

DEGREES OF CHANGE

Audited Financial Statements

June 30, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Degrees of Change
Tacoma, Washington

We have audited the accompanying financial statements of Degrees of Change (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

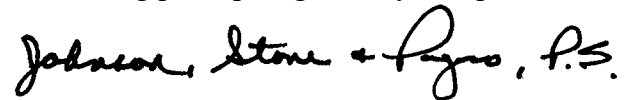
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the audited financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the audited financial statements referred to above present fairly, in all material respects, the financial position of Degrees of Change as of June 30, 2021 and 2020, 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.

A handwritten signature in black ink that reads "Johnson, Stone & Pagano, P.S." in a cursive script.

JOHNSON, STONE & PAGANO, P.S.

November 4, 2021

AUDITED FINANCIAL STATEMENTS

DEGREES OF CHANGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,725,394	\$ 2,164,772
Accounts and grants receivable	307,830	746,471
Prepaid expenses	29,800	40,248
Total Current Assets	<u>3,063,024</u>	<u>2,951,491</u>
FURNITURE AND EQUIPMENT, net	44,103	15,140
OTHER ASSETS		
Act Six program, net	22,617	26,550
GuidEd Insight, net	654,842	258,078
Total Other Assets	<u>677,459</u>	<u>284,628</u>
TOTAL ASSETS	<u>\$ 3,784,586</u>	<u>\$ 3,251,259</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 52,250	\$ 35,190
Accrued expenses	50,151	39,579
Current portion of long-term debt	42,982	
Total Current Liabilities	<u>145,383</u>	<u>74,769</u>
LONG-TERM LIABILITIES		
Long-term debt	286,777	289,947
Total Liabilities	<u>432,160</u>	<u>364,716</u>
NET ASSETS		
Without donor restrictions	1,546,213	452,475
With donor restrictions	1,806,213	2,434,068
Total Net Assets	<u>3,352,426</u>	<u>2,886,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,784,586</u>	<u>\$ 3,251,259</u>

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

DEGREES OF CHANGE

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES WITHOUT DONOR RESTRICTIONS		
Foundation grants	\$ 394,474	\$ 1,646,289
Government grant	289,947	
Contributions	386,175	277,937
Other earned income	247,428	288,760
Net assets released from restrictions	<u>2,434,068</u>	<u>223,458</u>
Total Revenues without Donor Restrictions	3,752,092	2,436,444
EXPENSES		
Program services		
GuidEd Insight	579,934	36,172
Act Six	247,948	293,017
Ready to Rise	633,820	466,985
TacSea Local	710,615	839,351
Yakima Local	<u>104,000</u>	<u>104,000</u>
Total Program Services	2,172,317	1,739,525
Supporting services		
Management and general	153,238	171,022
Fundraising	<u>332,799</u>	<u>281,649</u>
Total Supporting Services	486,037	452,671
Total Expenses	<u>2,658,354</u>	<u>2,192,196</u>
Increase in Net Assets without Donor Restrictions	1,093,738	244,248
NET ASSETS WITH DONOR RESTRICTIONS		
Foundation grants	1,806,213	2,434,068
Net assets released from restrictions	<u>(2,434,068)</u>	<u>(223,458)</u>
Increase (Decrease) in Net Assets with Donor Restrictions	<u>(627,855)</u>	<u>2,210,610</u>
INCREASE IN NET ASSETS	465,883	2,454,858
Net Assets at Beginning of Year	<u>2,886,543</u>	<u>431,685</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,352,426</u>	<u>\$ 2,886,543</u>

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

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021 with Comparative Totals for 2020

