

THE CRUCIBLE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Crucible

Opinion

We have audited the accompanying financial statements of The Crucible (a nonprofit organization) ("the Organization"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Crucible as of December 31, 2023 and 2022, 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.

Basis for Opinion

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

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 3 to the financial statements, the Organization experienced a deficit in net assets, net cash outflow from operating activities, and large debt to be repaid, which raises substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that 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 The Crucible ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT, continued

Auditors' 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 Auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 The Crucible'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 The Crucible'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.

SD Mayer & Associates, LLP

San Francisco, California

January 31, 2025

THE CRUCIBLE
STATEMENTS OF FINANCIAL POSITION

As of December 31, 2023 and 2022

	2023	2022
ASSETS		
Assets:		
Cash and cash equivalents	\$ 201,581	\$ 934,077
Contribution receivables, net	69,535	75,900
Prepaid expenses	43,375	41,465
Inventory	5,000	5,000
Property, land, and equipment, net (Note 4)	3,601,227	3,741,527
Total assets	<u>\$ 3,920,718</u>	<u>\$ 4,797,969</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 110,844	\$ 29,184
Accrued liabilities	180,429	176,267
Deferred revenue and deposits (Note 6)	603,884	610,932
Finance lease liability (Note 7)	17,467	498
Mortgage loan (Note 8)	2,362,390	2,442,141
EIDL loan (Note 9)	145,776	148,353
Line of credit (Note 5)	170,000	-
Total liabilities	<u>3,590,790</u>	<u>3,407,375</u>
Net assets:		
Without donor restrictions	249,928	1,144,595
With donor restrictions (Note 10)	80,000	245,999
Total net assets	<u>329,928</u>	<u>1,390,594</u>
Total liabilities and net assets	<u>\$ 3,920,718</u>	<u>\$ 4,797,969</u>

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

THE CRUCIBLE
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support						
Revenue						
Tuition and fees	\$ 1,713,556	\$ -	\$ 1,713,556	\$ 1,780,282	\$ -	\$ 1,780,282
Facility and studio rentals	98,190	-	98,190	102,678	-	102,678
Teambuilds and workshops	283,365	-	283,365	309,786	-	309,786
Other income	24,804	-	24,804	46,557	-	46,557
Interest income	4,323	-	4,323	22,120	-	22,120
Total Revenue	2,124,238	-	2,124,238	2,261,423	-	2,261,423
Support						
Fundraising events	179,006	42,116	221,122	151,267	113,950	265,217
Individual	208,899	-	208,899	248,365	57,500	305,865
Foundation and corporate	246,133	116,062	362,195	374,440	308,000	682,440
Government	54,687	80,000	134,687	32,288	35,000	67,288
In kind support (Note 10)	138,804	-	138,804	107,474	-	107,474
Total support	827,529	238,178	1,065,707	913,834	514,450	1,428,284
Net assets release from restrictions	404,177	(404,177)	-	573,450	(573,450)	-
Total support and revenue	3,355,944	(165,999)	3,189,945	3,748,707	(59,000)	3,689,707
Operating expenses:						
Program services	3,051,748	-	3,051,748	3,280,987	-	3,280,987
General and administrative	744,747	-	744,747	486,207	-	486,207
Fundraising	454,116	-	454,116	419,368	-	419,368
Total operating expenses	4,250,611	-	4,250,611	4,186,562	-	4,186,562
Change in net assets	(894,667)	(165,999)	(1,060,666)	(437,855)	(59,000)	(496,855)
Net assets, beginning of year	1,144,595	245,999	1,390,594	1,582,450	304,999	1,887,449
Net assets, end of year	\$ 249,928	\$ 80,000	\$ 329,928	\$ 1,144,595	\$ 245,999	\$ 1,390,594

