

FINANCIAL STATEMENTS



**WASHINGTON PERFORMING
ARTS SOCIETY**

**FOR THE YEARS ENDED
AUGUST 31, 2013 AND 2012**

WASHINGTON PERFORMING ARTS SOCIETY

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington Performing Arts Society
Washington, D.C.

We have audited the accompanying financial statements of the Washington Performing Arts Society (WPAS), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities and changes in net assets 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 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WPAS as of August 31, 2013 and 2012, 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.

November 13, 2013

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WASHINGTON PERFORMING ARTS SOCIETY

**STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2013 AND 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 719,153	\$ 940,569
Investments (Notes 2 and 9)	700,130	808,619
Contributions receivable, current portion (Note 3)	374,160	716,811
Accounts receivable	220,370	54,462
Prepaid expenses	<u>79,182</u>	<u>181,989</u>
Total current assets	<u>2,092,995</u>	<u>2,702,450</u>
FIXED ASSETS		
Furniture and equipment	827,522	822,230
Leasehold improvements	<u>98,224</u>	<u>98,224</u>
	925,746	920,454
Less: Accumulated depreciation and amortization	<u>(852,722)</u>	<u>(821,625)</u>
Net fixed assets	<u>73,024</u>	<u>98,829</u>
OTHER ASSETS		
Investments, long-term (Notes 2 and 9)	8,429,840	7,915,790
Assets held for disposal	200,000	200,000
Deposits	10,676	10,676
Contributions receivable, net of current portion (Note 3)	<u>56,826</u>	<u>167,213</u>
Total other assets	<u>8,697,342</u>	<u>8,293,679</u>
TOTAL ASSETS	<u>\$ 10,863,361</u>	<u>\$ 11,094,958</u>

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 137,806	\$ 164,671
Deferred revenue	<u>705,204</u>	<u>1,221,850</u>
Total current liabilities	<u>843,010</u>	<u>1,386,521</u>
LONG-TERM LIABILITIES		
Deferred rent abatement, long-term portion (Note 7)	266,932	266,365
Security deposit	<u>500</u>	<u>500</u>
Total long-term liabilities	<u>267,432</u>	<u>266,865</u>
Total liabilities	<u>1,110,442</u>	<u>1,653,386</u>
NET ASSETS		
Unrestricted	2,950,971	2,893,377
Temporarily restricted (Note 4)	1,697,786	1,444,033
Permanently restricted (Note 10)	<u>5,104,162</u>	<u>5,104,162</u>
Total net assets	<u>9,752,919</u>	<u>9,441,572</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,863,361</u>	<u>\$ 11,094,958</u>

WASHINGTON PERFORMING ARTS SOCIETY

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE				
Contributions	\$ 912,294	\$ 2,113,047	\$ -	\$ 3,025,341
Admissions	2,861,335	-	-	2,861,335
Special events	1,101,626	-	-	1,101,626
Investment income (Note 2)	314,631	669,786	-	984,417
In-kind contributions (Note 6)	20,840	-	-	20,840
Other income	103,940	-	-	103,940
Net assets released from donor restrictions (Note 5)	<u>2,529,080</u>	<u>(2,529,080)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>7,843,746</u>	<u>253,753</u>	<u>-</u>	<u>8,097,499</u>
EXPENSES				
Program Services:				
Production Costs	2,727,798	-	-	2,727,798
Production Support	1,372,094	-	-	1,372,094
Education Costs	687,070	-	-	687,070
Education Support	<u>633,941</u>	<u>-</u>	<u>-</u>	<u>633,941</u>
Total program services	<u>5,420,903</u>	<u>-</u>	<u>-</u>	<u>5,420,903</u>
Supporting Services:				
Management and General	768,710	-	-	768,710
Fundraising	<u>1,596,539</u>	<u>-</u>	<u>-</u>	<u>1,596,539</u>
Total supporting services	<u>2,365,249</u>	<u>-</u>	<u>-</u>	<u>2,365,249</u>
Total expenses	<u>7,786,152</u>	<u>-</u>	<u>-</u>	<u>7,786,152</u>
Changes in net assets	57,594	253,753	-	311,347
Net assets at beginning of year	<u>2,893,377</u>	<u>1,444,033</u>	<u>5,104,162</u>	<u>9,441,572</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,950,971</u>	<u>\$ 1,697,786</u>	<u>\$ 5,104,162</u>	<u>\$ 9,752,919</u>

See accompanying notes to financial statements.

