



Visual Arts Center of New Jersey

Audited Financial Statements

June 30, 2021

Independent Auditor's Report

To the Board of Directors of
Visual Arts Center of New Jersey, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Visual Arts Center of New Jersey, Inc., A New Jersey Nonprofit Corporation (the "Center"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, 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.

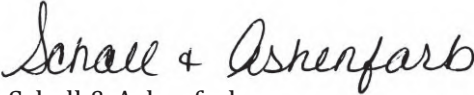
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visual Arts Center of New Jersey, Inc., A New Jersey Nonprofit Corporation as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 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.


Schall & Ashenfarb
Certified Public Accountants, LLC

November 15, 2021

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2021**

(With comparative totals at June 30, 2020)

	<u>6/30/21</u>	<u>6/30/20</u>
Assets		
Cash and cash equivalents	\$1,941,523	\$554,738
Government grants and other receivables	78,282	28,910
Contributions receivable, net	521,228	143,410
Prepaid expenses and other assets	43,066	24,164
Investments (Note 3)	4,147,274	3,312,276
Fixed assets, net (Note 4)	<u>3,831,064</u>	<u>3,999,813</u>
 Total assets	 <u><u>\$10,562,437</u></u>	 <u><u>\$8,063,311</u></u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$99,724	\$128,605
Deferred tuition and other revenue	486,010	418,046
Line of credit (Note 5)	0	140,000
Paycheck Protection Program loan (Note 6)	621,395	325,000
Interest rate swap agreement (Note 7)	17,736	0
Mortgage payable (Note 8)	<u>1,337,644</u>	<u>580,743</u>
Total liabilities	<u>2,562,509</u>	<u>1,592,394</u>
Net assets:		
Without donor restrictions	3,151,730	2,977,755
With donor restrictions (Notes 9 and 10)	<u>4,848,198</u>	<u>3,493,162</u>
Total net assets	<u>7,999,928</u>	<u>6,470,917</u>
 Total liabilities and net assets	 <u><u>\$10,562,437</u></u>	 <u><u>\$8,063,311</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021
(With comparative totals for the year ended June 30, 2020)

	With Donor Restrictions			Total 6/30/21	Total 6/30/20
	Without Donor Restrictions	Donor Restricted Programs	Donor Restricted Endowment		
Public support and revenue:					
Tuition	\$1,216,480			\$0	\$1,178,460
Contributions	553,244	\$680,000		680,000	699,048
Government grants	277,172			0	149,342
Special events (net of expenses with a direct benefit to donor) (Note 11)	213,076			0	214,893
Membership dues	43,732			0	36,175
Fee for service income	28,575			0	27,607
Interest and dividends	152		\$105,112	105,112	105,216
Miscellaneous income	2,754			0	2,756
Net assets released from restrictions (Note 9)	272,019	(159,962)	(112,057)	(272,019)	0
Total public support and revenue	2,607,204	520,038	(6,945)	513,093	2,413,497
Expenses:					
Program services:					
Studio School	1,147,164			0	972,103
Education and Outreach	189,119			0	136,485
Curatorial	382,843			0	407,208
Total program services	1,719,126	0	0	0	1,515,796
Supporting services:					
Management and general	503,619			0	589,572
Fundraising	192,748			0	198,741
Total supporting services	696,367	0	0	0	788,313
Total expenses	2,415,493	0	0	0	2,304,109
Change in net assets from operations	191,711	520,038	(6,945)	513,093	109,388
Non-operating activity:					
Loss on swap agreement (Note 7)	(17,736)			(17,736)	
Net investment gain /(loss) (Note 3)			841,943	841,943	(132,390)
Total change in net assets	173,975	520,038	834,998	1,355,036	(23,002)
Net assets - beginning of year	2,977,755	180,886	3,312,276	3,493,162	6,493,919
Net assets - end of year	\$3,151,730	\$700,924	\$4,147,274	\$4,848,198	\$6,470,917

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VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021
(With comparative totals for the year ended June 30, 2020)