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

THE CRUCIBLE
STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2023

	Program Services	General and Administrative	Fundraising	Total
Operating expenses:				
Salaries	\$ 1,743,760	\$ 465,695	\$ 228,259	\$ 2,437,714
Employee benefits	105,687	7,869	10,658	124,214
Payroll taxes	141,442	35,459	17,825	194,726
Contracted services	55,508	173,422	148,083	377,013
Supplies and office expenses	309,973	6,490	12,470	328,933
Depreciation and amortization	197,461	-	-	197,461
Interest expense	119,896	9,466	-	129,362
Occupancy	94,443	12,067	-	106,510
Dues, licenses, service fees, and other	84,790	2,831	15,595	103,216
Insurance	84,400	4,896	3,851	93,147
Contributed services	76,410	44	-	76,454
Information technology	15,023	22,545	10,025	47,593
Advertising and promotion	22,955	3,963	7,350	34,268
Total Operating expenses	<u>\$ 3,051,748</u>	<u>\$ 744,747</u>	<u>\$ 454,116</u>	<u>\$ 4,250,611</u>

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

THE CRUCIBLE
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2022

	Program Services	General and Administrative	Fundraising	Total
Operating expenses:				
Salaries	\$ 1,848,118	\$ 354,055	\$ 167,095	\$ 2,369,268
Employee benefits	138,390	12,176	12,008	162,574
Payroll taxes	158,733	25,326	13,691	197,750
Supplies and office expenses	350,923	15,306	33,392	399,621
Contracted services	137,264	18,137	137,739	293,140
Depreciation and amortization	167,909	29,950	14,135	211,994
Interest expense	130,777	95	45	130,917
Occupancy	94,767	1,317	17,965	114,049
Dues, licenses, service fees, and other	93,179	1,676	6,452	101,307
Insurance	54,372	9,873	4,660	68,905
Contributed services	56,104	-	-	56,104
Information technology	22,342	9,659	5,927	37,928
Advertising and promotion	28,109	8,637	6,259	43,005
Total Operating expenses	<u>\$ 3,280,987</u>	<u>\$ 486,207</u>	<u>\$ 419,368</u>	<u>\$ 4,186,562</u>

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

THE CRUCIBLE
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (1,060,666)	\$ (496,855)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation and amortization	197,461	211,994
Changes in assets and liabilities:		
Contribution receivables, net	6,365	(35,900)
Prepaid expenses	(1,910)	(10,641)
Inventory	-	(2,357)
Accounts payable	81,660	18,520
Accrued liabilities	4,162	(24,620)
Deferred revenue and deposits	(7,048)	(27,903)
Net cash used in operating activities	(779,976)	(367,762)
Cash flows from investing activities:		
Purchases of property, land, and equipment	(39,700)	(386,229)
Net cash used in investing activities	(39,700)	(386,229)
Cash flows from financing activities:		
Principal payments on finance lease liability	(492)	(5,826)
Mortgage loan principal repayment	(79,751)	(80,319)
EIDL loan principal repayment	(2,577)	(3,272)
Advance on line of credit	170,000	-
Net cash provided by (used in) investing activities	87,180	(89,417)
Decrease in cash and cash equivalents	(732,496)	(843,408)
Cash and cash equivalents, beginning of year	934,077	1,777,485
Cash and cash equivalents, end of year	\$ 201,581	\$ 934,077
Supplementary information and noncash investing and financing activities:		
Interest paid on loan	\$ 123,623	\$ 127,336
Interest paid on finance lease	\$ 70	\$ 176
Right of use asset financed with a lease liability	\$ 17,729	\$ -

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

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

1. Nature of Activities

The Crucible (the Organization) is a California nonprofit public benefit corporation established in 1999. The primary objective and purpose of the Organization is to inspire creative exploration and expression through welcoming, hands-on industrial and fine arts education and experiences for people of diverse ages and backgrounds. The Organization is dedicated to inspiring creative growth in Oakland and the greater Bay Area. Program activities of the Organization consist of:

Educational Programs, Classes and Workshops – The Organization offers beginning through advanced classes in blacksmithing, welding, woodworking, foundry, glass blowing, neon sculpture, kinetics, jewelry ceramics, mold making, stone carving and more. Classes are designed to bring together novices as well as experienced artists and tradespeople to a noncompetitive, open environment where people with diverse interests and backgrounds can work together and learn from one another. The Organization provides workshops for companies, Organizations, and other groups to collaborate on fabrication of industrial arts projects. These workshops offer groups fun, hands-on arts experiences and provide a refreshing change of pace from office work and support teamwork, collaboration, and creative problem solving.