2012			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 913,204	\$ 2,163,115	\$ -	\$ 3,076,319
2,960,894	-	-	2,960,894
1,128,071	-	-	1,128,071
155,237	371,180	-	526,417
258,693	-	-	258,693
172,265	-	-	172,265
<u>2,793,647</u>	<u>(2,793,647)</u>	<u>-</u>	<u>-</u>
<u>8,382,011</u>	<u>(259,352)</u>	<u>-</u>	<u>8,122,659</u>
3,491,381	-	-	3,491,381
1,309,178	-	-	1,309,178
626,269	-	-	626,269
<u>514,199</u>	<u>-</u>	<u>-</u>	<u>514,199</u>
<u>5,941,027</u>	<u>-</u>	<u>-</u>	<u>5,941,027</u>
653,118	-	-	653,118
<u>1,548,796</u>	<u>-</u>	<u>-</u>	<u>1,548,796</u>
<u>2,201,914</u>	<u>-</u>	<u>-</u>	<u>2,201,914</u>
<u>8,142,941</u>	<u>-</u>	<u>-</u>	<u>8,142,941</u>
239,070	(259,352)	-	(20,282)
<u>2,654,307</u>	<u>1,703,385</u>	<u>5,104,162</u>	<u>9,461,854</u>
<u>\$ 2,893,377</u>	<u>\$ 1,444,033</u>	<u>\$ 5,104,162</u>	<u>\$ 9,441,572</u>

See accompanying notes to financial statements.

WASHINGTON PERFORMING ARTS SOCIETY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 311,347	\$ (20,282)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	31,801	68,113
Unrealized gain	(490,840)	(183,586)
Realized gain	(292,327)	(176,840)
Asset held for disposal	-	(200,000)
(Increase) decrease in:		
Contributions receivable	453,038	171,409
Accounts receivable	(165,908)	(5,087)
Prepaid expenses	102,807	(50,124)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(26,865)	(49,823)
Deferred revenue	(516,646)	162,429
Deferred rent abatement	567	8,401
Security deposit	<u>-</u>	<u>500</u>
Net cash used by operating activities	<u>(593,026)</u>	<u>(274,890)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(5,995)	(33,598)
Purchase of investments	(2,989,228)	(3,565,697)
Sale of investments	<u>3,366,833</u>	<u>3,599,539</u>
Net cash provided by investing activities	<u>371,610</u>	<u>244</u>
Net decrease in cash and cash equivalents	(221,416)	(274,646)
Cash and cash equivalents at beginning of year	<u>940,569</u>	<u>1,215,215</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 719,153</u>	<u>\$ 940,569</u>

WASHINGTON PERFORMING ARTS SOCIETY

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Established in 1965, the Washington Performing Arts Society (WPAS) cultivates, promotes, and develops the understanding and appreciation of performing arts in metropolitan Washington, D.C. by presenting the world's leading performing artists, seeking out and presenting emerging artists, and providing opportunities for the public to appreciate the performing arts through educational programs.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

WPAS considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year WPAS maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

Receivables -

Receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$500 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

Assets held for disposal -

Assets held for disposal consist of a Gagliano violin that WPAS received as a donation. Assets held for disposal are valued at their appraised fair market value, less estimated selling fees.

Income taxes -

WPAS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. WPAS is not a private foundation.

WASHINGTON PERFORMING ARTS SOCIETY

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

For the years ended August 31, 2013 and 2012, WPAS has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Deferred revenue -

Deferred revenue consists of advance ticket sales and subscriptions. WPAS recognizes admissions revenue in the period in which the performances are held.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of WPAS and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of WPAS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by WPAS. There are percentage restrictions placed on the use of investment earnings from these endowment funds.

