

AURICLE COMMUNICATIONS AND SUBSIDIARY
REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019



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AURICLE COMMUNICATIONS AND SUBSIDIARY

*REPORT ON AUDITS OF CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Auricle Communications and Subsidiary
43 Montgomery Street
Jersey City, NJ 07303

We have audited the accompanying consolidated financial statements of Auricle Communications and Subsidiary (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating statements of financial position as of June 30, 2020 and 2019 and the consolidating statements of activities for the years then ended are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Cerini & Associates LLP

Bohemia, New York
November 11, 2020

AURICLE COMMUNICATIONS AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30,

2020

2019

ASSETS

Current Assets:

Cash and cash equivalents.....	\$ 756,980	\$ 402,839
Investments.....	50,100	350,246
Pledges and grant receivable.....	43,668	101,507
Prepaid expenses.....	55,338	56,780

TOTAL CURRENT ASSETS 906,086 911,372

Property and equipment, net.....	3,095,803	2,981,459
Capitalized software development costs, net	1,692,284	1,760,633

TOTAL ASSETS \$ 5,694,173 \$ 5,653,464

LIABILITIES AND NET ASSETS

Current Liabilities:

Lines of credit.....	\$ 110,073	\$ 292,159
Current portion of capital lease payable	-	374,000
Current portion of mortgage payable	48,763	-
Current portion of notes payable	101,540	640,797
Current portion of settlement payable	46,950	50,301
Accounts payable and accrued expenses.....	347,660	346,234
Accrued interest.....	141,926	114,518
Deferred revenue.....	41,483	13,340

TOTAL CURRENT LIABILITIES 838,395 1,831,349

Capital lease payable, net of current portion	374,000	374,000
Mortgage payable, net of current portion	887,723	-
Notes payable, net of current portion	878,008	601,250
Settlement payable, net of current portion	-	46,949
Convertible notes payable	456,800	456,800

TOTAL LIABILITIES 3,434,926 3,310,348

Net Assets:

Without donor restrictions.....	2,259,247	2,343,116
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TOTAL NET ASSETS 2,259,247 2,343,116

TOTAL LIABILITIES AND NET ASSETS \$ 5,694,173 \$ 5,653,464

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,**

2020

2019

SUPPORT AND REVENUE

Contributions.....	\$ 1,927,624	\$ 1,829,096
Performance hall income.....	96,406	114,102
Investment and other income	208,190	109,790
Gross proceeds from store sales.....	99,443	47,860
Less: cost of goods sold.....	<u>(26,675)</u>	<u>(11,662)</u>
Net proceeds from store sales.....	<u>72,768</u>	<u>36,198</u>
Gross proceeds from special events.....	4,864	139,624
Less: direct benefit to donors.....	<u>(156)</u>	<u>(69,068)</u>
Net proceeds from special events.....	<u>4,708</u>	<u>70,556</u>
TOTAL SUPPORT AND REVENUE	2,309,696	2,159,661

EXPENSES

Program services.....	1,404,195	1,621,881
General and administrative.....	413,685	408,095
Fund raising.....	<u>575,685</u>	<u>685,893</u>
TOTAL EXPENSES	<u>2,393,565</u>	<u>2,715,869</u>

CHANGE IN OPERATING NET ASSETS	(83,869)	(556,208)
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NON-OPERATING INCOME

