



Financial Statements

For the Year Ended June 30, 2021

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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, 2021, 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, 2021, 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 2020 financial statements and expressed an unmodified opinion on those audited financial statements in our report dated October 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 14, 2021

**TOWN HALL ASSOCIATION**

**Statement of Financial Position**

**June 30, 2021**

**(With Comparative Totals for 2020)**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,725,963	\$ 1,052,183
Grants and pledges receivable, current portion	80,376	660,614
Prepaid expenses	19,189	28,737
<b>Total Current Assets</b>	<b>1,825,528</b>	<b>1,741,534</b>
Investments	3,859,793	3,841,742
Grants and pledges receivable, net of current portion	4,471	8,719
Land, building, improvements and equipment, net	31,526,283	32,762,437
Donated artwork	67,743	66,243
<b>Total Assets</b>	<b>\$ 37,283,818</b>	<b>\$ 38,420,675</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 207,510	\$ 147,108
Deferred revenue and deposits	23,825	24,392
Current portion of long-term debt	93,908	86,757
<b>Total Current Liabilities</b>	<b>325,243</b>	<b>258,257</b>
Paycheck Protection Program liability	144,245	309,595
Long-term debt, net of current portion	2,224,869	2,314,218
<b>Total Liabilities</b>	<b>2,694,357</b>	<b>2,882,070</b>
<b>Net Assets:</b>		
Without donor restrictions-		
Undesignated, available for operations	1,454,037	1,269,153
Board-designated reserve funds	1,406,863	1,406,414
Net investment in land, building, improvements, equipment and artwork	29,275,249	30,427,705
	32,136,149	33,103,272
With donor restrictions	2,453,312	2,435,333
<b>Total Net Assets</b>	<b>34,589,461</b>	<b>35,538,605</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 37,283,818</b>	<b>\$ 38,420,675</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

**Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2021  
(With Comparative Totals for 2020)**

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
<b>Operating Activities</b>				
<b>Support and Revenue:</b>				
Tickets and rentals	\$ 156,470	\$ -	\$ 156,470	\$ 619,438
Contributions and grants	1,623,013		1,623,013	2,020,487
Government COVID-relief funding	650,492		650,492	64,998
<b>Total Support and Revenue</b>	<b>2,429,975</b>		<b>2,429,975</b>	<b>2,704,923</b>
<b>Program and Operating Expenses:</b>				
Program	1,151,956		1,151,956	1,617,973
Management and general	356,789		356,789	371,943
Fundraising	423,713		423,713	584,392
<b>Total Program and Operating Expenses</b>	<b>1,932,458</b>		<b>1,932,458</b>	<b>2,574,308</b>
<b>Change in Net Assets From Operating Activities Before Depreciation and Loss on Disposal of Assets</b>	<b>497,517</b>		<b>497,517</b>	<b>130,615</b>
Depreciation	1,374,304		1,374,304	1,355,934
<b>Change in Net Assets From Operating Activities</b>	<b>(876,787)</b>		<b>(876,787)</b>	<b>(1,225,319)</b>
<b>Nonoperating Activities</b>				
Capital campaign contributions and grants		25,000	25,000	3,112,639
Contributions released from restriction	25,000	(25,000)		
Capital campaign expenses	(117,345)		(117,345)	(791,366)
Investment return	2,009	17,979	19,988	(196,151)
<b>Change in Net Assets From Nonoperating Activities</b>	<b>(90,336)</b>	<b>17,979</b>	<b>(72,357)</b>	<b>2,125,122</b>
<b>Total Change in Net Assets</b>	<b>(967,123)</b>	<b>17,979</b>	<b>(949,144)</b>	<b>899,803</b>
Net assets, beginning of year	33,103,272	2,435,333	35,538,605	34,638,802
<b>Net Assets, End of Year</b>	<b>\$ 32,136,149</b>	<b>\$ 2,453,312</b>	<b>\$ 34,589,461</b>	<b>\$ 35,538,605</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