	Program Services			Supporting Services			Total Expenses 6/30/21	Total Expenses 6/30/20	
	Studio School	Education and Outreach	Curatorial	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries	\$701,335	\$114,530	\$141,541	\$957,406	\$221,262	\$152,516	\$373,778	\$1,331,184	\$1,253,094
Payroll taxes and employee benefits	129,067	11,493	40,659	181,219	59,054	13,813	72,867	254,086	238,435
Professional fees		35,449	16,422	51,871	52,707	687	53,394	105,265	110,324
Facilities and grounds	14,261	1,171	10,028	25,460	3,843	721	4,564	30,024	20,760
Supplies and materials	85,670	10,793	14,272	110,735	7,301	17,488	24,789	135,524	103,600
Office equipment	35,432	2,909	24,914	63,255	9,549	1,790	11,339	74,594	77,651
Symposium and honoraria			8,919	8,919			0	8,919	22,595
Postage and shipping	7,914		4,522	12,436	4,382		4,382	16,818	13,332
Utilities	25,405	2,086	17,864	45,355	6,845	1,284	8,129	53,484	55,587
Insurance	19,186	1,575	16,095	36,856	5,171	969	6,140	42,996	35,952
Marketing and advertising				0	42,953		42,953	42,953	36,430
Bank charges and administrative fees				0	49,765		49,765	49,765	49,142
Travel and entertainment	570	47	400	1,017	153	29	182	1,199	9,302
Printing	18,969	89	10,314	29,372	294	55	349	29,721	33,423
Interest expense	12,076	991	8,491	21,558	11,156	610	11,766	33,324	29,639
Miscellaneous	2,684	220	1,887	4,791	3,693	136	3,829	8,620	20,973
Depreciation	94,595	7,766	66,515	168,876	25,491	4,780	30,271	199,147	194,370
Total expenses	1,147,164	189,119	382,843	1,719,126	503,619	194,878	698,497	2,417,623	2,304,609
Less: cost of direct benefit to donors				0		(2,130)	(2,130)	(2,130)	(500)
Total expenses for statement of activities	\$1,147,164	\$189,119	\$382,843	\$1,719,126	\$503,619	\$192,748	\$696,367	\$2,415,493	\$2,304,109

The attached notes and auditor's report are an integral part of these financial statements.

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021**

(With comparative totals for the year ended June 30, 2020)

	<u>6/30/21</u>	<u>6/30/20</u>
Cash flows from operating activities:		
Change in net assets	\$1,529,011	(\$23,002)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	199,147	194,370
Loss on swap agreement	17,736	0
Gain on sale of investments	(117,054)	(30,727)
Unrealized (gain)/loss on investments	(747,844)	142,091
Changes in assets and liabilities:		
Government grants and other receivables	(49,372)	21,477
Contributions receivable	(377,818)	(76,850)
Prepaid expenses and other assets	(18,902)	16,778
Accounts payable and accrued expenses	(28,881)	16,024
Deferred tuition and other revenue	67,964	25,976
Paycheck Protection Program loan	296,395	325,000
Total adjustments	<u>(758,629)</u>	<u>634,139</u>
Net cash flows provided by operating activities	<u>770,382</u>	<u>611,137</u>
Cash flows from investing activities:		
Purchases of investments (including reinvestment of dividends)	(563,036)	(1,074,755)
Proceeds from sales of investments	592,936	809,454
Purchases of fixed assets	<u>(30,398)</u>	<u>(102,013)</u>
Net cash flows used for investing activities	<u>(498)</u>	<u>(367,314)</u>
Cash flows from financing activities:		
Proceeds from loan	140,000	140,000
Repayment of loan	(280,000)	0
Proceeds from mortgage refinance	1,350,000	0
Repayment of mortgage	<u>(593,099)</u>	<u>(51,549)</u>
Net cash flows provided by financing activities	<u>616,901</u>	<u>88,451</u>
Net increase in cash and cash equivalents	1,386,785	332,274
Cash and cash equivalents - beginning of year	<u>554,738</u>	<u>222,464</u>
Cash and cash equivalents - end of year	<u><u>\$1,941,523</u></u>	<u><u>\$554,738</u></u>
Supplemental disclosure of cash flow information:		
Total interest paid	<u>\$33,324</u>	<u>\$25,515</u>
Total taxes paid	<u>\$0</u>	<u>\$0</u>

The attached notes and auditor's report are an integral part of these financial statements.