Gain on sale of parking lot	<u>-</u>	<u>348</u>
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CHANGE IN NET ASSETS	(83,869)	(555,860)
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Net assets, beginning of year.....	<u>2,343,116</u>	<u>2,898,976</u>
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Net assets, end of year.....	<u>\$ 2,259,247</u>	<u>\$ 2,343,116</u>
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AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries.....	\$ 341,923	\$ 124,336	\$ 155,419	\$ 621,678
Payroll taxes and employee benefits	127,265	46,278	57,847	231,390
Total salaries and related expenses.....	<u>469,188</u>	<u>170,614</u>	<u>213,266</u>	<u>853,068</u>
Professional fees and services.....	15,573	90,801	2,378	108,752
Computer and software	55,114	-	18,371	73,485
Equipment lease expense	119,626	-	-	119,626
Utilities.....	53,881	-	4,685	58,566
Programming expenses.....	7,639	-	-	7,639
Insurance expense.....	39,482	2,122	-	41,604
Broadcasting.....	51,715	-	-	51,715
Free music archive.....	40	-	-	40
Office expense.....	4,466	4,465	4,466	13,397
Performance hall expense.....	39,330	-	-	39,330
Telephone.....	13,095	2,619	36,667	52,381
Printing and postage.....	27,006	2,701	60,313	90,020
Repairs and maintenance.....	6,723	1,681	-	8,404
Premiums.....	42,029	-	42,029	84,058
Interest expense	73,843	73,843	73,843	221,529
Bank and filing fees.....	21,328	21,328	21,328	63,984
Record fair expenses.....	-	-	-	-
Property selling expenses.....	-	19,414	-	19,414
Bad debt expense.....	-	-	-	-
Other expenses.....	2,660	-	1,951	4,611
Total expenses before depreciation and amortization.....	<u>1,042,738</u>	<u>389,588</u>	<u>479,297</u>	<u>1,911,623</u>
Depreciation and amortization expense	<u>361,457</u>	<u>24,097</u>	<u>96,388</u>	<u>481,942</u>
TOTAL EXPENSES	<u><u>\$ 1,404,195</u></u>	<u><u>\$ 413,685</u></u>	<u><u>\$ 575,685</u></u>	<u><u>\$ 2,393,565</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries.....	\$ 483,597	\$ 175,853	\$ 219,817	\$ 879,267
Payroll taxes and employee benefits	155,220	56,444	70,554	282,218
Total salaries and related expenses.....	<u>638,817</u>	<u>232,297</u>	<u>290,371</u>	<u>1,161,485</u>
Professional fees and services.....	14,681	97,716	1,963	114,360
Computer and software	23,048	-	7,682	30,730
Equipment lease expense	132,737	-	-	132,737
Utilities.....	57,099	-	4,965	62,064
Programming expenses.....	15,650	-	-	15,650
Insurance expense.....	25,034	9,735	-	34,769
Broadcasting.....	91,641	-	-	91,641
Free music archive.....	48,342	-	-	48,342
Office expense.....	4,936	4,935	4,936	14,807
Performance hall expense.....	64,988	-	-	64,988
Telephone.....	5,702	380	31,934	38,016
Printing and postage.....	2,172	3,259	103,185	108,616
Repairs and maintenance.....	8,091	2,023	-	10,114
Premiums.....	70,314	-	70,313	140,627
Interest expense	31,261	31,261	31,262	93,784
Bank and filing fees.....	2,396	3,593	53,901	59,890
Record fair expenses.....	-	-	14,464	14,464
Property selling expenses.....	-	-	-	-
Bad debt expense.....	-	14,114	-	14,114
Other expenses.....	7,062	-	2,254	9,316
Total expenses before depreciation and amortization.....	<u>1,243,971</u>	<u>399,313</u>	<u>617,230</u>	<u>2,260,514</u>
Depreciation and amortization expense	<u>377,910</u>	<u>8,782</u>	<u>68,663</u>	<u>455,355</u>
TOTAL EXPENSES	<u><u>\$ 1,621,881</u></u>	<u><u>\$ 408,095</u></u>	<u><u>\$ 685,893</u></u>	<u><u>\$ 2,715,869</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