	Program Services				Supporting Services			Total Expenses		
	GuidEd Insight	Act Six	Ready to Rise	TacSea Local	Total Program Services	Management and General	Fundraising	Total Supporting Services	2021	2020
	Salaries and benefits	\$ 272,776	\$ 197,185	\$ 203,261	\$ 570,666	\$ 1,243,888	\$ 114,683	\$ 270,168	\$ 384,851	\$ 1,628,739
Program activities and materials		6,744	4,020	21,841	32,605				32,605	196,372
Operations	4,327	5,459	3,031	19,841	32,658	3,319	5,928	9,247	41,905	34,233
Facility	17,500	10,850	10,850	67,814	107,014	5,425	13,587	19,012	126,026	123,649
Equipment and technology	50,960	8,472	8,446	19,324	87,202	2,263	5,003	7,266	94,468	56,367
Travel		683		2	685		39	39	724	21,874
Meetings and training	475	632	1,022	810	2,939	300	1,399	1,699	4,638	16,149
Consulting and contracts	<u>233,896</u>	<u>17,923</u>	<u>403,190</u>	<u>10,317</u>	<u>665,326</u>	<u>27,248</u>	<u>36,675</u>	<u>63,923</u>	<u>729,249</u>	<u>263,080</u>
TOTAL	<u>\$ 579,934</u>	<u>\$ 247,948</u>	<u>\$ 633,820</u>	<u>\$ 710,615</u>	<u>\$ 2,172,317</u>	<u>\$ 153,238</u>	<u>\$ 332,799</u>	<u>\$ 486,037</u>	<u>\$ 2,658,354</u>	<u>\$ 2,192,196</u>

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

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2020

	Program Services					Supporting Services			Total Expenses 2020	
	GuidEd Insight	Act Six	Ready to Rise	TacSea Local	Yakima Local	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 6,509	\$ 160,453	\$ 176,747	\$ 663,973	\$ 85,294	\$ 1,092,976	\$ 123,291	\$ 264,205	\$ 387,496	\$ 1,480,472
Program activities and materials		76,755	81,595	31,486	6,536	196,372				196,372
Operations	350	5,921	2,708	17,241	995	27,215	3,879	3,139	7,018	34,233
Facility	14,122	16,471	15,128	57,650	5,087	108,458	6,893	8,298	15,191	123,649
Equipment and technology	4,193	11,385	11,584	22,021	2,796	51,979	2,783	1,605	4,388	56,367
Travel	105	5,263	3,315	8,848	3,026	20,557	580	737	1,317	21,874
Meetings and training	40	3,035	734	5,263	266	9,338	5,045	1,766	6,811	16,149
Consulting and contracts	10,853	13,734	175,174	32,869		232,630	28,551	1,899	30,450	263,080
TOTAL	<u>\$ 36,172</u>	<u>\$ 293,017</u>	<u>\$ 466,985</u>	<u>\$ 839,351</u>	<u>\$ 104,000</u>	<u>\$ 1,739,525</u>	<u>\$ 171,022</u>	<u>\$ 281,649</u>	<u>\$ 452,671</u>	<u>\$ 2,192,196</u>

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

DEGREES OF CHANGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 465,883	\$ 2,454,858
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	243,794	39,851
Conversion of loan to government grant	(289,947)	
(Increase) decrease in assets		
Accounts and grants receivable	438,641	(693,884)
Prepaid expenses	10,448	45,563
Increase (decrease) in liabilities		
Accounts payable	17,060	27,661
Accrued expenses	10,572	(486)
Unearned revenue		(19,185)
	<u>896,451</u>	<u>1,854,378</u>
Net Cash Provided by Operating Activities	896,451	1,854,378
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(42,068)	(14,096)
Acquisition costs of GuidEd Insight software	(623,520)	(263,179)
	<u>(665,588)</u>	<u>(277,275)</u>
Net Cash Used by Investing Activities	(665,588)	(277,275)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	329,759	289,947
	<u>329,759</u>	<u>289,947</u>
Net Cash Provided by Financing Activities	329,759	289,947
NET INCREASE IN CASH	560,622	1,867,050
Cash at Beginning of Year	<u>2,164,772</u>	<u>297,722</u>
CASH AT END OF YEAR	<u><u>\$ 2,725,394</u></u>	<u><u>\$ 2,164,772</u></u>

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

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Degrees of Change (the "Organization") is a Washington nonprofit corporation. The purpose of the Organization is to develop and provide leadership training, college scholarships and support for college access and success and career development services. The Organization's funding is received under grants with local agencies, from program service fees and donations.

Basis of Accounting and Basis of Presentation

The accompanying audited financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this accounting method, revenues are recognized in the year earned, support is recognized in the year in which it is unconditionally promised, and expenses are recorded in the year incurred.

