



Financial Statements

For the Year Ended June 30, 2023

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Town Hall Association ("THA"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flow for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of THA as of June 30, 2023, 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, THA adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related ASUs, for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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



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Report on Summarized Comparative Information

We have previously audited THA's June 30, 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 23, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it had been derived.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Clark Nuber P.S.

Certified Public Accountants
October 23, 2023

TOWN HALL ASSOCIATION

**Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)**

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 559,593	\$ 654,474
Grants and pledges receivable	165,189	165,690
Prepaid expenses	35,806	39,473
Total Current Assets	760,588	859,637
Investments	5,158,522	5,484,772
Land, building, improvements and equipment, net	28,729,084	30,122,652
Donated artwork	67,743	67,743
Operating lease right-of-use asset	59,875	
Total Assets	\$ 34,775,812	\$ 36,534,804
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 208,860	\$ 296,750
Deferred revenue and deposits	44,203	62,466
Operating lease liability	64,757	
Current portion of long-term debt	99,776	96,500
Total Current Liabilities	417,596	455,716
Long-term debt, net of current portion	2,035,415	2,131,778
Total Liabilities	2,453,011	2,587,494
Net Assets:		
Without donor restrictions-		
Undesignated, available for operations	503,819	746,829
Board-designated reserve funds	1,171,178	1,539,889
Net investment in land, building, improvements, equipment and artwork	26,661,636	27,962,117
	28,336,633	30,248,835
With donor restrictions	3,986,168	3,698,475
Total Net Assets	32,322,801	33,947,310
Total Liabilities and Net Assets	\$ 34,775,812	\$ 36,534,804

See accompanying notes.

TOWN HALL ASSOCIATION

**Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Operating Activities				
Support and Revenue:				
Tickets and rentals	\$ 992,509	\$ -	\$ 992,509	\$ 591,068
Contributions and grants	2,081,513		2,081,513	1,874,429
Government COVID-relief funding				368,261
Total Support and Revenue	3,074,022		3,074,022	2,833,758
Program and Operating Expenses:				
Program	2,148,233		2,148,233	1,603,399
Management and general	819,868		819,868	793,744
Fundraising	603,975		603,975	463,283
Total Program and Operating Expenses	3,572,076		3,572,076	2,860,426
Change in Net Assets From Operating Activities Before Depreciation	(498,054)		(498,054)	(26,668)
Depreciation	1,401,941		1,401,941	1,403,631
Change in Net Assets From Operating Activities	(1,899,995)		(1,899,995)	(1,430,299)
Nonoperating Activities				
Investment return	83,610	287,693	371,303	(720,004)
Endowment contributions				1,666,606
Capital campaign expenses	(95,817)		(95,817)	(158,454)
Change in Net Assets From Nonoperating Activities	(12,207)	287,693	275,486	788,148
Total Change in Net Assets	(1,912,202)	287,693	(1,624,509)	(642,151)
Net assets, beginning of year	30,248,835	3,698,475	33,947,310	34,589,461
Net Assets, End of Year	\$ 28,336,633	\$ 3,986,168	\$ 32,322,801	\$ 33,947,310

See accompanying notes.

TOWN HALL ASSOCIATION

**Statement of Functional Expenses
For the Year Ended June 30, 2023**

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	2023 Total
Payroll	\$ 974,846	\$ 735	\$ 975,581	\$ 700,658	\$ 330,948	\$ 2,007,187
Production and other events	594,317		594,317	3,722	158,978	757,017
Printing and advertising	225,118	630	225,748		28,606	254,354
Bank and loan fees	7,719	4,122	11,841	29,700	5,064	46,605
Travel and meals	2,107	230	2,337	6,259	3,008	11,604
Technology, supplies and office support	66,490		66,490	38,381	37,526	142,397
Depreciation	1,401,941		1,401,941			1,401,941
Professional fees	34,352	6,437	40,789	15,828	16,534	73,151
Insurance	45,779		45,779	2,372		48,151
Interest		78,386	78,386			78,386
Occupancy	197,505	5,277	202,782	22,948	23,311	249,041
Total Expenses	3,550,174	95,817	3,645,991	819,868	603,975	5,069,834
Less depreciation	(1,401,941)		(1,401,941)			(1,401,941)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(95,817)	(95,817)			(95,817)
Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets	\$ 2,148,233	\$ -	\$ 2,148,233	\$ 819,868	\$ 603,975	\$ 3,572,076

See accompanying notes.