	2020	2019
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets.....	\$ (83,869)	\$ (555,860)
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>		
Depreciation and amortization expense.....	481,942	455,355
Gain on sale of parking lot.....	-	(348)
Bad debt expense.....	-	14,114
<u>Changes in operating assets and liabilities:</u>		
Pledges and grant receivable.....	57,839	42,622
Prepaid expenses.....	1,442	(1,576)
Accounts payable and accrued expenses.....	1,426	156,929
Accrued interest.....	27,408	27,408
Deferred revenue.....	28,143	1,810
NET CASH PROVIDED BY OPERATING ACTIVITIES	514,331	140,454
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of investments.....	-	(210,000)
Sales of investments.....	300,146	859,880
Purchases of property and equipment.....	(527,937)	(864,145)
NET CASH USED IN INVESTING ACTIVITIES	(227,791)	(214,265)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from notes payable.....	568,954	-
Repayments of notes payable.....	(831,453)	(469,989)
Proceeds from mortgage payable.....	946,000	-
Repayments of mortgage payable.....	(9,514)	-
Repayments under capital lease obligation.....	(374,000)	-
Repayments under settlement agreement.....	(50,300)	(44,640)
Proceeds from lines of credit.....	-	292,159
Repayments of lines of credit.....	(182,086)	-
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	67,601	(222,470)
NET CHANGE IN CASH	354,141	(296,281)
Cash and cash equivalents, beginning of year.....	402,839	699,120
Cash and cash equivalents, end of year.....	<u>\$ 756,980</u>	<u>\$ 402,839</u>
<u>OTHER SUPPLEMENTAL INFORMATION:</u>		
Cash paid for interest.....	<u>\$ 185,829</u>	<u>\$ 59,284</u>
Debt-financed purchases of property, equipment, and software development.....	<u>\$ 118,520</u>	<u>\$ 183,555</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Auricle Communications (“Auricle”) and its wholly-owned subsidiary, Congera Public Benefit Corporation (“Congera”) (hereinafter, collectively, the “Organization”) is presented to assist in understanding the Organization’s consolidated financial statements. The consolidated financial statements and notes are representations of the Organization’s management, who is responsible for the integrity and objectivity of the consolidated financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) and have been consistently applied in the preparation of the consolidated financial statements.

Principles of consolidation: The accompanying consolidated financial statements reflect the financial position, changes in net assets, and cash flows of the Organization. Inter-entity transactions and accounts between Auricle and Congera have been eliminated in these consolidated financial statements.

Nature of operations: Auricle is a nonprofit corporation, which operates a noncommercial public radio station, "WFMU," in Jersey City, New Jersey.

During 2014, Congera was formed to develop Audience Engine Software for internal use. Auricle continues to develop Audience Engine to manage its internal fundraising and donor management, having used the software now for its last several donation campaigns. Future versions of Audience Engine software may form the basis of an ongoing commercial "Software as a Service" business.

Congera is a Delaware public benefit corporation, registered with the United States Securities and Exchange Commission under Rule 506(b).

Income taxes: Auricle is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is publicly supported, as described in section 509(a). Auricle files IRS Form 990 and respective state and local tax returns. These tax returns are subject to review and examination by federal, State, and local taxing authorities. Auricle has determined that it has registered in all states where it is required to be registered.

Auricle has evaluated its activities for uncertain tax positions and has determined that there were no uncertain tax positions for 2019 and 2020.

Basis of accounting: The consolidated financial statements of the Organization have been prepared in accordance with U.S. GAAP. This basis of accounting includes the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

New accounting pronouncement: During the year ended June 30, 2019, the Organization adopted Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

During the year ended June 30, 2020, the Organization adopted ASU 2014-09, Revenue from Contracts with Customers, and all subsequent amendments to the ASU (collectively, “ASC 606”), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The Organization’s services that fall within the scope of ASC 606 are presented within special events and performance hall income, and are recognized as revenue as the Organization satisfies its obligations to its attendees.

During the year ended June 30, 2020, the Organization adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 amends Accounting Standards Codification (“ASC”) 958, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this ASU were intended to assist entities in (1) evaluating whether (reciprocal) transactions are subject to other guidance (i.e. ASC 606) and (2) determining whether a contribution(s) is conditional. The Organization has determined that there is no impact to the consolidated financial statements as a result of the adoption of this ASU.

Basis of presentation: The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions, which are defined 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 or other stipulations that may or will be met, either by action of the Organization and/or the passage of time. When a restriction expires, these net assets are reclassified annually to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

As of both June 30, 2020 and 2019, the Organization had no net assets with donor restrictions.