Degrees of Change is required to report information regarding its financial position and activities according to two classes of net assets based on the absence or existence and nature of donor-imposed restrictions 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 can be fulfilled by actions of Degrees of Change pursuant to those stipulations or that expire by the passage of time and net assets subject to donor-imposed stipulations that are to be maintained in perpetuity by Degrees of Change. The Organization does not have any net assets that a donor has stipulated to be maintained in perpetuity.

Cash

For purposes of the statements of cash flows, the Organization considers cash to be cash on hand and in checking and savings accounts.

Contributions, Accounts and Grants Receivable

Contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate using the U.S. Treasury rates corresponding to the period in which the contribution is to be received.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, Accounts and Grants Receivable (Continued)

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reported as a transfer to net assets without donor restrictions (restrictions released) in the statement of activities. Contributions of cash or other assets that are restricted to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed into service.

Grant revenue and the related receivable are realized when unconditionally promised. Grants received with conditions are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Management considers accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If an amount becomes uncollectible, it will be charged to operations when that determination is made. All accounts and grants receivable are current at June 30, 2021.

Revenue Recognition

Revenue earned from providing services in conjunction with the GuidEd Insight software is based on contractual amounts and is recorded straight-line over the term of the contract in conjunction with how the services are being utilized.

Furniture and Equipment

Furniture and equipment are recorded at cost when purchased or at fair value when donated; the recorded cost is capitalized with depreciation provided over the estimated useful lives (ranging from 3 to 7 years) of the respective assets using the straight-line method when the cost or fair value exceeds \$1,000.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of audited financial statements in conformity with accounting principles generally accepted in the United States of America 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 audited financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Change in Accounting Principle

During the year ended June 30, 2021, the Organization adopted the requirements of Financial Accounting Standards Board's Accounting Standards Update No. 2014-09 - *Revenue from Contracts with Customers*, Topic 606 ("ASU 2014-09"). The amendments in this update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization's accounting policies have been updated in the financial statements to reflect conformity with ASU 2014-09. The adoption of ASU 2014-09 has had no material effect on the change in net assets balances, by classification, as previously reported.

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through November 4, 2021, the date the audited financial statements were available to be issued and determined that no events have occurred that require disclosure other than the subsequent event in Note 8.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Accounts at the Organization's financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000 per institution. At June 30, 2021, the Organization's cash balances exceeded the insured amounts by \$86,358.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2021</u>	<u>2020</u>
Cash	\$ 2,725,394	\$ 2,164,772
Accounts and grants receivable	<u>307,830</u>	<u>746,471</u>
Total Financial Assets	3,033,224	2,911,243
Less financial assets restricted by donors	<u>1,806,213</u>	<u>2,434,068</u>
Financial Assets Available to Meet General Expenditure Needs	\$ <u>1,277,011</u>	\$ <u>477,175</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 65,994	\$ 23,926
Less accumulated depreciation	<u>21,891</u>	<u>8,786</u>
	\$ <u>44,103</u>	\$ <u>15,140</u>

Depreciation expense was \$13,105 and \$3,132 for the years ended June 30, 2021 and 2020, respectively.

NOTE 5 - OTHER ASSETS

During the year ended June 30, 2012, the Organization purchased the rights for the Act Six program that it developed over several years from another nonprofit organization, Northwest Leadership Foundation ("NLF"). The costs associated with the program were capitalized and are being amortized using the straight-line method over 15 years.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 5 - OTHER ASSETS (Continued)

During the year ended June 30, 2015, the Organization began to internally develop a college enrollment data software program that was placed into service during the year ended June 30, 2016, referred to as GuidEd Insight in these financial statements. During the years ended June 30, 2021 and 2020, the Organization made substantive improvements and modifications to GuidEd Insight for enhanced functionality. Costs incurred during the preliminary project phase, or the post implementation phase of these projects to make substantive changes to GuidEd Insight are expensed as incurred. Costs incurred during the application development stage, which may include costs associated with software design, configuration, interface development, coding, installation of related hardware, testing and parallel processing, are capitalized and amortized using the straight-line method over 3 years. The Organization capitalized costs totaling \$623,519 and \$263,179 during the years ended June 30, 2021 and 2020, respectively.

Amortization expense associated with the Act Six program and GuidEd Insight software was \$230,689 and \$36,719 for the years ended June 30, 2021 and 2020, respectively.