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021**

Note 1 - Organization

The Visual Arts Center of New Jersey, A New Jersey Nonprofit Corporation (the "Center") nurtures the capacity for personal expression, expands the creative experience and fosters stronger communities by empowering people to see, make and learn about art. Through exhibition, studio school and community programs, the Center engenders connection, curiosity and creative risk-taking among its constituents.

The Center was incorporated in the State of New Jersey and has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code") and similar statutes in New Jersey. They are an organization which has not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting which is the process of recording revenue and expenses when earned or incurred, rather than received or paid.

b. Basis of Presentation

Not-for-profit organizations report information regarding its financial position and activities according to specific classes of net assets as follows:

- *Net Assets Without Donor Restrictions* – accounts for activity without donor-imposed restrictions. During 2019, the Board of Directors of the Center established a board designated operating reserve fund to ensure long-term stability of the mission, programs, and ongoing operations of the Center. The reserve is intended to provide an internal source of funds for situations such as a sudden unexpected increase in expenses, unanticipated loss in funding, or uninsured losses. The Board of Directors is required to approve any requests for the use of the funds and authorize any transfers from the fund in excess of finance committee approval limits. The target minimum operating reserve is equal to three months of average operating costs that excludes depreciation, in-kind, and other non-cash expenses and capital purchases. The amounts will continue to be funded with further donations and surplus unrestricted operating funds until the target minimum has been reached.

Activity of the board designated fund was as follows:

Balance – beginning of year	\$264,311
Transfers in	59,509
Appropriations	<u>0</u>
Board designated fund at 06/30/21	<u>\$323,820</u>

- *Net Assets With Donor Restrictions* – relates to activity based on specific donor restrictions that are expected to be satisfied by the passage of time or performance of activities.

c. Revenue Recognition

The Center follows the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) 606. Tuition and fees for services fall under ASC 606 and have been included in the statement of activities. Each different source of revenue is analyzed to determine that it has a contract with the customer that identifies both the performance obligation and the transaction price. Revenue is recognized when the performance obligation is complete.

Tuition income is recognized over the period of time the class takes place. For fees for services, the performance obligation is considered to be met when the services are performed. Tuition and fees received in advance of performing services are recorded as deferred income and will be recognized as income in the period earned. The Center offers memberships of various categories that typically last for a term of one year. As tangible benefits are not identifiable, membership income is considered a contribution.

The Center follows FASB’s ASC 958-605 for recording contributions, which are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statement of activities. However, when a restriction is met in the period the contribution is received, it is recorded as net assets without donor restrictions.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

The Center’s government grants are primarily unconditional restricted transactions and are considered contributions under ASC 958-605.

Unconditional promises to give are recorded at net realizable value if expected to be received in less than one year, or at fair value using a risk-adjusted discount rate if expected to be received in greater than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Outstanding receivables from fees, contributions, and grants are reviewed on an annual basis and an allowance for doubtful accounts is maintained based on historical trends and past collection data to assess the likelihood of future payments.

Based on that review, no allowance for uncollectable receivables is deemed necessary as of June 30, 2021 and 2020. All outstanding receivables are anticipated to be collected within the next fiscal year with the exception of one pledge of \$200,000 which is due in installments of \$100,000 in each fiscal year ending June 30, 2022 and 2023. The long-term pledge was not discounted due to the immaterial nature of the discount.

d. Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of ongoing services as well as interest and dividends. Non-operating activities include investment gains and losses.

e. Cash and Cash Equivalents

The Center considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents except for cash held with an investment custodian for long-term purposes.

f. Concentration of Credit Risk

Financial instruments which potentially subject the Center to concentration of credit risk consist of cash accounts and investments. These have all been placed with financial institutions that management deems to be creditworthy. At times and at year end, balances may exceed federally insured limits. Investments are subject to market fluctuations and principal is not guaranteed. The Center has not sustained any losses due to the failure of any financial institution.

g. Investments

Investments are reflected at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

h. Fixed Assets

Capital items purchased such as buildings, improvements, furniture, fixtures, and equipment that have a useful life of more than one year and exceed \$1,000; whereby, the organization has title to, are capitalized at cost. Routine maintenance and repair costs are charged to expenses. Depreciation is charged using the straight-line method over the estimated useful life of the asset as follows:

Building – 40 years

Building improvements – 15 to 40 years

Furniture, fixtures and equipment – 3 to 10 years

i. Accrued Vacation

Based on their tenure, employees are entitled to be paid for unused vacation time if they leave the Center's employment. Accordingly, the financial statements reflect a liability for the amount that would be paid out if employees with unused vacation were to leave. The accrued vacation obligation was \$26,675 and \$24,541 at June 30, 2021 and 2020, respectively.

j. In-kind Contributions

Donated services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need

to be purchased if not provided in-kind, are recognized at fair value.

