

**FINANCIAL STATEMENTS**



**WASHINGTON  
PERFORMING ARTS**

**FOR THE YEAR ENDED AUGUST 31, 2019  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2018**

# WASHINGTON PERFORMING ARTS

## CONTENTS

	<b>PAGE NO.</b>
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of August 31, 2019, with Summarized Financial Information for 2018	4 - 5
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended August 31, 2019, with Summarized Financial Information for 2018	6
EXHIBIT C - Statement of Functional Expenses, for the Year Ended August 31, 2019, with Summarized Financial Information for 2018	7
EXHIBIT D - Statement of Cash Flows, for the Year Ended August 31, 2019, with Summarized Financial Information for 2018	8
NOTES TO FINANCIAL STATEMENTS	9 - 18



**CPAs & ADVISORS**

## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of Washington Performing Arts (WPA), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 WPA as of August 31, 2019, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814  
(301) 951-9090 • WWW.GRFCPA.COM

---

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

### **Report on Summarized Comparative Information**

We have previously audited WPA's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Gelman Rosenberg & Friedman*

December 18, 2019

**WASHINGTON PERFORMING ARTS**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF AUGUST 31, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

**ASSETS**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 336,882	\$ 303,230
Investments, net of borrowings on margin of \$171,709 and \$272,166 at August 31, 2019 and 2018, respectively	1,043,551	1,175,240
Contributions receivable, net of allowance for doubtful accounts of \$25,000 and \$0 at August 31, 2019 and 2018, respectively	1,517,646	1,965,990
Accounts receivable	10,319	10,780
Prepaid expenses	177,796	234,371
Other current assets	2,275	-
Total current assets	<u>3,088,469</u>	<u>3,689,611</u>
<b>FIXED ASSETS</b>		
Furniture and equipment	954,223	939,952
Leasehold improvements	<u>558,932</u>	<u>558,932</u>
	1,513,155	1,498,884
Less: Accumulated depreciation and amortization	<u>(1,039,886)</u>	<u>(955,583)</u>
Net fixed assets	<u>473,269</u>	<u>543,301</u>
<b>NONCURRENT ASSETS</b>		
Trademark	2,000	2,000
Investments, long-term	6,609,478	7,220,678
Deposits	95,352	95,352
Contributions receivable, net of current portion and net of discount of \$16,998 and \$20,538 for August 31, 2019 and 2018, respectively	<u>877,602</u>	<u>184,908</u>
Total noncurrent assets	<u>7,584,432</u>	<u>7,502,938</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,146,170</u></b>	<b><u>\$ 11,735,850</u></b>

## LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 64,598	\$ 306,679
Deferred revenue	511,138	875,181
Deferred rent	<u>80,200</u>	<u>69,915</u>
Total current liabilities	<u>655,936</u>	<u>1,251,775</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred rent, long-term portion	<u>806,407</u>	<u>886,607</u>
Total liabilities	<u>1,462,343</u>	<u>2,138,382</u>
<b>NET ASSETS</b>		
Without donor restrictions	1,118,893	1,304,930
With donor restrictions	<u>8,564,934</u>	<u>8,292,538</u>
Total net assets	<u>9,683,827</u>	<u>9,597,468</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 11,146,170</u></b>	<b><u>\$ 11,735,850</u></b>

## WASHINGTON PERFORMING ARTS

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED AUGUST 31, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE</b>				
Contributions	\$ 1,155,815	\$ 3,077,178	\$ 4,232,993	\$ 3,258,253
Admissions	2,076,573	-	2,076,573	2,568,204
Special events	210,445	976,711	1,187,156	1,156,822
Contracts	70,844	-	70,844	52,474
Investment (loss) income	(12,880)	(116,873)	(129,753)	617,382
In-kind contributions	30,226	-	30,226	20,470
Other income	133,622	-	133,622	103,607
Net assets released from donor restrictions	3,664,620	(3,664,620)	-	-
Total revenue	7,329,265	272,396	7,601,661	7,777,212
<b>EXPENSES</b>				
Program Services:				
Programming	2,904,102	-	2,904,102	3,385,705
External Relations	994,509	-	994,509	1,218,232
Education	1,141,457	-	1,141,457	1,358,629
Total program services	5,040,068	-	5,040,068	5,962,566
Supporting Services:				
Finance and Administration	860,387	-	860,387	704,875
Development	1,614,847	-	1,614,847	1,589,358
Total supporting services	2,475,234	-	2,475,234	2,294,233
Total expenses	7,515,302	-	7,515,302	8,256,799
Change in net assets	(186,037)	272,396	86,359	(479,587)
Net assets at beginning of year	1,304,930	8,292,538	9,597,468	10,077,055
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,118,893</b>	<b>\$ 8,564,934</b>	<b>\$ 9,683,827</b>	<b>\$ 9,597,468</b>