Cash and cash equivalents: The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Pledges and grant receivable: Pledges and grant receivable represent amounts committed by donors that have not been received by the Organization. Receivables are charged to bad debt expense when they are deemed uncollectible based upon a periodic review of the accounts by management.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment: Property and equipment are stated at original cost or estimated fair market value if donated. Maintenance and repairs are charged to expense and betterments are capitalized.

Depreciation is computed using the straight-line method based upon estimated useful lives of the assets. Estimated useful lives are as follows:

Land improvement.....	15 years
Buildings and building improvements.....	15 to 20 years
Equipment.....	5 to 15 years

Software development costs: Costs related to software development are capitalized to the extent that such costs are related to the development phase of the software’s life cycle, and generally include costs associated with software design and configuration; coding; installation; testing; and parallel processing. Amortization is computed using the straight-line method based upon estimated useful lives of the assets. The estimated useful life is ten years.

Contributions: Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

Donated services: Contributions of services are recognized when received if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions consist of donated interest. In-kind contributions that meet the requirements for recognition under accounting principles generally accepted in the United States of America are recorded as both revenue and expenses in the accompanying consolidated statements of activities. The estimated fair value of these donations was \$35,700 and \$34,500 for the years ended June 30, 2020 and June 30, 2019, respectively. Donated personal services of volunteers are not reflected in the accompanying consolidated financial statements, because such services do not require specialized skills.

Functional allocation of expenses: The costs of providing the various program and supporting services have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated by management among the program, general and administrative, and fundraising categories, using appropriate measurement methodologies. The direct cost of providing the programs have all been allocated to program. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

AURICLE COMMUNICATIONS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Those costs that cannot be directly assigned are allocated based upon reasonable allocation methodologies, the most significant of which are:

- Salaries and payroll taxes are allocated 55% to program, 20% to general and administrative, and 25% to fundraising based on estimates of time spent for all employees.
- Interest expense are allocated equally amongst program, management and general, and fundraising.

Use of estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Concentrations of credit market risk: Financial instruments which potentially subject the Organization to a concentration of credit risk are accounts with a major financial institution. Management believes that credit risk related to those accounts is minimal.

Events occurring after report date: The Organization has evaluated events and transactions that occurred between July 1, 2020 and November 11, 2020, which is the date the consolidated financial statements were available to be issued, for possible disclosure and recognition in the consolidated financial statements.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Land	\$ 238,844	\$ 238,844
Land improvements	1,698,000	1,698,000
Building and building improvements	2,168,345	1,871,442
Equipment	382,966	361,098
Total property and equipment.....	4,488,155	4,169,384
Less: accumulated depreciation.....	(1,392,352)	(1,208,939)
Construction in progress	-	21,014
Net property and equipment	<u>\$ 3,095,803</u>	<u>\$ 2,981,459</u>

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$370,565 and \$343,978, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 3 - CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Capitalized software development costs consisted of the following at June 30,:

	<u>2020</u>	<u>2019</u>
Capitalized software development costs.....	\$ 3,041,296	\$ 2,811,116
Less: accumulated amortization	<u>(1,349,012)</u>	<u>(1,050,483)</u>
Net capitalized software development costs	<u>\$ 1,692,284</u>	<u>\$ 1,760,633</u>

Amortization expense for the years ended June 30, 2020 and 2019 totaled \$291,329 and \$274,653, respectively.

NOTE 4 - MORTGAGE PAYABLE

In April 2020, the Organization agreed to borrow \$946,000 from a financial institution. The mortgage is secured by all cash and other property held by the same bank. The mortgage bears annual interest at 6.25% and is payable in monthly installments of \$9,118, including principal and interest. As of June 30, 2020, the outstanding balance on the mortgage payable is \$936,486.

Future minimum payments are as follows for the years ending June 30,:

2021	\$ 48,763	
2022	51,944	
2023	55,333	
2024	58,793	
2025	721,653	
Total.....	<u>\$ 936,486</u>	

NOTE 5 - CONVERTIBLE NOTES PAYABLE

Congera has issued various convertible promissory notes totaling \$456,800 for cash with interest accruing at a rate of 6% per annum. Principal and interest are payable in a single payment on demand on or after July 2023 unless earlier converted.