Board members volunteer their time and perform a variety of tasks for the Center. These services do not meet the criteria for recognition and have not been recognized in the financial statements.

k. Advertising

Advertising costs are expensed as incurred.

l. Management Estimates

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

m. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Salaries and employee benefits were allocated using time and effort as the basis.

The following expenses were allocated based on the percentage of square footage of the building used by the department as the basis:

- Salaries and employee benefits for maintenance/building employees
- Facilities, grounds and utilities
- Supplies, materials and office equipment
- Insurance
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

n. Comparative Financial Information

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 accounting principles generally accepted in the United States of America. Such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

o. Accounting for Uncertainty of Income Taxes

The Center does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2018 and later are subject to examination by applicable taxing authorities.

New Accounting Pronouncements

FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2023 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding “right to use asset” on the statement of financial position.

The Center is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Investments/ Fair Value Measurements

Accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs, by requiring that the most observable inputs be used when available. This would include data obtained from sources independent of the Center.

The fair value hierarchy is categorized into three levels based on these inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A significant portion of the investment assets are classified within Level 1 because they comprise open-end mutual funds with readily determinable fair values based on daily redemption values. U.S. government obligations and corporate bonds are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The interest rate swap agreement is valued using a third party’s proprietary discounted cash flow model, which considers past, present, and future assumptions regarding interest rates and market conditions to estimate the fair value of the agreement. This is classified within Level 2.

The following summarizes the composition of investments:

<u>Assets:</u>	<u>June 30, 2021</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Investments:			
Government Securities – U.S. Treasury	\$56,323	\$0	\$56,323
Municipal Bonds	456,127	0	456,127
Corporate Bonds	84,578	0	84,578
Equities – U.S.	1,359,158	1,359,158	0
Mutual Funds:			
Stock Fund – 500 index	631,542	631,542	0
Stock Fund – Extended market	310,721	310,721	0
Stock Fund – Emerging market	74,208	74,208	0
Stock Fund – International index	285,824	285,824	0
Stock Fund – Global market	37,311	37,311	0
Bond Fund – Treasury/U.S. bonds	762,787	762,787	0
Exchange Traded Funds	<u>11,958</u>	<u>11,958</u>	<u>0</u>
	4,070,537	3,473,509	597,028
Money funds	<u>76,737</u>	<u>76,737</u>	<u>0</u>
Total	<u>\$4,147,274</u>	<u>\$3,550,246</u>	<u>\$597,028</u>

Liabilities:

Interest-rate swap		<u>\$17,736</u>
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	<u>June 30, 2020</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Government Securities – U.S. Treasury	\$55,155	\$0	\$55,155
Municipal Bonds	443,747	0	443,747
Corporate Bonds	88,940	0	88,940
Equities – U.S.	1,041,645	1,041,645	0
Mutual Funds:			
Stock Fund – 500 index	501,426	501,426	0
Stock Fund – Extended market	268,330	268,330	0
Stock Fund – Emerging market	52,281	52,281	0
Stock Fund – International index	242,454	242,454	0
Stock Fund – Global market	28,899	28,899	0
Bond Fund – Treasury/U.S. bonds	469,959	469,959	0
Exchange Traded Funds	<u>11,972</u>	<u>11,972</u>	<u>0</u>
	3,204,808	2,616,966	587,842
Money funds	<u>107,468</u>	<u>107,468</u>	<u>0</u>
Total	<u>\$3,312,276</u>	<u>\$2,724,434</u>	<u>\$587,842</u>

Net investment gains/losses consist of:

	<u>6/30/21</u>	<u>6/30/20</u>
Gain on sale of investments	\$117,054	\$30,727
Unrealized gain/(loss)	747,844	(142,091)
Investment fees	<u>(22,955)</u>	<u>(21,026)</u>
Total	<u>\$841,943</u>	<u>(\$132,390)</u>