Youth Programs – The Organization host specifically designed youth classes which introduce industrial and arts techniques, problem-solving, tool safety and the fundamentals of design. Youth programs focus on providing students with engaging opportunities to express their creativity while participating in collaborative projects and experiencing shared safety. Among the most popular youth classes are welding, blacksmithing, jewelry and kinetics.

Studio – The Organization helps to make the arts accessible by providing affordable studios, stalls and locker spaces to two dozen working artists.

Community Events – The Organization offers three Open Houses annually, which are free of charge and give visitors an opportunity to tour The Crucible's 56,000 square foot facility, meet faculty and artists, and watch demonstrations. The Organization's open houses showcase industrial arts programs offered and ticketed events celebrate art and provide unique entertainment for the general public. All of these events help introduce participants to the creative possibilities of the Organization's classes, workshops and other programs.

2. Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets:

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Basis of Presentation (continued)

Net assets without donor restrictions – are resources available to support operations. The only limits on the use of the net assets without donor restrictions are the broad limits resulting from the nature of the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – are resources that are restricted by a donor for use for a particular purpose or in a particular period. Some donor restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of building or equipment (or less commonly, the contribution of those net assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

Revenue Recognition

The Organization recognizes revenue as performance obligations are satisfied.

Revenue is recognized over time for cost reimbursement contracts as eligible expenses are incurred if other conditions of the contract are satisfied. Revenue from agreements that include milestones and milestone payments are recognized over time as milestones are reached. If the Organization's efforts are expended evenly throughout the performance period, the Organization may recognize revenue on a straight-line basis over such a period.

Revenue is recognized at a point in time when goods or services are provided to customers and the Organization is not required to provide additional goods or services or if the above criteria are not met. As a practical expedient the Organization disregards the effects of potential financing components if the period between payment and performance is one year or less.

Contributions:

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the contributed assets are specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until payment is due, unless the contribution is clearly intended to support activities of the current fiscal year.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Revenue Recognition (continued)

Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless related to a donor specified restriction for a particular purpose or future period.

Government Funding:

The Organization receives government funding on a cost reimbursement basis. Payment of amounts under such funding is conditioned on expenditure of funds on eligible costs and compliance with program terms and conditions. The Organization recognizes revenue from such government funding as related costs are incurred.

Tuition and Fees

Tuition and fees consist of tuition for classes, studio fees designed to cover the costs of supplies and the studio tools and a nonrefundable registration fee. Participation in classes requires registration and payment before the beginning of the class. The Organization does not hold partially paid slots or bill students after instruction has completed.

The Organization recognizes revenue over the period that classes occur. Amounts paid in advance of a class are held as deferred revenue. If classes are cancelled by the Organization, amounts are refunded in full. If a student withdraws from a class before the withdrawal deadline, they pay only the registration fee. If a student withdraws after the withdrawal deadline, no refund is provided.

Teambuilds and Workshops

The Organization offers teambuilds and workshops at its location as well as workshops and programs at other locations under contract with third parties. Amounts for teambuilds and workshops are billed in advance, held as deferred revenue and then recognized over the related program offerings.

Facility and Studio Rental

Facility and studio rental income consists of payments received from artists for studio space used to work on artistic projects. Amounts are invoiced monthly and may be paid on time or in some cases after the due dates.

Other Earned Income

Other earned income consists of a variety of revenue sources including ticket sales to programs, art sales, merchandise sales, supplies and equipment sales, demonstrations, custom fabrication and other sources. The Organization generally recognizes revenue related to these activities as its performance obligations are satisfied. For sales transaction, revenue is recognized at the time of sale.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Contribution Receivable

Contributions receivable including pledges and grants receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise.

That fair value is computed using a present value technique applied to anticipated cash flows. The Organization has evaluated the value of the discount and concluded that it was not material for recognition. The Organization considers all contributions receivable to be fully collectible at December 31, 2023 and 2022. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made. Contributions receivable at December 31, 2023 and 2022 will be collected within one year from each corresponding year-end.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under IRC 501(c)(3) and California RTC 23701(d). The Organization has evaluated its current tax positions as of December 31, 2023 and is not aware of any significant uncertain tax positions for which a reserve would be necessary.