**WASHINGTON PERFORMING ARTS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED AUGUST 31, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019							2018	
	Program Services				Supporting Services			Total Expenses	Total Expenses
	Programming	External Relations	Education	Total Program Services	Finance and Administration	Development	Total Supporting Services		
Salaries	\$ 561,086	\$ 264,233	\$ 424,551	\$ 1,249,870	\$ 355,351	\$ 710,787	\$ 1,066,138	\$ 2,316,008	\$ 2,347,723
Employee benefits	47,020	44,950	69,230	161,200	22,874	72,634	95,508	256,708	269,495
Payroll taxes	41,518	20,304	32,048	93,870	25,315	48,259	73,574	167,444	162,561
Consulting	7,203	166,236	76,450	249,889	8,210	97,384	105,594	355,483	324,110
Professional fees	9,121	5,370	11,175	25,666	77,412	12,043	89,455	115,121	64,207
Artist fees and commissions	1,390,509	-	254,462	1,644,971	-	34,100	34,100	1,679,071	2,132,567
Advertising and promotion	8,116	282,732	220	291,068	2,238	50	2,288	293,356	422,458
Bank, merchant fees and interest	29,114	34,750	-	63,864	49,724	4,338	54,062	117,926	116,484
Meals entertainment and meetings	12,517	2,117	24,375	39,009	13,718	243,535	257,253	296,262	285,660
Dues and subscriptions	873	14,845	8,045	23,763	5,288	21,013	26,301	50,064	59,498
Information technology	21	-	-	21	54,480	1,213	55,693	55,714	92,827
Honoraria awards and scholarships	-	-	40,920	40,920	-	-	-	40,920	21,675
Office rent	62,859	78,573	69,593	211,025	43,776	98,778	142,554	353,579	353,005
Office expenses and postage	2,788	3,296	17,952	24,036	57,685	13,080	70,765	94,801	134,232
Computer software and maintenance	1,389	1,328	32	2,749	19,646	-	19,646	22,395	21,344
Depreciation and amortization	14,987	18,734	16,593	50,314	10,438	23,551	33,989	84,303	84,802
Venue hall expenses	615,010	546	37,082	652,638	200	166,828	167,028	819,666	976,245
Printing and reproduction	3,538	50,091	4,674	58,303	17,625	37,736	55,361	113,664	111,064
Travel	96,433	6,404	54,055	156,892	32,840	29,518	62,358	219,250	272,627
Other	-	-	-	-	63,567	-	63,567	63,567	4,215
<b>TOTAL</b>	<b>\$ 2,904,102</b>	<b>\$ 994,509</b>	<b>\$ 1,141,457</b>	<b>\$ 5,040,068</b>	<b>\$ 860,387</b>	<b>\$ 1,614,847</b>	<b>\$ 2,475,234</b>	<b>\$ 7,515,302</b>	<b>\$ 8,256,799</b>

See accompanying notes to financial statements.

## WASHINGTON PERFORMING ARTS

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 86,359	\$ (479,587)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	84,303	84,802
Unrealized loss (gain)	422,856	(315,306)
Realized loss (gain)	57,733	(119,109)
Bad debt	39,041	-
(Increase) decrease in:		
Contributions receivable	(283,391)	334,584
Accounts receivable	461	1,345
Prepaid expenses	56,575	(14,243)
Other current assets	(2,275)	-
Deposits	-	2,185
(Decrease) increase in:		
Accounts payable and accrued liabilities	(242,081)	23,618
Deferred revenue	(364,043)	(23,250)
Deferred rent abatement	(69,915)	(59,870)
Net cash used by operating activities	<u>(214,377)</u>	<u>(564,831)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture and equipment	(14,271)	(2,803)
Purchase of investments	(1,551,242)	(988,445)
Sale of investments	1,641,833	1,058,542
Net cash provided by investing activities	<u>76,320</u>	<u>67,294</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from margin borrowings, net of repayments	171,709	272,166
Net cash provided by financing activities	<u>171,709</u>	<u>272,166</u>
Net increase (decrease) in cash and cash equivalents	33,652	(225,371)
Cash and cash equivalents at beginning of year	303,230	528,601
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 336,882</u></b>	<b><u>\$ 303,230</u></b>
<b>SUPPLEMENTAL INFORMATION:</b>		
<b>Interest Paid</b>	<b><u>\$ 12,030</u></b>	<b><u>\$ 5,586</u></b>
<b>Donated Securities</b>	<b><u>\$ 1,062,682</u></b>	<b><u>\$ 811,064</u></b>