Note 4 - Fixed Assets

Fixed assets consist of the following at:

	<u>6/30/21</u>	<u>6/30/20</u>
Land	\$280,336	\$280,336
Building improvements	6,390,600	6,390,600
Furniture, fixtures and equipment	<u>283,158</u>	<u>252,760</u>
	6,954,094	6,923,696
Less: accumulated depreciation	<u>(3,123,030)</u>	<u>(2,923,883)</u>
Total fixed assets, net	<u>\$3,831,064</u>	<u>\$3,999,813</u>

Note 5 - Line of Credit

The Center maintains a revolving line of credit agreement with a financial institution; whereby, it is permitted to borrow a maximum of \$500,000 with an interest rate of U.S. Prime, which was 3.25% at June 30, 2021. All accrued and unpaid interest is payable monthly with the unpaid principal due on January 31, 2022. There was \$140,000 outstanding at June 30, 2020, which was paid during 2021; therefore, no amounts are outstanding at June 30, 2021.

Note 6 - Paycheck Protection Program Loan

During the year ended June 30, 2020, the Center obtained a loan from the Small Business Administration ("SBA") in the amount of \$325,000 through the Paycheck Protection Program ("PPP"). Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that were greater than pre-determined historical periods, that the loan, or a portion thereof, would be forgiven. Portions that are not forgiven are payable over a five-year period, with a ten-month deferral of payments and interest will accrue at 1%.

During the year ended June 30, 2021, the Center received an additional PPP loan of \$296,395. Terms of the second loan are the same as described above.

The Center treats the PPP proceeds as a loan payable in accordance with FASB ASC 470. Under this treatment, the proceeds from the loan will remain a liability until the loan is forgiven by the SBA.

Subsequent to year end, the Center submitted its applications and was granted full forgiveness for both PPP loans. Revenue will be recognized in 2022.

Note 7 - Interest Rate Swap Agreements

Effective February 4, 2021, the Center entered into a swap agreement with the Toronto-Dominion Bank, New York Branch ("TD") in conjunction with the term loan agreement described in Note 8. Under the terms of the swap agreement, the Center receives a monthly variable rate of interest (1 month LIBOR plus 2.50%) and the Center also pays a monthly fixed rate of interest at 3.853% per annum.

The monthly difference between the fixed and variable rates of interest is exchanged as one net monthly interest payment.

The swap agreement is an economic hedge of the term loan. The Center records the swap at its fair value as of the date of the statement of financial position. Changes in fair value are recognized as unrealized gains or losses on the statement of activities, and net interest payments or receipts are recorded in interest expense.

Details of the interest rate swap agreement are as follows:

- Original notional amount – \$1,350,000
- Variable interest rate – paid monthly by TD: 1 month LIBOR plus 2.50%
- Fixed interest rate – paid monthly by Center: 3.853%
- Maturity date: February 1, 2031

The swap agreements were valued as a liability of \$17,736 as of June 31, 2021. This value is a level 2 fair value measurement (Note 3).

Note 8 - Mortgage Payable

In June 2004, The New Jersey Economic Development Authority (“EDA”) issued \$3,000,000 in revenue bonds for the benefit of the Center. The Center was to use the proceeds for the costs associated with the improvements made to the building located at 68 Elm Street in Summit, New Jersey. The EDA sold the bond proceeds to a bank and the Center entered into a separate mortgage loan agreement with that bank for the full \$3,000,000.

In February 2013, the mortgage loan was refinanced and a fixed rate of 4.18% was negotiated. In February 2021, the mortgage loan was refinanced again with a monthly variable rate of interest, which was 2.59% at year-end (1 month LIBOR plus 2.50%). Monthly payments of principal and interest are required. Any unpaid principal and interest balance are due in full on February 1, 2031. The loan is secured by the property located at 68 Elm Street.

Future principal payments under the loan are as follows:

Year ending:	June 30, 2022	\$30,206
	June 30, 2023	34,275
	June 30, 2024	35,503
	June 30, 2025	37,050
	June 30, 2026	38,524
	Thereafter	<u>1,162,086</u>
Total		<u>\$1,337,644</u>

The mortgage loan agreement contains covenants, which include a minimum debt service coverage ratio and debt service reserve. At June 30, 2021, management believes they are in compliance with these covenants.