Contributions -

Contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

WASHINGTON PERFORMING ARTS SOCIETY

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Advertising costs -

Advertising costs related to various WPAS programs are expensed as incurred. Advertising expense amounted to \$622,046 and \$571,175 for the years ended August 31, 2013 and 2012, respectively.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

WPAS invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

WPAS adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. WPAS accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at August 31, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Common stocks	\$ 6,023,655	\$ 6,288,047	\$ 5,994,669	\$ 5,572,764
Fixed income mutual funds	3,119,128	3,137,344	3,038,635	3,252,295
Money market funds	<u>(295,421)</u>	<u>(295,421)</u>	<u>(100,650)</u>	<u>(100,650)</u>
TOTAL INVESTMENTS	<u>\$ 8,847,362</u>	<u>\$ 9,129,970</u>	<u>\$ 8,932,654</u>	<u>\$ 8,724,409</u>

WASHINGTON PERFORMING ARTS SOCIETY

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012**

2. INVESTMENTS (Continued)

Included in investment income are the following at August 31, 2013 and 2012:

	2013	2012
Interest and dividends	\$ 246,607	\$ 206,713
Unrealized gain	490,840	183,586
Realized gain	292,327	176,840
Management fees	<u>(45,357)</u>	<u>(40,722)</u>
TOTAL INVESTMENT INCOME	<u>\$ 984,417</u>	<u>\$ 526,417</u>

During 2013, WPAS used its investment margin to fund operations due to a short-term operating cash shortfall in the amount of \$400,000. This decision was made in lieu of liquidating investments that would adversely affect the WPAS investment strategy. WPAS could borrow approximately 60% of its investment account balance before a margin call would have been made.

3. CONTRIBUTIONS RECEIVABLE

All contributions receivable are considered to be collectible within one year, unless otherwise stated by the donor. Contributions, which will not be paid within one year, have been discounted using a current interest rate of 4.34% per annum.

Following is a summary, by years, of contributions receivable at August 31, 2013 and 2012:

Year Ending August 31,	2013	2012
2013	\$ -	\$ 716,811
2014	374,160	120,000
2015 and Thereafter	<u>91,161</u>	<u>87,477</u>
Total	465,321	924,288
Less: Current maturities	(374,160)	(716,811)
Less: Present value discount	<u>(34,335)</u>	<u>(40,264)</u>
LONG-TERM CONTRIBUTIONS RECEIVABLE	<u>\$ 56,826</u>	<u>\$ 167,213</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at August 31, 2013 and 2012:

	2013	2012
Program	\$ 1,030,472	\$ 805,374
Education	58,981	34,456
General	189,330	63,207
Time Restricted	<u>419,003</u>	<u>540,996</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 1,697,786</u>	<u>\$ 1,444,033</u>

WASHINGTON PERFORMING ARTS SOCIETY

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012**

5. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following is a summary of net assets, which were released from donor restrictions by incurring expenses in accordance with donor stipulations or through the passage of time.

	2013	2012
Program	\$ 150,557	\$ 169,942
General	143,323	148,338
Passage of time	2,235,200	2,475,367
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	\$ 2,529,080	\$ 2,793,647

6. IN-KIND CONTRIBUTIONS

During the years ended August 31, 2013 and 2012, WPAS was the beneficiary of donated services, which allow WPAS to provide greater resources towards various programs.

The following is a summary of donated services, as reflected in both revenue and expenses, for the years ended August 31, 2013 and 2012.

	2013	2012
Donated legal services	\$ 20,000	\$ 20,000
Other donations	840	693
Strategic planning services	-	238,000
TOTAL IN-KIND CONTRIBUTIONS	\$ 20,840	\$ 258,693

7. LEASE COMMITMENTS

WPAS leases office space under a ten-year agreement, which originated in February 2010. Base rent, which consists of storage and office space, is \$342,325 per year, increasing by a factor of 2% per year, plus a proportionate share of expenses.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the Statements of Financial Position and will be reduced as cash payments exceed rent expense.

The following is a schedule of the future minimum lease payments:

<u>Year Ending August 31,</u>	
2014	\$ 366,617
2015	375,557
2016	390,981
2017	399,780
2018	408,812
Thereafter	809,027
	\$ 2,750,774

Rent expense for the years ended August 31, 2013 and 2012 totaled \$361,013 and \$360,781, respectively.