In the event of the issuance and sale by Congera to one or more new investors of equity securities of Congera, that are senior in rights and preferences to Congera's common shares, where the gross proceeds received by Congera equals or exceeds \$5,000,000, the entire amount of principal and accrued interest outstanding under each note shall be automatically converted into that number of fully paid and non-assessable equity securities determined by dividing the applicable outstanding amount by the conversion price.

In the event of the issuance and sale by Congera of any securities in a transaction undertaken for the primary purpose of raising capital, where the gross proceeds received by Congera are less than \$5,000,000, the outstanding amount may be converted, at the sole option of the investor, into that

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 5 - CONVERTIBLE NOTES PAYABLE (continued)

number of fully paid and non-assessable securities of the same class and series as those issued in such transaction determined by dividing the applicable outstanding amount by the per-share price equal to the lowest price paid by other investors in such transaction multiplied by 85%.

NOTE 6 - NOTES PAYABLE

Notes payable consisted of the following as of June 30,:

	<u>2020</u>	<u>2019</u>
[A] Private loans	\$ 702,281	\$ 993,432
[B] Ken Garson Systems, LLC.....	121,980	248,615
[C] Paycheck Protection Program loan.....	155,287	-
Total notes payable.....	<u>\$ 979,548</u>	<u>\$ 1,242,047</u>

[A] As of June 30, 2018, the Organization issued various promissory notes for cash with a maturity date on July 1, 2016. The notes bear interest at rates ranging from 4.5-10% per annum, although some are interest free. Imputed interest is calculated and reported as investment and other income and interest expense on the accompanying consolidated statements of activities and functional expenses, respectively.

[B] During the year ended June 30, 2017, the Organization entered into a purchase agreement for the KenzoDB software and coding for \$420,000. The monthly payments of \$8,750 bear no interest and are paid over 48 months. During the year ended June 30, 2019, the Organization entered into a second purchase agreement for the KenzoDB software and coding for \$183,555. The monthly payments bear no interest and are paid over 21 months. During May 2020, the Organization incurred an additional fee in the amount of \$118,480 for the coding resulting in monthly payments of \$7,000 through September 2021.

[C] In April 2020, the Organization received a loan of \$155,287 as part of the Paycheck Protection Program of the United States of America CARES Act. The loan may be forgiven entirely based on levels of qualified expenditures to be made by the Organization over a period subsequent to funding. Any amount not forgiven will be required to be repaid and amortized over a five-year term at an interest rate of 1%. Management expects that most, if not all, of this loan will ultimately be forgiven.

Future minimum payments in accordance with the above debt maturities are as follows for the years ending June 30,:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 6 - NOTES PAYABLE (continued)

2021	\$ 101,540
2022	20,440
2023	-
2024	-
2025	-
Thereafter	<u>857,568</u>
Total	<u>\$ 979,548</u>

NOTE 7 - CAPITAL LEASE OBLIGATIONS

In February 2017, the Organization financed \$1,698,000 for a translator through a capital lease agreement. The lease calls for annual payments at various amounts with no interest due. The lease includes a bargain purchase option at the conclusion of the lease, which is in August 2021. Amortization of the asset under the capital lease is included in depreciation and amortization expense.

Future minimum lease payments are as follows for the years ending June 30,:

2021	\$ -
2022	<u>374,000</u>
Total	<u>\$ 374,000</u>

NOTE 8 - SETTLEMENT AGREEMENT

During the year ended June 30, 2017, the Organization entered into a settlement agreement with a contractor for outstanding debt for services performed towards software development through April 2016. The total outstanding balance was \$225,182. In accordance with the settlement, 10% of the debt was forgiven.

The remaining balance of \$202,664 bears interest at 1% monthly and is paid in monthly installments of principal and interest of \$5,003 through its maturity in May 2021.

Future minimum payments required under the settlement agreement for the year ending June 30, 2021 are \$46,950.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

The Organization has several operating leases for transmission equipment. The leases call for monthly payments ranging from approximately \$600 to \$3,410 with varying escalations through their maturities. The leases mature between December 2022 and July 2024.

