total Land, Building, Improvements and Equipment, Net	<u>\$ 32,762,437</u>	<u>\$ 32,823,183</u>

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 5 - Line of Credit and Term Note

Line of Credit - During the year ended June 30, 2018, THA obtained a line of credit for \$7 million from a bank. The loan was secured with collateral (guarantees) from donors and the long-term reserves of THA. The interest rate was 30-day LIBOR plus 1.20%. The outstanding balance on the loan at June 30, 2019 was \$4,825,000. The line expired in October 2019 and was repaid partially with \$2.29 million of proceeds from the term note described in the next paragraph and the remainder from cash balances.

Term Note - In September 2019, THA entered into a term note with a different bank for \$2.5 million through September 2029. The loan is secured with \$3 million of cash in accounts with the bank, and all property of THA. For the first five years, the interest rate is 4.0%. Thereafter, the interest rate is the lesser of 4.0% or the Federal Reserve's Five-Year Treasury Constant Maturity rate. Monthly payments of \$15,222, including principal and interest, are required through the maturity date of the note. THA is subject to prepayment penalties, and financial and nonfinancial covenants.

The future principal payments on the debt outstanding at June 30, 2020 are as follows:

For the Year Ending June 30,

2021	\$	86,757
2022		90,291
2023		93,970
2024		97,798
2025		101,783
Thereafter		<u>1,961,407</u>
Total maturities		2,432,006
Less unamortized debt issuance costs		<u>(31,031)</u>
Long-Term Debt, Net	\$	<u>2,400,975</u>

Note 6 - Forgivable Loans

Capital Improvement Loan - During the year ended June 30, 2019, THA received financial support from the State of Washington Department of Commerce for capital improvements to its building. The funds, received in the form of forgivable loans, have restrictive covenants and conditions that limit the property to be used only as a theatre. The loans will be forgiven if THA remains in compliance with the restrictive covenants and conditions for ten years. Since THA is currently in compliance with the restrictive covenants and conditions and has no intentions to change the use of these assets, the forgivable loans are treated as contingent liabilities in these financial statements and thus are not recognized as liabilities on the statement of financial position. THA's policy is to record forgivable loans as revenue in the period the proceeds are received. The original loan balance plus accrued interest of 5%, compounded annually, is due generally if THA changes the use of facilities from the intended purpose or if the property is sold or refinanced and removed from acceptable use before the period of restricted use ends. The maximum potential contingent liability under these forgivable loans, including accrued interest, is approximately \$2.5 million at June 30, 2020 and 2019. The compliance periods end through fiscal year 2028.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 6 - Continued

PPP Loan - In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Included in the CARES Act was the Paycheck Protection Program (PPP) to provide loans to qualifying small businesses and not-for-profit organizations to cover certain eligible expenses. On April 21, 2020, THA obtained a loan under the PPP with a principal balance of \$374,593 and an annual interest rate of 1%. In accordance with the latest available federal guidance, principal and interest are payable in monthly installments beginning August 11, 2021 through maturity on April 21, 2022. THA is working with the lender to extend the maturity date to April 21, 2025, to align with updated federal guidelines.

All or a portion of the PPP loan may be forgiven if certain terms and conditions of the program are met. The terms and conditions include, but are not limited to, spending the PPP loan funds on qualifying expenses. THA follows the accounting guidance for government grants in U.S. GAAP for accounting for the recognition of revenue from forgiveness of the PPP loan. In applying that guidance, THA recognizes revenue when the barriers to entitlement to loan forgiveness are met. Management of THA has determined that the barriers to entitlement consist of the incurrence of qualifying expenses. Management has determined that \$64,998 of qualifying expenses were incurred during the year ended June 30, 2020 and so revenue in the amount of \$64,998 has been recognized in the 2020 statement of activities. A corresponding reduction to the loan liability has been recorded for the amount of revenue recognized.

A rollforward of the PPP loan liability balance is presented below:

Liability balance at June 30, 2019	\$ -
Principal borrowed on PPP loan	374,593
Revenue recognized for loan forgiveness	<u>(64,998)</u>
Liability Balance at June 30, 2020	<u><u>\$ 309,595</u></u>

To complete the loan forgiveness process management must submit a loan forgiveness application to the lender and then the lender and the Small Business Administration (SBA) must review and approve the application. A risk exists that the lender or the SBA may reject some or all of the requested forgiveness amount during the review process, in which case THA will be required to repay the amount that is not forgiven. If the loan is not forgiven, the maximum principal payments of \$374,593 on THA's PPP loan would be due during the year ending June 30, 2022.

Note 7 - Employee Retirement Benefit Plan

THA has a section 403(b) retirement plan for qualified employees. The plan provides for voluntary employee contributions up to the maximum allowed by federal guidelines. THA provides a matching contribution on employee deferrals of 50% up to a maximum amount of \$2,000 per year. Contributions made to the plan by THA during the years ended June 30, 2020 and 2019, totaled \$28,688 and \$31,573, respectively. THA amended the plan to discontinue its matching contribution beginning with the year ending June 30, 2021.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 8 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2020</u>	<u>2019</u>
Endowment funds (Note 9)-		
General endowment - original gifts (corpus)	\$ 2,430,000	\$ 2,430,000
Accumulated endowment earnings	<u>5,333</u>	<u>64,330</u>
Total Net Assets With Donor Restrictions	<u>\$ 2,435,333</u>	<u>\$ 2,494,330</u>

Note 9 - Endowment Funds

THA's endowment consists of two donor-restricted funds established for the support of general operations of THA. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - THA is subject to the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. The Board of Directors of THA has interpreted PMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, THA considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. THA has interpreted PMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with PMIFA, THA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of THA and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of THA; and
- The investment policies of THA.