Note 9 - Net Assets with Donor Restrictions

The following summarizes net asset released from restrictions:

	<u>6/30/21</u>	<u>6/30/20</u>
Programs:		
Retirement plan	\$38,816	\$46,112
Capital expenditures	4,712	35,000
Program outreach	0	10,000
Other programs	<u>116,434</u>	<u>27,723</u>
Total program restricted	159,962	118,835
Appropriation of endowment fund earnings (See Note 10)	<u>112,057</u>	<u>143,791</u>
Total restrictions	<u>\$272,019</u>	<u>\$262,626</u>

The following summarizes the nature of net asset with donor restrictions:

	<u>6/30/21</u>	<u>6/30/20</u>
Programs:		
Retirement plan	\$40,337	\$79,153
Capital expenditures	495,288	0
Other programs	<u>165,299</u>	<u>101,733</u>
Total program restricted	<u>700,924</u>	<u>180,886</u>
Restricted for endowment:		
Endowment funds-corporus (See Note 10)	2,812,041	2,812,041
Endowment funds-earnings (See Note 10)	<u>1,335,233</u>	<u>500,235</u>
Total restricted for endowment	<u>4,147,274</u>	<u>3,312,276</u>
Total	<u>\$4,848,198</u>	<u>\$3,493,162</u>

Note 10 - Donor Restricted Endowment Fund

The Center's endowment includes seven specific donor restricted funds to be held in perpetuity, with some degree of discretion permitted to appropriate principal. The income from these investments must be used in accordance with the specifications of the donor.

The following is a summary of those endowments:

Outreach Endowment	\$75,000
Aidekman-Kaye Endowment	25,000
Exhibition Endowment	1,000,000
Marylou Hillyer Endowment	430,626
Scholarship Endowment	150,000
Development Endowment	600,000
Capital Endowment	<u>531,415</u>
Total	<u>\$2,812,041</u>

Interpretation of Relevant Law

The Center follows the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). The Board of Directors of the Center has interpreted UPMIFA as requiring certain amounts to be retained indefinitely. Absent explicit donor stipulations to the contrary, the Center will preserve the fair value of the original gift as of the gift date for all donor-restricted endowment funds. However, under certain circumstances, the Center has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by UPMIFA.

As a result of this interpretation, the Center classifies as net assets with donor restrictions: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, less (d) appropriations in accordance with donor directives.

When endowment funds have earnings in excess of amounts that need to be retained as part of the corpus, their earnings are restricted until the board appropriates for expenditures; therefore, they have been classified in the class of net assets with donor restrictions.

Spending Policies

The Board of Directors makes an appropriation annually for each specific endowment to use in operations and includes it in the annual budget.

In accordance with UPMIFA, the Center considers the following factors in making that determination:

- (1) The duration and preservation of the fund
- (2) The purposes of the Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Center
- (7) The investment policies of the Center
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Center

Changes in endowment net assets were as follows:

	<u>June 30, 2021</u>		
	<u>Endowment</u> <u>Earnings</u>	<u>Endowment</u> <u>Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$500,235	\$2,812,041	\$3,312,276
Activities 2021:			
Interest and dividends	105,112	0	105,112
Realized gain on investments	117,054	0	117,054
Unrealized gain on investments	747,844	0	747,844
Taxes and fees	(22,955)	0	(22,955)
Appropriations for expenditure	<u>(112,057)</u>	<u>0</u>	<u>(112,057)</u>
Endowment net assets, end of year	<u>\$1,335,233</u>	<u>\$2,812,041</u>	<u>\$4,147,274</u>

	<u>June 30, 2020</u>		
	<u>Endowment</u> <u>Earnings</u>	<u>Endowment</u> <u>Corpus</u>	<u>Total</u>
Endowment net assets, beginning of year	\$671,298	\$2,487,041	\$3,158,339
Activities 2020:			
Contributions	0	325,000	325,000
Interest and dividends	105,118	0	105,118
Realized gain on investments	30,727	0	30,727
Unrealized loss on investments	(142,091)	0	(142,091)
Taxes and fees	(21,026)	0	(21,026)
Appropriations for expenditure	<u>(143,791)</u>	<u>0</u>	<u>(143,791)</u>
Endowment net assets, end of year	<u>\$500,235</u>	<u>\$2,812,041</u>	<u>\$3,312,276</u>

Endowment Investment Policies

The Center has adopted an investment policy for endowment assets that relies on the accumulation of interest, dividends, and other market value gains for future appropriation.