Effective May 2009, the Organization entered into a lease agreement for office space. The lease called for monthly payments of \$2,417, subject to regular escalations through its expiration date of July 2019.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Effective August 2019, the Organization renewed its lease which calls for monthly payments of \$3,410, subject to regular escalations through its expiration date of July 2024.

Future minimum lease payments required under the leases are as follows for the years ending June 30,:

2021	\$	101,293
2022		91,785
2023		71,812
2024		49,541
2025		4,144
Total	<u>\$</u>	<u>318,575</u>

NOTE 10 - RETIREMENT PLAN

The Organization sponsors a 401(k) Profit Sharing plan (the "Plan") for the benefit of its eligible employees who can voluntarily participate. Employees must be at least twenty-one years of age and complete three months of service to participate in the Plan. Employees become eligible for employer matching and non-elective profit sharing contributions after one year of service. Employer contributions to the Plan totaled \$7,303 and \$10,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Organization has unsecured loans outstanding in the amount of \$680,614 and \$321,614 at June 30, 2020 and 2019, respectively, from related parties. Related party transactions are pre-approved by the Board of Directors. The Organization has a formal conflict of interest policy in place. These loans are included in notes payable on the accompanying consolidated statements of financial position.

NOTE 12 - LINES OF CREDIT

During the year ended June 30, 2019, the Organization entered into a line of credit agreement with a bank. The line of credit is secured by the Organization's collateral investment accounts and the maximum amount of credit that may be extended is based on the eligible securities the Organization maintains. Each security is assigned a loanable value which is calculated daily based on the market value of each security. More conservative investments are able to be drawn on to a higher degree while riskier investments have a lower advance rate. During the year ended June 30, 2019, the Organization drew down \$285,575 on the line of credit. There were no draws made during the year ended June 30, 2020. Draws made by the Organization are recorded as liabilities on the consolidated statements of financial position.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

NOTE 12 - LINES OF CREDIT (continued)

In addition, during the year ended June 30, 2019, the Organization entered into another line of credit agreement with a bank. The line of credit is used as a credit card with a credit line of \$15,600 and an annual interest rate of 13%. During the year ended June 30, 2019, the Organization drew down \$6,584 on the line of credit. Draws made by the Organization are recorded as liabilities on the consolidated statements of financial position. This line of credit was repaid during the year ended June 30, 2020.

NOTE 13 - LITIGATION

The Organization was involved in litigation regarding a related party who had lent the Organization an interest-free loan for \$575,000 towards the purchase of the 91.9FM Translator. The loan was due in March 2022. The loan was lent in two increments of \$375,000 and \$200,000. The lender passed away before a decision was made regarding how the \$200,000 portion of the loan would be secured. The estate of the lender demanded the immediate payment of the loans and filed suit against the Organization.

An agreement between the parties was reached in January 2020. The Organization shall pay one payment of \$510,000 to the estate, to be distributed from the closing proceeds of the mortgage loan (see Note 4). In addition, no later than the closing date of the mortgage, the estate shall transfer to the Organization all physical copies of the Congera convertible note and shall surrender entirely any and all interests in the Congera investment, including all rights to payment. The remaining \$65,000 balance of the loan was forgiven and is included in investment and other income on the accompanying consolidated statement of activities.

NOTE 14 - AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at June 30,;

	<u>2020</u>	<u>2019</u>
Financial assets at year-end:		
Cash and cash equivalents.....	\$ 756,980	\$ 402,839
Investments.....	50,100	350,246
Pledges and grant receivable.....	43,668	101,507
Financial assets available to meet general expenditures over the next twelve months	\$ 850,748	\$ 854,592

The Organization's goal is generally to maintain financial assets to meet ninety days of operating expenses (approximately \$494,000).

NOTE 15 - RISKS AND UNCERTAINTIES

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen, which have negatively impacted operating results, including the loss of performance hall revenue and a reduction in revenue from the record fair.