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

Established in 1965, the Washington Performing Arts Society, d.b.a. Washington Performing Arts (WPA) 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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended August 31, 2019 and applied retrospectively.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with WPA's financial statements for the year ended August 31, 2018, from which the summarized information was derived.

Cash and cash equivalents -

WPA 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, WPA 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, which is presented net of investment expenses paid to external investment advisors in the accompanying Statement of Activities and Change in Net Assets.

Contributions and accounts receivable -

Contributions and accounts receivable are recorded at their net realizable value, which approximates fair value. Contributions receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions revenue. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor.

Fixed assets -

Fixed assets in excess of \$2,000 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.

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

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

Income taxes -

WPA 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. WPA is not a private foundation. Beginning January 1, 2018, it is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended August 31, 2019 totaled \$11,000, and is reflected under "Other" in the accompanying Statements of Functional Expenses.

Uncertain tax positions -

For the year ended August 31, 2019, WPA 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.

Deferred revenue -

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

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Contributions -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

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

Contributions (continued) -

Contributions and grants received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

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.

Advertising costs -

Advertising costs related to various WPA programs are expensed as incurred. Advertising expense amounted to \$293,356 for the year ended August 31, 2019.

Functional allocation of expenses -

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

Risks and uncertainties -

WPA 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 -

WPA 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. WPA accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of August 31, 2018 as unrestricted net assets in the amount of \$1,304,930 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of \$3,141,546 and \$5,150,992, respectively, are now classified as "net assets with donor restrictions".

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

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

New accounting pronouncements not yet adopted -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. WPA has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize 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 FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. WPA has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities beginning after December 15, 2020. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

WPA plans to adopt the new ASUs at the respective required implementation dates.

**2. INVESTMENTS**

Investments consisted of the following at August 31, 2019:

	<u>Cost</u>	<u>Fair Value</u>
Common stocks	\$ 3,888,919	\$ 4,319,939
Fixed income mutual funds	3,273,055	3,316,085
Money market funds	188,714	188,714
Borrowings on margin	<u>(171,709)</u>	<u>(171,709)</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 7,178,979</u></b>	<b><u>\$ 7,653,029</u></b>

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**2. INVESTMENTS (Continued)**

Included in investment loss are the following at August 31, 2019:

Interest and dividends	\$ 357,767
Unrealized loss	(422,856)
Realized loss	(57,733)
Management fees	<u>(6,931)</u>
<b>TOTAL INVESTMENT LOSS, NET</b>	<b><u>\$ (129,753)</u></b>

WPA borrows on its investment margin to fund operations due to a short-term operating cash shortfalls. At August 31, 2019, the balance on the margin account was \$171,709.

**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 an interest rate of 5.25% per annum for the year ended August 31, 2019.

Following is a summary, by years, of contributions receivable at August 31, 2019:

**Year Ending August 31,**

2020	\$ 1,542,646
2021	<u>894,600</u>
Total	2,437,246
Less: Allowance for doubtful accounts	(25,000)
Less: Present value discount	<u>(16,998)</u>
<b>NET CONTRIBUTIONS RECEIVABLE</b>	<b><u>\$ 2,395,248</u></b>

**4. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at August 31, 2019:

Program	\$ 1,339,131
Education	996,295
General	474,515
Subject to passage of time	590,832
Endowment to be invested in perpetuity:	<u>5,164,161</u>
<b>TOTAL NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 8,564,934</u></b>

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**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.