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

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	2021 Total
Payroll	\$ 631,232	\$ -	\$ 631,232	\$ 291,164	\$ 260,876	\$ 1,183,272
Production and other events	195,525	591	196,116	2,160	78,670	276,946
Printing and advertising	51,740		51,740		22,397	74,137
Bank and loan fees	1,397	4,725	6,122	9,485	6,853	22,460
Travel and meals	275		275	2,888	2,806	5,969
Technology, supplies and office support	52,920	312	53,232	21,304	21,906	96,442
Depreciation	1,372,202		1,372,202	2,102		1,374,304
Professional fees	29,261	14,655	43,916	9,045	10,874	63,835
Insurance	38,005		38,005	3,150		41,155
Interest		97,062	97,062			97,062
Occupancy	151,601		151,601	17,593	19,331	188,525
<b>Total Expenses</b>	<b>2,524,158</b>	<b>117,345</b>	<b>2,641,503</b>	<b>358,891</b>	<b>423,713</b>	<b>3,424,107</b>
Less depreciation	(1,372,202)		(1,372,202)	(2,102)		(1,374,304)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(117,345)	(117,345)			(117,345)
<b>Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets</b>	<b>\$ 1,151,956</b>	<b>\$ -</b>	<b>\$ 1,151,956</b>	<b>\$ 356,789</b>	<b>\$ 423,713</b>	<b>\$ 1,932,458</b>

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
<b>Total Expenses</b>	<b>2,971,805</b>	<b>489,961</b>	<b>3,461,766</b>	<b>374,045</b>	<b>584,392</b>	<b>301,405</b>	<b>885,797</b>	<b>4,721,608</b>
Less depreciation and amortization	(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)
<b>Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets</b>	<b>\$ 1,617,973</b>	<b>\$ -</b>	<b>\$ 1,617,973</b>	<b>\$ 371,943</b>	<b>\$ 584,392</b>	<b>\$ -</b>	<b>\$ 584,392</b>	<b>\$ 2,574,308</b>

See accompanying notes.

**TOWN HALL ASSOCIATION**

**Statement of Cash Flows  
For the Year Ended June 30, 2021  
(With Comparative Totals for 2020)**

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (949,144)	\$ 899,803
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation	1,374,304	1,355,934
Amortization of capitalized loan fees	3,405	27,134
Unrealized (gain) loss on investments	(16,660)	290,410
Loan forgiveness recognized	(523,238)	(64,998)
Contributions and grants restricted by donors to investment in long-lived assets and endowment		(2,321,273)
Increased (decreased) in operating assets:		
Prepaid expenses	9,548	36,326
Grants and pledges receivable	584,486	(240,197)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	60,402	(190,439)
Deferred revenue and deposits	(567)	(30,267)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>542,536</b>	<b>(237,567)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of long-term investments	(3,843,727)	(4,023,089)
Proceeds from sale of investments	3,842,336	5,537,455
Purchases of land, building, improvements and equipment	(139,650)	(2,581,952)
<b>Net Cash Used by Investing Activities</b>	<b>(141,041)</b>	<b>(1,067,586)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from contributions and grants restricted by donors to investment in long-lived assets and endowment		2,830,390
Change in line of credit		(4,825,000)
Proceeds from long-term debt	357,888	2,874,593
Payments on long-term debt	(85,603)	(67,994)
Loan fees capitalized		(26,914)
<b>Net Cash Provided by Financing Activities</b>	<b>272,285</b>	<b>785,075</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>673,780</b>	<b>(520,078)</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	1,052,183	1,572,261
<b>End of Year</b>	<b>\$ 1,725,963</b>	<b>\$ 1,052,183</b>
<b>Supplemental Cash Flow Disclosures:</b>		
Cash paid for interest	\$ 100,467	\$ 150,723

See accompanying notes.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### 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. Central to our mission and operations is subsidized rental program for other non-profits; THA is a shared resource for other community organizations that rely on the facility as an affordable performance and meeting home, and the organization to provide production and promotional support.

Town Hall Seattle also produces programs annually that span 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.

**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, THA closed its physical doors on March 11, 2020. Those doors remained closed during the FY21 season; however, THA produced or hosted over 250 programs on the digital stage for more than 35,000 virtual visitors. THA management used a multi-pronged approach to mitigate the negative impact of COVID-19 on operating revenues. The organization implemented an austerity budget that temporarily restructured the organization to thrive in virtual production environment; we applied for and received two loans through the Paycheck Protection Program (PPP), as further described in Note 7, as well as Employee Retention Tax Credits. Revenues associated with these programs totaled \$650,492 and \$64,998 for the years ended June 30, 2021 and 2020, respectively, and are reported as government COVID-relief funding on the statement of activities and changes in net assets. Management is continuing to monitor closely the financial impact of the pandemic and take steps as necessary to fulfill our mission and ensure institutional stability.