TOWN HALL ASSOCIATION

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

	Program	Capital Campaign Project Costs	Total Program	Management and General	Fundraising	2022 Total
Payroll	\$ 717,369	\$ 2,144	\$ 719,513	\$ 609,120	\$ 352,803	\$ 1,681,436
Production and other events	480,234		480,234	2,714	38,847	521,795
Printing and advertising	66,658		66,658	79,139	19,599	165,396
Bank and loan fees	5,040	4,274	9,314	18,028	1,395	28,737
Travel and meals	3,095		3,095	13,135	1,504	17,734
Technology, supplies and office support	44,856	4,053	48,909	34,320	14,352	97,581
Depreciation	1,403,631		1,403,631			1,403,631
Professional fees	69,712	61,506	131,218	13,458	18,775	163,451
Insurance	29,134		29,134	10,002		39,136
Interest		81,623	81,623			81,623
Occupancy	187,301	4,854	192,155	13,828	16,008	221,991
Total Expenses	3,007,030	158,454	3,165,484	793,744	463,283	4,422,511
Less depreciation and amortization	(1,403,631)		(1,403,631)			(1,403,631)
Less capital campaign expenses presented separately on the statement of activities and changes in net assets		(158,454)	(158,454)			(158,454)
Total Program and Operating Expenses on the Statement of Activities and Changes in Net Assets	\$ 1,603,399	\$ -	\$ 1,603,399	\$ 793,744	\$ 463,283	\$ 2,860,426

See accompanying notes.

TOWN HALL ASSOCIATION

**Statement of Cash Flows
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,624,509)	\$ (642,151)
Adjustments to reconcile change in net assets to net cash used by operating activities-		
Depreciation	1,401,941	1,403,631
Amortization of capitalized loan fees	3,405	3,405
Realized and unrealized (gains) losses on investments	(264,684)	737,183
Loan forgiveness recognized		(144,245)
Contributions restricted by donors for endowment		(1,666,606)
Increased (Decrease) in operating assets:		
Prepaid expenses	3,667	(20,284)
Grants and pledges receivable	501	(80,843)
Increase (Decrease) in operating liabilities:		
Operating lease liability, net of right-of-use assets	4,882	
Accounts payable and accrued liabilities	(87,890)	102,047
Deferred revenue and deposits	(18,263)	25,834
Net Cash Used by Operating Activities	(580,950)	(282,029)
Cash Flows From Investing Activities:		
Purchases of long-term investments	(131,168)	(2,537,495)
Proceeds from sale of investments	722,102	175,333
Purchases of land, building, improvements and equipment	(8,373)	
Net Cash Provided by (Used by) Investing Activities	582,561	(2,362,162)
Cash Flows From Financing Activities:		
Proceeds from contributions restricted by donors for endowment		1,666,606
Payments on long-term debt	(96,492)	(93,904)
Net Cash (Used by) Provided by Financing Activities	(96,492)	1,572,702
Net Change in Cash and Cash Equivalents	(94,881)	(1,071,489)
Cash and Cash Equivalents:		
Beginning of year	654,474	1,725,963
End of Year	\$ 559,593	\$ 654,474
Supplemental Cash Flow Disclosures:		
Cash paid for interest	\$ 81,791	\$ 85,028

See accompanying notes.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

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 its mission and operations is subsidized rental program for other nonprofits; 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.

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.

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.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 1 - Continued

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. All grants and pledges are expected to be collected within one year from the date of the statement of financial position. 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

Leases - Effective July 1, 2022, THA adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASC Topic 842) using the modified retrospective approach with comparative accounting periods continuing to be presented under previous lease guidance (ASC Topic 840). THA has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, THA accounted for its existing leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Additionally, THA did not elect the practical expedient to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use (ROU) assets. As a result of the adoption of the new lease accounting guidance, THA recognized on July 1, 2022 (a) a lease liability of \$132,294, and (b) a right-of-use asset of \$123,375.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 1 - Continued

THA determines if an arrangement contains a lease at inception. Operating leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent THA's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. THA's leases do not provide an implicit rate of return; thus, THA uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset also includes prepaid lease payments and unamortized initial direct costs, and excludes lease incentives. THA has lease agreements with lease and non-lease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that THA will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less or if the lease liability balance would be immaterial to the financial statements.