SUPPLEMENTARY INFORMATION

AURICLE COMMUNICATIONS AND SUBSIDIARY

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS	Auricle Communications	Congera Public Benefit Corp.	Eliminations	Total
Current Assets:				
Cash and cash equivalents.....	\$ 756,885	\$ 95	\$ -	\$ 756,980
Investments.....	50,100	-	-	50,100
Pledges and grant receivable.....	43,668	-	-	43,668
Prepaid expenses.....	55,338	-	-	55,338
TOTAL CURRENT ASSETS	905,991	95	-	906,086
Property and equipment, net.....	3,095,803	-	-	3,095,803
Capitalized software development costs, net.....	1,129,372	562,912	-	1,692,284
Due from affiliate.....	792,459	-	(792,459)	-
TOTAL ASSETS	\$ 5,923,625	\$ 563,007	\$ (792,459)	\$ 5,694,173
LIABILITIES AND NET ASSETS / (DEFICIT)				
Current Liabilities:				
Lines of credit.....	\$ 110,073	\$ -	\$ -	\$ 110,073
Current portion of capital lease payable.....	-	-	-	-
Current portion of mortgage payable.....	48,763	-	-	48,763
Current portion of notes payable.....	101,540	-	-	101,540
Current portion of settlement payable.....	46,950	-	-	46,950
Accounts payable and accrued expenses.....	347,660	-	-	347,660
Accrued interest.....	13,685	128,241	-	141,926
Deferred revenue.....	41,483	-	-	41,483
TOTAL CURRENT LIABILITIES	710,154	128,241	-	838,395
Capital lease payable, net of current portion.....	374,000	-	-	374,000
Mortgage payable, net of current portion.....	887,723	-	-	887,723
Notes payable, net of current portion.....	878,008	-	-	878,008
Settlement payable, net of current portion.....	-	-	-	-
Convertible notes payable.....	-	456,800	-	456,800
Due to affiliate.....	-	792,459	(792,459)	-
TOTAL LIABILITIES	2,849,885	1,377,500	(792,459)	3,434,926
Net Assets/(Deficit):				
Without donor restrictions.....	3,073,740	(814,493)	-	2,259,247
TOTAL NET ASSETS/(DEFICIT)	3,073,740	(814,493)	-	2,259,247
TOTAL LIABILITIES AND NET ASSETS/(DEFICIT)	\$ 5,923,625	\$ 563,007	\$ (792,459)	\$ 5,694,173

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

ASSETS	Auricle Communications	Congera Public Benefit Corp.	Eliminations	Total
<u>Current Assets:</u>				
Cash and cash equivalents.....	\$ 402,776	\$ 63	\$ -	\$ 402,839
Investments.....	350,246	-	-	350,246
Pledges and grant receivable.....	101,507	-	-	101,507
Prepaid expenses.....	56,780	-	-	56,780
TOTAL CURRENT ASSETS	911,309	63	-	911,372
Property and equipment, net.....	2,981,459	-	-	2,981,459
Capitalized software development costs, net.....	1,086,344	674,289	-	1,760,633
Due from affiliate.....	791,113	-	(791,113)	-
TOTAL ASSETS	\$ 5,770,225	\$ 674,352	\$ (791,113)	\$ 5,653,464
LIABILITIES AND NET ASSETS / (DEFICIT)				
<u>Current Liabilities:</u>				
Lines of credit.....	\$ 292,159	\$ -	\$ -	\$ 292,159
Current portion of capital lease payable.....	374,000	-	-	374,000
Current portion of mortgage payable.....	-	-	-	-
Current portion of notes payable.....	640,797	-	-	640,797
Current portion of settlement payable.....	50,301	-	-	50,301
Accounts payable and accrued expenses.....	346,234	-	-	346,234
Accrued interest.....	13,685	100,833	-	114,518
Deferred revenue.....	13,340	-	-	13,340
TOTAL CURRENT LIABILITIES	1,730,516	100,833	-	1,831,349
Capital lease payable, net of current portion.....	374,000	-	-	374,000
Mortgage payable, net of current portion.....	-	-	-	-
Notes payable, net of current portion.....	601,250	-	-	601,250
Settlement payable, net of current portion.....	46,949	-	-	46,949
Convertible notes payable.....	-	456,800	-	456,800
Due to affiliate.....	-	791,113	(791,113)	-
TOTAL LIABILITIES	2,752,715	1,348,746	(791,113)	3,310,348
<u>Net Assets/(Deficit):</u>				
Without donor restrictions	3,017,510	(674,394)	-	2,343,116
TOTAL NET ASSETS/(DEFICIT)	3,017,510	(674,394)	-	2,343,116
TOTAL LIABILITIES AND NET ASSETS/(DEFICIT)	\$ 5,770,225	\$ 674,352	\$ (791,113)	\$ 5,653,464