**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.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 1 - Continued

**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.

**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

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 1 - Continued

**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 when the performance obligations take place. 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 three donors representing 61% of grants and pledges receivable and one donor representing 13% of contributions and grants revenue for the year ended June 30, 2021. 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.

**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.

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. Revenues and expenses associated with the capital campaign for this project are reported as nonoperating activities

**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, 2020, from which the summarized information was derived.

**Subsequent Events** - THA has evaluated subsequent events through October 14, 2021, the date on which the financial statements were available to be issued.

**TOWN HALL ASSOCIATION**

**Notes to Financial Statements  
For the Year Ended June 30, 2021  
(With Comparative Totals for 2020)**

**Note 2 - Promises to Give**

Promises to give as of June 30 are as follows:

	Capital Campaign	Operations	2021 Total	2020 Total
Amounts due in less than one year	\$ 31,373	\$ 53,272	\$ 84,645	\$ 668,724
Amounts due in one to five years	4,790		4,790	9,430
	36,163	53,272	89,435	678,154
Present value discount (1.0%)	(319)		(319)	(711)
Allowance for uncollectible pledges		(4,269)	(4,269)	(8,110)
	<u>\$ 35,844</u>	<u>\$ 49,003</u>	<u>\$ 84,847</u>	<u>\$ 669,333</u>

**Note 3 - Investments and Fair Value Measurements**

Investments at June 30 were comprised of the following:

	2021	2020
Money market funds	\$ 2,218,258	\$ 3,841,742
Mutual funds - equities	1,641,535	
<b>Total Investments</b>	<u>\$ 3,859,793</u>	<u>\$ 3,841,742</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).

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.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 3 - Continued

Following is a description of the valuation methodologies used for investments. There have been no changes in the methodologies used at June 30, 2021 and 2020.

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

Mutual 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>2021</u>	<u>2020</u>
Interest and dividends	\$ 3,328	\$ 112,812
Realized and unrealized gains (losses)	16,660	(290,410)
Investment fees		(18,553)
<b>Total Investment Return</b>	<b><u>\$ 19,988</u></b>	<b><u>\$ (196,151)</u></b>

#### Note 4 - Land, Building, Improvements and Equipment

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 3,265,730	\$ 3,265,730
Building and building improvements	30,034,148	29,933,792
Furniture	493,771	493,771
Equipment	1,590,234	1,482,440
Construction in progress		70,000
	35,383,883	35,245,733
Less accumulated depreciation	<u>(3,857,600)</u>	<u>(2,483,296)</u>
<b>Total Land, Building, Improvements and Equipment, Net</b>	<b><u>\$ 31,526,283</u></b>	<b><u>\$ 32,762,437</u></b>

#### Note 5 - Term Note

**Term Note** - In September 2019, THA entered into a term note 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 greater of 4.0% or the Federal Reserve's Five-Year Treasury Constant Maturity (CMT) rate plus 2.5%. 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.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 5 - Continued

Effective June 2021, the term note was amended to change the fixed interest rate to 3.5% for the remainder of the first five years of the loan. Thereafter, the interest rate is the greater of 3.5% or the CMT rate plus 2.5%. Monthly payments are \$14,573 for the duration of the loan. Cash collateral securing the loan reduced from \$3 million to \$2.4 million.

The future principal payments on the debt outstanding at June 30, 2021 are as follows:

For the Year Ending June 30,

2022	\$	93,908
2023		96,500
2024		99,776
2025		101,783
2026		103,580
Thereafter		<u>1,850,856</u>
Total maturities		2,346,403
Less unamortized debt issuance costs		<u>(27,626)</u>
<b>Long-Term Debt, Net</b>	<b>\$</b>	<b><u>2,318,777</u></b>

#### Note 6 - Forgivable Capital Improvement Loans

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 recorded revenue in the period the loans were 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 \$2.89 million and \$2.75 million at June 30, 2021 and 2020, respectively. The compliance periods ends June 30, 2028.

#### Note 7 - Paycheck Protection Program

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 first draw PPP loan with a principal balance of \$374,593 and an annual interest rate of 1%. In May 2021 the first draw PPP loan was forgiven by the lender and the Small Business Administration (SBA). On February 18, 2021, THA obtained a second draw PPP loan with a principal balance of \$357,888 and an annual interest rate of 1%.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 7 - Continued

All or a portion of the PPP loans 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 loans. 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 \$523,238 of qualifying expenses were incurred during the year ended June 30, 2021 and so revenue in the amount of \$523,238 has been recognized in the statement of activities and changes in net assets. Revenue of \$64,998 was recognized for the year ended June 30, 2020. Corresponding reductions to the liability has been recorded for the amount of revenue recognized.