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.

Government COVID-Relief Funding - Government COVID-relief funding of \$368,261 recognized during the year ended June 30, 2022, consisted primarily of funding from the federal government's Paycheck Protection Program and Employee Retention Tax Credits programs.

Concentrations of Credit Risk - THA had two donors representing 49% of grants and pledges receivable and one donor representing 19% of contributions and grants revenue for the year ended June 30, 2023. THA had two donors representing 59% of grants and pledges receivable and one donor representing 43% of contributions and grants revenue for the year ended June 30, 2022.

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 return. Gains or losses on disposal of property and equipment are reported as operating activities in accordance with U.S. GAAP.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 1 - Continued

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 THA for its next century of service to the community through state-of-the-art performance and productions enhancements. Expenses incurred during the years ended June 30, 2023 and 2022, consisted of interest on the loan from the capital campaign and other costs associated with the capital project. 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, 2022, from which the summarized information was derived.

Subsequent Events - THA has evaluated subsequent events through October 23, 2023, the date on which the financial statements were available to be issued.

Note 2 - Investments and Fair Value Measurements

Investments at June 30 were comprised of the following:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 157,534	\$ 1,973,826
Mutual funds-		
Fixed income	1,624,447	1,445,410
Domestic equities	2,058,511	1,380,182
International	1,318,030	685,354
	<u>1,318,030</u>	<u>685,354</u>
Total Investments	<u>\$ 5,158,522</u>	<u>\$ 5,484,772</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, 2023 (With Comparative Totals for 2022)

Note 2 - 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, 2023 and 2022.

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>2023</u>	<u>2022</u>
Interest and dividends	\$ 132,973	\$ 38,156
Realized losses	(216,442)	(705)
Unrealized gains (losses)	481,126	(736,478)
Investment fees	(26,354)	(20,977)
Total Investment Return	<u>\$ 371,303</u>	<u>\$ (720,004)</u>

Note 3 - Land, Building, Improvements and Equipment

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

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 3,265,730	\$ 3,265,730
Building and building improvements	30,042,521	30,034,148
Furniture	493,771	493,771
Equipment	1,590,234	1,590,234
	35,392,256	35,383,883
Less accumulated depreciation	(6,663,172)	(5,261,231)
Total Land, Building, Improvements and Equipment, Net	<u>\$ 28,729,084</u>	<u>\$ 30,122,652</u>

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 4 - Term Note

Term Note - THA has a term note with the original principal balance of \$2.5 million that matures in September 2029. The loan is secured with cash equal to the outstanding balance of the loan, measured quarterly, in accounts with the bank, and all property of THA. For the first five years, the interest rate is 3.5%. Thereafter, the interest rate is the greater of 3.5% or the Federal Reserve's Five-Year Treasury Constant Maturity (CMT) rate plus 2.5%. Monthly payments of \$14,573, 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, 2023 are as follows:

For the Year Ending June 30,

2024	\$ 99,776
2025	55,117
2026	41,620
2027	44,506
2028	47,239
Thereafter	<u>1,867,749</u>
Total maturities	2,156,007
Less unamortized debt issuance costs	<u>(20,816)</u>
Long-Term Debt, Net	<u><u>\$ 2,135,191</u></u>

Note 5 - 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 \$3.2 million and \$3 million at June 30, 2023 and 2022, respectively. The compliance period ends June 30, 2028.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 6 - 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 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. As of January 2023, THA has reinstated its matching contributions and expense associated with contributions totaled \$24,699 for the year ended June 30, 2023.