WASHINGTON PERFORMING ARTS SOCIETY

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012**

8. RETIREMENT PLAN

WPAS maintains a profit sharing retirement plan, which is available to eligible employees who have completed one year of service and have attained age 21. Employer contributions are made to the plan at 5% of each participant's compensation. Participants are vested in the employer contributions at the time of eligibility. Pension expenses totaled \$68,320 and \$56,797 for the years ended August 31, 2013 and 2012, respectively.

9. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, WPAS has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market WPAS has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at August 31, 2013 and 2012.

- *Common stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Fixed income mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Money market funds* - Fair value is equal to the reported net asset value of the fund.

The table below summarizes, by level within the fair value hierarchy, WPAS's investments as of August 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total August 31, 2013</u>
Asset Class - Investments:				
Common Stocks	\$ 6,288,047	\$ -	\$ -	\$ 6,288,047
Fixed Income Mutual Funds	3,137,344	-	-	3,137,344
Money Market Funds	(295,421)	-	-	(295,421)
TOTAL	<u>\$ 9,129,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,129,970</u>

WASHINGTON PERFORMING ARTS SOCIETY

**NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012**

9. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, WPAS's investments as of August 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total August 31, 2012</u>
Asset Class - Investments:				
Common Stocks	\$ 5,572,764	\$ -	\$ -	\$ 5,572,764
Fixed Income Mutual Funds	3,252,295	-	-	3,252,295
Money Market Funds	<u>(100,650)</u>	<u>-</u>	<u>-</u>	<u>(100,650)</u>
TOTAL	<u>\$ 8,724,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,724,409</u>

10. ENDOWMENT

WPAS' endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, WPAS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

WASHINGTON PERFORMING ARTS SOCIETY

NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

10. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended August 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 903,037	\$ 5,104,162	\$6,007,199
Investment return:				
Investment income	-	164,134	-	164,134
Net appreciation (realized and unrealized)	<u>-</u>	<u>505,652</u>	<u>-</u>	<u>505,652</u>
Total investment return	<u>-</u>	<u>669,786</u>	<u>-</u>	<u>669,786</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(293,880)</u>	<u>-</u>	<u>(293,880)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 1,278,943</u>	<u>\$ 5,104,162</u>	<u>\$6,383,105</u>

Changes in endowment net assets for the year ended August 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 850,137	\$ 5,084,162	\$5,934,299
Investment return:				
Investment income	-	143,632	-	143,632
Net appreciation (realized and unrealized)	<u>-</u>	<u>227,548</u>	<u>-</u>	<u>227,548</u>
Total investment return	<u>-</u>	<u>371,180</u>	<u>-</u>	<u>371,180</u>
Contributions	-	-	20,000	20,000
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(318,280)</u>	<u>-</u>	<u>(318,280)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ -</u>	<u>\$ 903,037</u>	<u>\$ 5,104,162</u>	<u>\$6,007,199</u>

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NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2013 AND 2012

10. ENDOWMENT (Continued)

Funds with Deficiencies -

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or SPMIFA requires WPAS to retain as fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of August 31, 2013 and 2012.

Return Objectives and Risk Parameters -

WPAS has adopted investment and spending policies for its investments that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in-perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in funds with a primary objective to allow the fund to grow over time. The objective of the permanently restricted assets is the preservation of capital and actual returns in any given year may vary.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, WPAS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Each asset class in which the funds invest are reviewed on a monthly basis and re-balanced back to the normal weighting if the actual weighting varies by +/- 5% from the recommended target weighting.

WPAS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy -

WPAS has a policy of appropriating for distribution each year 5% of its endowment funds on a three-year rolling average. In establishing this policy, WPAS considered the long-term expected return on its endowment. Accordingly, over the long-term, WPAS expects the current spending policy to allow its endowment to grow at an average target range set individually by asset class. This is consistent with WPAS' objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

11. SUBSEQUENT EVENTS

In preparing these financial statements, WPAS has evaluated events and transactions for potential recognition or disclosure through November 13, 2013, the date the financial statements were issued.