Funds with Deficiencies

At June 30, 2020, the Center had funds with original gift values of \$580,626 and fair values of \$565,466. This created a short fall of \$15,160. These amounts were fully recovered during 2021 due to favorable market fluctuations.

Note 11 - Special Events

The Center hosts multiple fundraising events throughout the year. The special event proceeds are summarized as follows:

	<u>June 30, 2021</u>		
	<u>Spring Gala</u>	<u>Other</u>	<u>Total</u>
Gross revenue	\$202,206	\$13,000	\$215,206
Less: expenses with a direct benefit to donor	<u>(2,130)</u>	<u>0</u>	<u>(2,130)</u>
	200,076	13,000	213,076
Less: other event expenses	<u>(6,871)</u>	<u>(7,963)</u>	<u>(14,834)</u>
Total	<u>\$193,205</u>	<u>\$5,037</u>	<u>\$198,242</u>

	<u>June 30, 2020</u>		
	<u>Spring Gala</u>	<u>Other</u>	<u>Total</u>
Gross revenue	\$206,663	\$8,730	\$215,393
Less: expenses with a direct benefit to donor	<u>(500)</u>	<u>(0)</u>	<u>(500)</u>
	206,163	8,730	214,893
Less: other event expenses	<u>(8,127)</u>	<u>(5,072)</u>	<u>(13,199)</u>
Total	<u>\$198,036</u>	<u>\$3,658</u>	<u>\$201,694</u>

Note 12 - Retirement Plan

Effective January 1, 2019, the Center maintains a tax deferred 403(b) retirement plan on behalf of participating employees. All eligible employees may participate by designating a percentage of their salaries, subject to regulatory limits, to the plan on a pre-tax basis. The Center may provide a discretionary match on employee deferrals after the employee completes one year of service and is above the age of twenty-one.

During the year ended June 30, 2021, and 2020 the Center made contributions to the plan that totaled \$34,278 and \$39,772, respectively.

Note 13 - Contingencies

Government grants are subject to audit by various governmental agencies. Management is of the opinion that expense adjustments, if any, resulting from governmental agency audits, will not be material. Disallowances and adjustments, if any, resulting from such audits will be reflected in the financial statements in the year of settlement. As such, no reserves have been recorded.

Note 14 - Liquidity and Availability of Financial Resources

The Center regularly monitors liquidity and strives to maintain cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. The Center attempts to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Center has a contractual line of credit at June 30, 2021 of \$500,000 further described in Note 5. In addition, a Board designated operating reserve fund has been internally established by the Board to provide an internal source of funds with approval. See Note 2b.

As part of its liquidity management, the Center relies on tuition revenue, grants, and contributions to fund its operations.

The following reflects the Center's financial assets at June 30, 2021 that are available to meet cash needs for general expenditures within one year:

Cash and cash equivalents	\$1,941,523	
Government grants and other receivables	78,282	
Contributions receivable, net	<u>521,228</u>	
Total financial assets		\$2,541,033
Less amounts not available to be used within one year:		
Contributions with purpose restrictions	(700,924)	
Board designated operating reserve fund	<u>(323,820)</u>	
Total amounts not available for general expenditures		(1,024,744)
Amounts appropriated for spending from the endowment funds for 2022		<u>95,701</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$1,611,990</u>

Although Board designated operating reserves are not considered available for general expenditure, these funds can be made available if the need were to arise.

Note 15 – Subsequent Events

Subsequent events have been evaluated through November 15, 2021, the date the financial statements were issued. The Center has concluded that no other material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.

Note 16 – Other Matters

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an impact on the economies and financial markets of many countries, including the geographical area in which the Center operates. As of the date of these financial statements, many of the travel restrictions and stay at home orders have been lifted, however, supply chains remain impacted. Management continues to monitor the outbreak, however, as of the date of these financial statements, the potential impact cannot be quantified.