Note 7 - Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Endowment funds-		
General endowments - original gifts (corpus)	\$ 4,096,606	\$ 4,096,606
Accumulated endowment losses	<u>(110,438)</u>	<u>(398,131)</u>
Total Net Assets With Donor Restrictions	<u>\$ 3,986,168</u>	<u>\$ 3,698,475</u>

Note 8 - Endowment Funds

THA's endowment consists of two donor-restricted funds established for the support of its operations. 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, 2023 (With Comparative Totals for 2022)

Note 8 - Continued

Endowment net assets activity consisted of the following:

	Endowment Corpus	Accumulated Appreciation (Depreciation)	Total
Balance, July 1, 2021	\$ 2,430,000	\$ 23,312	\$ 2,453,312
Endowment contributions	1,666,606		1,666,606
Investment return		(421,443)	(421,443)
Balance, June 30, 2022	4,096,606	(398,131)	3,698,475
Investment return		287,693	287,693
Balance, June 30, 2023	\$ 4,096,606	\$ (110,438)	\$ 3,986,168

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 \$117,750 and \$402,592 on an original endowment corpus balance of \$4.07 million during the year ended June 30, 2023 and 2022, respectively.

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 to generate a total return that, over the long term, provides sufficient assets to fund THA's investment expenses and distributions pursuant to the spending policy for the endowment, and to maintain the real (inflation adjusted) value of THA's assets over a period of time.

TOWN HALL ASSOCIATION

Notes to Financial Statements For the Year Ended June 30, 2023 (With Comparative Totals for 2022)

Note 8 - Continued

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Board of Directors sets the spending policy for the endowment as part of the annual budgeting process upon recommendation from the Finance Committee. The distribution percentage may be up to 5% of the rolling 12-quarter average of the market value of the endowment. If there is a specific need that calls for an increased annual distribution over 5%, that percentage will be determined during the annual budgeting process. THA did not make any distributions from the endowment for the years ended June 30, 2023 or 2022.

Note 9 - Commitments

Operating Lease Commitment - THA leases office space under a long-term, noncancelable lease agreement which expires in May 2024. The lease includes a renewal option ranging up to 5 years that is excluded from the lease liability as it is not reasonably certain the option will be exercised.

The components of lease expense for the year ended June 30, 2023 were as follows:

Operating lease cost	\$	60,774
Variable, short-term and other lease costs		<u>17,813</u>
Total Leasing Expense	\$	<u>78,587</u>

Supplemental cash flow information related to leases as of June 30, 2023 is as follows:

Cash paid for amounts included in the measurement of lease liabilities- Operating cash flows from operating leases	\$	64,485
Right-of-use assets obtained in exchange for new operating lease liabilities	\$	123,375
Weighted-average remaining lease term - operating lease		0.8
Weighted-average discount rate - operating lease		2.8%

Future minimum payments required under leases as of June 30, 2023 are as follows:

For the Year Ending June 30,

2024	\$	<u>65,655</u>
Total undiscounted cash flows		65,655
Less present value discount		<u>(898)</u>
Total Lease Liability	\$	<u>64,757</u>

Total rent expense incurred for the years ended June 30, 2023 and 2022 was \$78,587 and \$71,785, respectively.

TOWN HALL ASSOCIATION

**Notes to Financial Statements
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)**

Note 10 - Liquidity and Availability of Financial Assets

THA is supported by a combination of contributed (membership, grants and donations) 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 \$1,171,178 and \$1,539,889 as of June 30, 2023 and 2022, respectively.

THA's endowment consists of two funds established for the general support of operations of THA. As described in Note 8, the endowment has a spending rate cap set by the Board of Directors annually.

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 and endowments that could be drawn upon if the governing board approves that action.

	<u>2023</u>	<u>2022</u>
Financial assets at year end-		
Cash and cash equivalents	\$ 559,593	\$ 654,474
Grants and pledges receivable	165,189	165,690
Investments	<u>5,158,522</u>	<u>5,484,772</u>
Total financial assets at year end	5,883,304	6,304,936
Less amounts not available for general expenditure within 12 months-		
Endowment funds	(3,986,168)	(3,698,475)
Board-designated reserve funds	<u>(1,171,178)</u>	<u>(1,539,889)</u>
Financial Assets Available for General Expenditures Within 12 Months	<u>\$ 725,958</u>	<u>\$ 1,066,572</u>