The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively, after they are filed. Donated services are recognized at fair market value as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

In-kind Support

The Organization accepts contributions of supplies and materials intended for workshops and classes. These contributed supplies and materials are recorded at their fair value at the date of receipt and are reflected as inventories in the statement of financial position.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all money market funds and other highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

Inventory

Inventory is valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) basis. Inventory is generally comprised of class materials.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the assets or liability.

The Organization had no assets or liabilities recorded at fair value at December 31, 2023.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost if purchased, or if donated, at fair value on the date of donation. The Organization capitalizes all expenditures for property and equipment over \$2,500.

Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Building and improvements	35 - 40 years
Furniture and equipment	5 – 7 years
Software	7 years
Vehicles	5 – 10 years
ROU assets – Finance Lease	Lease term

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Included in property and equipment is the capitalized cost of software, website development costs, and leased assets. Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable. Gains or losses on retirement of property and equipment are recognized in operating expenses in the period of disposal.

Deferred Revenue and Deposits

Deferred revenue represents prepayment and deposits for events and tuition for classes which had not occurred as of December 31, 2023 as well as deposits for studio rentals. Deferred revenue also includes an estimate of the liability for gift certificates sold which have not been redeemed as of December 31, 2023 and 2022. It is estimated that 20% of purchased gift certificates will remain unredeemed.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Functional Expense Recognition and Allocation

The statement of activities and changes in net assets is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions using a reasonable allocation method that is consistently applied as follows:

Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.

Occupancy, depreciation, and amortization, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Office expenses and supplies, insurance, and other expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct fundraising activities in conjunction with its other activities.

All expenses and net losses are reported as decreases in net assets without donor restrictions.

Commitments and contingencies

The Organization follows ASC 440 and ASC 450, subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies and commitments, respectively. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization, but which will only be resolved when one or more future events occur or fail to occur. The Organization assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization, the Organization evaluates the perceived merits of any legal proceedings or un-asserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time, that these matters will have a material adverse effect on the Organization's financial position, results of operations or cash flows.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Leases

ASC 842, "Leases", requires entities to recognize right-of-use ("ROU") assets and lease liabilities for operating and finance leases. The ROU represents the right to use the leased asset for the lease term. The lease liability represents the present value of the lease payments under the lease. A lease is classified as a finance lease if any one of the following criteria are met: the lease transfers ownership of the asset by the end of the lease term, the lease contains an option to purchase the asset that is reasonably certain to be exercised, the lease term is for a major part of the remaining useful life of the asset or the present value of the lease payments equals or exceeds substantially all of the fair value of the asset. A lease is classified as an operating lease if it does not meet any one of these criteria.

The right-of-use asset is initially measured at cost, which primarily comprises the initial amount of the lease liability, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is reviewed for impairment periodically. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an incremental borrowing rate for the same term as the underlying lease. For its capital lease, the Organization used 4.75% as weighted-average discount rate.

Lease expense for operating leases consists of the lease payments plus any initial direct costs and is recognized on a straight-line basis over the lease term. Lease expense for finance leases consists of the amortization of the right-of-use asset on a straight-line basis over the lease term and interest expense determined on an amortized cost basis.

The Organization elected the practical expedient to account for lease components and non-lease components as a single lease component. The Organization does not record leases in the statement of financial position that are classified as short term (less than one year).

Advertising Costs

Advertising costs are expensed as incurred and they are recognized in the accompanying statements of functional expenses.

Recent Accounting Standards

In February 2016, the FASB issued an accounting pronouncement (FASB ASU 2016-02) related to the accounting for leases. This pronouncement requires lessees to record most leases on their balance sheet, while expense recognition on the income statement remains similar to current lease accounting guidance. Under the new guidance, lease classification as either a finance lease or an operating lease will determine how lease-related revenue and expense are recognized. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Organization has adopted ASU 2016-02 on its financial statements effective January 1, 2022.

THE CRUCIBLE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

2. Significant Accounting Policies, continued

Recent Accounting Standards (continued)

In June 2016, the FASB issued Accounting Standards Update No. ASU 2016-13, “Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. This amendment requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. This includes loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This ASU is effective for years beginning after December 15, 2022. The Organization adopted this ASU effective January 1, 2023. The ASU did not have a material effect on the Organization’s financial statements and related disclosures.