A rollforward of the PPP liability balance is presented below:

	<u>2021</u>	<u>2020</u>
Liability balance at June 30	\$ 309,595	\$ -
Principal borrowed on PPP loans	357,888	374,593
Revenue recognized for loan forgiveness	<u>(523,238)</u>	<u>(64,998)</u>
<b>Liability Balance at June 30</b>	<b><u>\$ 144,245</u></b>	<b><u>\$ 309,595</u></b>

To complete the loan forgiveness process management must submit a loan forgiveness application to the lender for each of the loans and then the lender and the 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 plus interest. In accordance with the promissory note, principal and interest for the amount that is not forgiven is payable in monthly installments beginning June 18, 2022 through maturity on February 18, 2026.

#### Note 8 - 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. Prior to the fiscal 2021, THA provided a matching contribution on employee deferrals of 50% up to a maximum amount of \$2,000 per year. THA amended the plan to discontinue its matching contribution beginning with the year ended June 30, 2021. Contributions made to the plan by THA during the year ended June 30, 2020, totaled \$28,688.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 9 - Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Endowment funds (Note 10)-		
General endowment - original gifts (corpus)	\$ 2,430,000	\$ 2,430,000
Accumulated endowment earnings	<u>23,312</u>	<u>5,333</u>
<b>Total Net Assets With Donor Restrictions</b>	<b><u>\$ 2,453,312</u></b>	<b><u>\$ 2,435,333</u></b>

#### Note 10 - 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, 2021 (With Comparative Totals for 2020)

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#### Note 10 - Continued

Endowment net assets consisted of the following as of June 30:

	Endowment Corpus	Accumulated Appreciation	Total
Balance, July 1, 2019	\$ 2,430,000	\$ 64,330	\$ 2,494,330
Investment return		(58,997)	(58,997)
<b>Balance, June 30, 2020</b>	<b>2,430,000</b>	<b>5,333</b>	<b>2,435,333</b>
Investment return		17,979	17,979
<b>Balance, June 30, 2021</b>	<b>\$ 2,430,000</b>	<b>\$ 23,312</b>	<b>\$ 2,453,312</b>

**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 did not occur during the year ended June 30, 2021. As of June 30, 2020, deficiencies of this type totaled \$5,954, on an original endowment corpus balance of \$2.4 million.

**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.

**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.

## TOWN HALL ASSOCIATION

### Notes to Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for 2020)

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#### Note 10 - Continued

THA has determined the spending ratio for the next three years ending June 30 will not exceed the following:

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

THA did not make any distributions from the endowment for the year ended June 30, 2021.

#### Note 11 - 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,

2022	\$	68,957
2023		70,337
2024		<u>65,655</u>
	\$	<u><u>204,949</u></u>

Total rent expense incurred for the years ended June 30, 2021 and 2020 was \$71,989 and \$78,985, respectively.

#### Note 12 - 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 investment accounts, which totaled \$1,406,863 and \$1,406,414 as of June 30, 2021 and 2020, 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.

THA's endowment consists of two funds established for the general support of operations of THA. As described in Note 10, the endowment has a spending rate cap set by the Board of Directors annually.

**TOWN HALL ASSOCIATION**

**Notes to Financial Statements  
For the Year Ended June 30, 2021  
(With Comparative Totals for 2020)**

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**Note 12 - Continued**

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>2021</u>	<u>2020</u>
Financial assets at year end-		
Cash and cash equivalents	\$ 1,725,963	\$ 1,052,183
Grants and pledges receivable	84,847	669,333
Investments	<u>3,859,793</u>	<u>3,841,742</u>
Total financial assets at year end	5,670,603	5,563,258
Less amounts not available for general expenditure within 12 months-		
Capital campaign pledges, net	(35,844)	(249,452)
Endowment funds	(2,453,312)	(2,435,333)
Board-designated reserve funds	<u>(1,406,863)</u>	<u>(1,406,414)</u>
<b>Financial Assets Available for General Expenditures Within 12 Months</b>	<b><u>\$ 1,774,584</u></b>	<b><u>\$ 1,472,059</u></b>