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	Auricle Communications	Congera Public Benefit Corp.	Eliminations	Total
SUPPORT AND REVENUE				
Contributions.....	\$ 1,927,624	\$ -	\$ -	\$ 1,927,624
Performance hall income.....	96,406	-	-	96,406
Investment and other income.....	208,190	-	-	208,190
Gross proceeds from store sales.....	99,443	-	-	99,443
Less: cost of goods sold.....	(26,675)	-	-	(26,675)
Net proceeds from store sales.....	<u>72,768</u>	<u>-</u>	<u>-</u>	<u>72,768</u>
Gross proceeds from special events.....	4,864	-	-	4,864
Less: direct benefit to donors.....	(156)	-	-	(156)
Net proceeds from special events.....	<u>4,708</u>	<u>-</u>	<u>-</u>	<u>4,708</u>
TOTAL SUPPORT AND REVENUE	2,309,696	-	-	2,309,696
EXPENSES				
Program services.....	1,310,805	93,390	-	1,404,195
General and administrative.....	399,108	14,577	-	413,685
Fund raising.....	<u>543,553</u>	<u>32,132</u>	<u>-</u>	<u>575,685</u>
TOTAL EXPENSES	<u>2,253,466</u>	<u>140,099</u>	<u>-</u>	<u>2,393,565</u>
CHANGE IN OPERATING NET ASSETS	56,230	(140,099)	-	(83,869)
NON-OPERATING INCOME				
Gain on sale of parking lot.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	56,230	(140,099)	-	(83,869)
Net assets/(deficit), beginning of year.....	<u>3,017,510</u>	<u>(674,394)</u>	<u>-</u>	<u>2,343,116</u>
Net assets/(deficit), end of year.....	<u><u>\$ 3,073,740</u></u>	<u><u>\$ (814,493)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,259,247</u></u>

AURICLE COMMUNICATIONS AND SUBSIDIARY

**CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Auricle Communications	Congera Public Benefit Corp.	Eliminations	Total
SUPPORT AND REVENUE				
Contributions.....	\$ 1,826,013	\$ 3,083	\$ -	\$ 1,829,096
Performance hall income.....	114,102	-	-	114,102
Investment and other income.....	109,709	-	-	109,709
Gross proceeds from store sales.....	47,860	-	-	47,860
Less: cost of goods sold.....	(11,662)	-	-	(11,662)
Net proceeds from store sales.....	36,198	-	-	36,198
Gross proceeds from special events.....	139,624	-	-	139,624
Less: direct benefit to donors.....	(69,068)	-	-	(69,068)
Net proceeds from special events.....	70,556	-	-	70,556
TOTAL SUPPORT AND REVENUE	2,156,578	3,083	-	2,159,661
EXPENSES				
Program services.....	1,529,205	92,676	-	1,621,881
General and administrative.....	389,753	18,342	-	408,095
Fund raising.....	648,762	37,131	-	685,893
TOTAL EXPENSES	2,567,720	148,149	-	2,715,869
CHANGE IN OPERATING NET ASSETS	(411,142)	(145,066)	-	(556,208)
NON-OPERATING INCOME:				
Gain on sale of parking lot.....	348	-	-	348
CHANGE IN NET ASSETS	(410,794)	(145,066)	-	(555,860)
Net assets/(deficit), beginning of year.....	3,428,304	(529,328)	-	2,898,976
Net assets/(deficit), end of year.....	\$ 3,017,510	\$ (674,394)	\$ -	\$ 2,343,116