3. Going Concern

The Organization has incurred a deficit change in net assets in 2023 and 2022 and anticipates additional deficiency in the following year. The Organization has also faced a large decrease in contributions in 2023 compared to 2022, while maintaining high operating costs, and did not meet certain financial covenants for its mortgage loan, in addition to the need for the Organization to service its debt with recurring monthly payments.

In response to these challenges, management has developed strategies to maintain the Organization’s financial stability over the next twelve months, which include:

- Raising prices for its classes including youth workshops.
- Increase its efforts to secure additional donor support.
- Create new revenue streams in new locations such as Oakland Airport.
- Obtain loans from board members to finance its short-term needs.

Management has created a realistic budget and projected sufficient cash flows to meet obligations for the next twelve months. Although the achievement of future profitable operations and the ability to generate sufficient cash flow cannot be predicted with certainty, management believes that the Organization has adequate cash and other resources to fund its obligations for at least one year from the date these financial statements were available to be issued, which mitigates the substantial doubt consideration.

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4. Property and Equipment

Property and equipment consist of the following at December 31, 2023 and 2022:

	2023	2022
Land	\$ 1,080,000	\$ 1,080,000
Building and improvements	4,777,655	4,756,955
Furniture and equipment	413,622	394,622
Software	389,485	389,485
Vehicles	17,310	17,310
Finance lease asset	23,785	6,324
	<u>6,701,857</u>	<u>6,644,696</u>
Less accumulated depreciation	(3,100,630)	(2,903,169)
Total	<u>\$ 3,601,227</u>	<u>\$ 3,741,527</u>

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 was \$197,461 and \$211,994, respectively.

5. Line of Credit

As of December 31, 2023, the Organization had a \$300,000 secured line of credit. The line of credit bears an interest rate of 9% and is collateralized by all of the Organization's business assets. The outstanding balance on the line of credit amounted to \$170,000 and \$0 at December 31, 2023 and 2022. As of February 1, 2024, the Organization's line of credit, previously available for up to \$300,000, matured and is no longer available for additional draws (see Note 15).

6. Deferred Revenue and Deposits

Deferred revenue consisted of the following as of December 31, 2023 and 2022:

	2023	2022
Advance class and workshop payments	\$ 420,715	\$ 401,383
Gift certificates	112,606	106,679
Customer credits	61,791	94,173
Rent deposits	8,772	8,697
Total	<u>\$ 603,884</u>	<u>\$ 610,932</u>

The Organization recognized \$9,044 and \$49,363 in breakage revenue from unredeemed gift certificates for the years ended December 31, 2023 and 2022, respectively. The Organization estimates breakage based on historical redemption rates.

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7. Finance Lease

The Organization has entered into a finance lease for a copier, with monthly payments of \$333. The lease commenced on December 2023 through November 2028. The finance lease is classified as such because it meets one or more of the following criteria as per ASC 842:

- Ownership of the asset transfers to the lessee at the end of the lease term
- The lease includes a bargain purchase option
- The lease term covers the majority of the asset's useful life
- The present value of the minimum lease payments equals or exceeds substantially all of the fair value of the leased asset
- The asset is of a specialized nature that only the lessee can use without major modifications.

The weighted-average discount rate is 4.75% and the weighted average remaining lease terms is 5 years. The components of lease cost for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Amortization of ROU assets	\$ 486	\$ 5,838
Interest on finance lease liabilities	70	176
Total	<u>\$ 556</u>	<u>\$ 6,014</u>

Future maturities are as follows:

Year ending December 31:	
2024	\$ 2,956
2025	3,374
2026	3,538
2027	3,710
2028	3,889
	<u>\$ 17,467</u>

8. Mortgage Loan

The Organization has a 4.75% mortgage loan "the loan" of \$2,362,390 at December 31, 2023, requiring a monthly payment of \$16,627, principal and interest through May 2026, secured by Deed of Trust on the land and building in Oakland, CA. The loan matures and will be paid in full in May 2026.