TOWN HALL ASSOCIATION

**Notes to Financial Statements
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)**

Note 9 - Continued

As of June 30, endowment net assets consisted of the following:

	Endowment Corpus	Accumulated Appreciation	Total
Balance, July 1, 2018	\$ 30,000	\$ 10,907	\$ 40,907
Endowment contributions	2,400,000		2,400,000
Investment return		53,423	53,423
Balance, June 30, 2019	2,430,000	64,330	2,494,330
Investment return		(58,997)	(58,997)
Balance, June 30, 2020	\$ 2,430,000	\$ 5,333	\$ 2,435,333

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires THA to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this type totaled \$5,954 at June 30, 2020, on an original corpus balance of \$2,400,000. There were no such deficiencies as of June 30, 2019. This endowment fund was newly established during the year ended June 30, 2019, and the deficiencies resulted from unfavorable market fluctuations that occurred shortly thereafter. As a result of the unfavorable market fluctuations, THA elected to not appropriate any earnings from this endowment fund during the year ended June 30, 2020.

Return Objectives and Risk Parameters - THA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that THA must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to diversify investments within both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

Strategies Employed for Achieving Objectives - The investment objectives for the endowment are to manage contributions in a manner that will produce current income to support various programs of THA, thereby maximizing the benefits intended by donors, and to achieve growth of both principal value and income over time sufficient to preserve or increase the purchasing power of the assets of the endowment, thereby protecting those assets against inflation.

Total return shall be the method for measuring the performance of the endowment. This refers to the combination of income (interest and dividends) and appreciation/depreciation in the fund's value for a certain period of time. The specific financial objective is for total return, less expenses and distributions pursuant to the spending policy for the endowment, to equal or exceed the consumer price index (CPI) for that period. Thus, achievement of this objective will result in real growth in the value of the endowment. Although real growth will not be attained every year due to market fluctuations, it is expected to be attained over a period of time.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 9 - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Board of Directors sets the spending policy for the endowment, expressed as a percentage of market value of the endowment. The percentage shall be determined on a year to year basis by the Board of Directors upon recommendation of the Finance Committee. Distributions from the endowment may be made on a monthly basis starting in 2019. The spending ratio has been determined for the financing needs of THA through the year ending June 30, 2024. The spending ratio will resume the annual proposal process beginning with the year ending June 30, 2025.

THA has determined the spending ratio for the next four years will not exceed the following:

2021	10% of the total value at inception
2022	6% of the total value at inception
2023	6% of the total value at inception
2024	6% of the total value at inception

Note 10 - Commitments

Operating Lease Commitment - THA is obligated under an operating lease for office space used for program, administrative, and fundraising activities, which expires in 2024. Future minimum payments under this lease are as follows:

For the Year Ending June 30,

2021	\$	67,605
2022		68,957
2023		70,337
2024		<u>65,655</u>
	\$	<u><u>272,554</u></u>

Total rent expense incurred for the years ended June 30, 2020 and 2019 was \$78,985 and \$85,020, respectively.

Note 11 - Liquidity and Availability of Financial Assets

THA is supported by a combination of contributed (membership and grants) and earned (tickets, rentals and refreshments) income. THA manages cash by separating operating cash and capital cash in separate checking accounts. As part of THA's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board of Directors has designated funds for operating and long-term reserves. Reserve funds are held in checking and investment accounts, which totaled \$1,406,414 and \$1,546,943 as of June 30, 2020 and 2019, respectively.

All pledges to the Capital Campaign and funds in Campaign accounts are considered not available for general purposes because they will be expended for the capital project.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2020 (With Comparative Totals for 2019)

Note 11 - Continued

THA's endowment consists of two funds established for the general support of operations of THA. As described in Note 9, the endowment has a spending rate cap set by the Board of Directors annually. As of June 30, 2020, up to \$240,000 of appropriations from the endowment is expected to be available within the next 12 months.

The following reflects THA's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the statement of financial position. Amounts not available include board-designated reserves that could be drawn upon if the governing board approves that action.

	<u>2020</u>	<u>2019</u>
Financial assets at year end-		
Cash and cash equivalents	\$ 1,052,183	\$ 1,572,261
Grants and pledges receivable	669,333	938,253
Investments	<u>3,841,742</u>	<u>5,646,518</u>
Total financial assets at year end	5,563,258	8,157,032
Less amounts not available for general expenditure within 12 months-		
Capital campaign pledges, net	(249,452)	(758,569)
Endowment funds	(2,435,333)	(2,494,330)
Board-designated reserve funds	<u>(1,406,414)</u>	<u>(1,546,943)</u>
Financial Assets Available for General Expenditures Within 12 Months	<u>\$ 1,472,059</u>	<u>\$ 3,357,190</u>