The estimated aggregate amortization expense for subsequent years is as follows:

Year ending June 30, 2022	\$ 299,500
2023	288,791
2024	78,352
2025	3,933
2026	3,933
Thereafter	<u>2,950</u>
	\$ <u>677,459</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

The balance in net assets with donor restrictions as of June 30, 2021 and 2020 consisted of foundation grant funds or promises to give that are to be used to operate specific programs. The nature of net assets with donor restrictions is as follows:

	<u>2021</u>	<u>2020</u>
Donor-restricted as to purpose	\$ 1,593,213	\$ 1,781,043
Donor-restricted as to time	<u>213,000</u>	<u>653,025</u>
	\$ <u>1,806,213</u>	\$ <u>2,434,068</u>

Net assets with donor restrictions include grant funds totaling \$1,314,040 and \$2,004,921 at June 30, 2021 and 2020, respectively, that are restricted for the development of the GuidEd Insight software.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2021</u>	<u>2020</u>
Unsecured note payable to a bank in monthly installments of \$6,795, including interest at 1.00%, due January 2026 (see Note 11).	\$ 329,759	
Unsecured note payable to a bank in monthly installments of \$16,320, including interest at 1.00%, due April 2022 (forgiven in full - see Note 11).		\$ 289,947
Less portion due within one year classified as a current liability	<u>42,982</u>	<u> </u>
Long-term Debt, Net of Current Portion	\$ <u>286,777</u>	\$ <u>289,947</u>

At June 30, 2021, maturities on long-term debt for each year through the due date are as follows:

2022	\$ 42,982
2023	79,035
2024	79,829
2025	80,630
2026	<u>47,283</u>
	\$ <u>329,759</u>

NOTE 8 - OPERATING LEASES

Beginning in July 2018, the Organization signed a lease with a base rent of \$5,900, with a 3% increase each year until the lease terminates in June 2021. Monthly rent during the year ended July 30, 2020 was \$6,100. In February 2020, the Organization amended the lease to include additional space through June 30, 2021, with an additional base rent of \$4,100 through December 31, 2020, increasing to \$4,300 through June 30, 2021. Total rent expense for the years ended June 30, 2021 and 2020 was \$126,000 and \$108,187, respectively. Subsequent to year end, the Organization renewed the lease of one unit for five years, ending June 30, 2026.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 8 - OPERATING LEASES (Continued)

Future minimum lease payments of the noncancelable operating lease as of June 30, 2021 are as follows:

2022	\$ 75,600
2023	78,000
2024	80,400
2025	82,800
2026	<u>85,200</u>
	\$ <u>402,000</u>

NOTE 9 - RETIREMENT PLAN

The Organization has a 401(k) retirement plan that allows employees who have met certain eligibility requirements to contribute part of their pay to the plan. The Organization matches employees' contributions based on a percentage of salary contributed by participants. The Organization's contribution expense for the years ended June 30, 2021 and 2020 was \$56,142 and \$50,020, respectively.

NOTE 10 - FUNCTIONALIZED EXPENSES

The audited financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility expenses, which are allocated on a square footage basis, as well as salaries and benefits, activities and materials, operations, equipment and technology, meetings and training, depreciation and other, which are allocated on the basis of management's estimates of time and effort.

NOTE 11 - RISKS, UNCERTAINTIES AND COMMITMENTS

As of June 30, 2021, the world was in the midst of the COVID-19 pandemic. Significant uncertainty remains regarding the wide-ranging effects of the pandemic subsequent to year-end. The Organization is closely monitoring its operations, liquidity, capital, and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of issuance of these financial statements, the full impact of the pandemic to the Organization's financial position or operations is not known.

In April 2020, the Organization received loan proceeds in the amount of \$289,947 under the Paycheck Protection Program. The full amount of the loan was forgiven in March 2021 and is recorded as government grant in statement of activities for the year ending June 30, 2021.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE 11 - RISKS, UNCERTAINTIES AND COMMITMENTS (Continued)

In January 2021, the Organization received loan proceeds in the amount of \$329,759 under the second round of the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying nonprofits for amounts up to 2.5 times the average monthly payroll expenses of the qualifying nonprofit. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes as stipulated by the CARES Act. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four-week period. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the total amount of loan forgiveness is not known as of the date of these financial statements. Repayment of the loan is required for any unforgiven portion beginning June 30, 2022.