Future maturities of the mortgage loan are as follows:

Year ending December 31:	
2024	\$ 87,673
2025	91,990
2026	2,182,727
	<u>\$ 2,362,390</u>

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8. Mortgage Loan, continued

The Organization incurred interest expense on this loan of \$119,896 and \$122,135 during 2023 and 2022, respectively. As of December 31, 2023, the Organization did not satisfy the financial covenant to maintain a debt service coverage ratio of not less than 1.10. The Organization notified its lender of this default due to non-compliance with the financial covenant. The Organization is actively seeking to obtain a waiver from the bank.

9. Economic Injury Disaster Loan

In June 2020, the Organization received an economic injury disaster loan (EIDL) for \$150,000 bearing interest at 2.75% with principal and interest payments of approximately \$641 commencing June 2021 through June 2050. The balance of EIDL amounted to \$145,776 and \$148,353 as of December 31, 2023 and 2022, respectively.

The Organization incurred interest expense of \$2,551 and \$7,965 on this loan during the years ended December 31, 2023 and 2022, respectively.

Future maturities of the EIDL loan are as follows:

Year ending December 31:		
2024	\$	4,996
2025		3,869
2026		3,977
2027		4,088
2028		4,201
Thereafter		124,645
	\$	<u>145,776</u>

10. Net Assets With Donor Restrictions and Released from Restrictions

Net assets with donor restrictions are available for the following purposes for the years ended December 31, 2023 and 2022:

	2023	2022
Programs	\$ 80,000	\$ 205,999
Time Restricted	-	40,000
Total	<u>\$ 80,000</u>	<u>\$ 245,999</u>

For the years ended December 31, 2023 and 2022, the Organization released net assets with donor restrictions amounting to \$404,177 and \$573,450, respectively. These funds were released to support the Organization's programs as follows:

	2023	2022
Programs	\$ 359,177	\$ 533,450
Time Restricted	45,000	40,000
Total	<u>\$ 404,177</u>	<u>\$ 573,450</u>

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11. In-Kind Support

The Organization received the following in-kind support during the years ended December 31, 2023 and 2022, which were mainly utilized to benefit the Organization's program services:

	2023	2022
Materials	\$ 62,924	\$ 51,370
Services	75,880	56,104
Total	<u>\$ 138,804</u>	<u>\$ 107,474</u>

In-kind support is recognized at fair value as determined by the donor on the date of contribution.

12. Concentration of Credit Risk

Cash

The Organization maintains its cash balances with financial institutions located in the San Francisco Bay Area. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, amounts in deposit accounts may exceed FDIC limits of \$250,000. The Organization monitors the bank and investment balances and considers risk on a regular basis. The uninsured cash balance was \$0 and \$606,808 at December 31, 2023 and 2022, respectively.

13. Employee Benefits

The Organization is a participant in the state of California CalSavers plan, which is a California's retirement savings program for employees. There were no employer contributions made to the CalSavers plan in 2023 and 2022.

14. Liquidity and availability of Resources

At December 31, 2023 and 2022, the Organization had \$191,116 and \$763,978, respectively, of financial assets available within one year from the statement of financial position date to meet cash needs for general expenditures consisting of cash and cash equivalents. None of the available financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position.

Detail is as follows for the years ended December 31, 2023 and 2022:

	2023	2022
Cash and cash equivalents	\$ 201,581	\$ 934,077
Contribution receivables, net	69,535	75,900
Less purpose-restricted net assets	(80,000)	(245,999)
Total	<u>\$ 191,116</u>	<u>\$ 763,978</u>

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15. Related Party Transactions

The Organization received \$6,174 in donations and \$27,100 from fundraising events from board members.

16. Subsequent Events

The Organization evaluated subsequent events for recognition and disclosure through January 31, 2025, the date the financial statements were available to be issued, and noted the following:

As of February 1, 2024, the Organization's line of credit, previously available for up to \$300,000, matured and is no longer available for additional draws. At the time of maturity, the Organization utilized \$270,000 of the available credit. This balance has been converted into a loan, which is now subject to monthly repayments. The loan bears interest at a rate of 9%.

On April 9, 2024, the Organization entered into a promissory note with an aggregate amount of \$205,000 consisting of four separate notes from board members, relatives and friends of board members. The notes do not bear interest if paid on or before April 10, 2024. The unpaid amount from April 10, 2024 shall accrue interest rate of 4% per annum.