Program	\$ 1,232,645
Education	725,901
General	106,998
Passage of time	<u>1,599,076</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 3,664,620</u></b>

**6. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 336,882
Investments	7,653,029
Contributions receivable, net of allowance for doubtful accounts of \$25,000 and \$0 at August 31, 2019 and 2018, respectively	2,395,248
Accounts receivable	<u>10,319</u>
Subtotal financial assets available within one year	10,395,478
Less: Donor restricted funds	(8,564,934)
Add: Time restricted net assets	<u>590,832</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 2,421,376</u></b>

WPA has a policy to structure its financial assets to be available and liquid as its obligations become due. As of August 31, 2019, WPA has financial assets equal to approximately 3.8 months of operating expenses.

**7. IN-KIND CONTRIBUTIONS**

During the year ended August 31, 2019, WPA was the beneficiary of donated services, which allowed WPA to provide greater resources toward various programs.

The following is a summary of donated services, as reflected in both revenue and expenses, for the year ended August 31, 2019.

Donated legal services	\$ 30,000
Other donations	<u>226</u>
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$ 30,226</u></b>

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**8. LEASE COMMITMENTS**

In March 2016, WPA entered into a lease for office space under an eleven year agreement. WPA received a fourteen month rent abatement. Base rent, which consists of storage and office space, is \$396,914 per year, increasing by a factor of 2.5% 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 Statement 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>	
2020	\$ 422,211
2021	435,442
2022	448,994
2023	460,207
2024	471,741
Thereafter	<u>1,315,777</u>
	<b><u>\$ 3,554,372</u></b>

Rent expense for the year ended August 31, 2019 totaled \$353,579. The deferred rent liability for the year ended August 31, 2019 totaled \$886,607.

**9. RETIREMENT PLAN**

WPA 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. During 2019, WPA ceased the employer contribution. Employer contributions totaled \$42,258 for the year ended August 31, 2019.

**10. FAIR VALUE MEASUREMENT**

In accordance with FASB ASC 820, *Fair Value Measurement*, WPA 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 Statement 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 WPA has the ability to access.

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**10. FAIR VALUE MEASUREMENT (Continued)**

**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, 2019.

- *Common Stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Fixed Income Mutual Funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by WPA are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily value and to transact at that price. Mutual funds held by WPA are deemed to be actively traded.
- *Money Market Funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.

The table below summarizes, by level within the fair value hierarchy, WPA's investments as of August 31, 2019:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total August 31, 2019</b>
<b>Asset Class - Investments:</b>				
Common Stocks	\$ 4,319,939	\$ -	\$ -	\$ 4,319,939
Fixed Income Mutual Funds	3,316,085	-	-	3,316,085
Money Market Funds	188,714	-	-	188,714
Borrowings on Margin	<u>(171,709)</u>	<u>-</u>	<u>-</u>	<u>(171,709)</u>
<b>TOTAL</b>	<b><u>\$ 7,653,029</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 7,653,029</u></b>

There were no transfers between levels in the fair value hierarchy during the year ended August 31, 2019. Transfers between levels are recorded at the end of the reporting period, if applicable.

**11. ENDOWMENT**

WPA's endowment consists of donor-restricted endowment funds and funds designated by the governing Board 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 is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those assets are time restricted until the governing Board appropriates such amounts for expenditures.

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**11. ENDOWMENT (Continued)**

Most of those net asset also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The governing Board has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the WPA considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. WPA has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, WPA considers the following factors in making a determination to appropriated 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.

Endowment net asset composition by type of fund as of August 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 5,164,161	\$ 5,164,161
Accumulated investment earnings	<u>-</u>	<u>1,418,778</u>	<u>1,418,778</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ -</u></b>	<b><u>\$ 6,582,939</u></b>	<b><u>\$ 6,582,939</u></b>

Changes in endowment net assets for the year ended August 31, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>-</u>	\$ <u>7,042,105</u>	\$ <u>7,042,105</u>
Investment return:			
Investment income	-	322,710	322,710
Net depreciation (realized and unrealized)	<u>-</u>	<u>(439,583)</u>	<u>(439,583)</u>
Total investment return	<u>-</u>	<u>(116,873)</u>	<u>(116,873)</u>
Contributions	-	13,170	13,170
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(355,463)</u>	<u>(355,463)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ -</u></b>	<b><u>\$ 6,582,939</u></b>	<b><u>\$ 6,582,939</u></b>

**WASHINGTON PERFORMING ARTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2019**

**11. 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 UPMIFA requires WPA to retain as fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of August 31, 2019.

Return Objectives and Risk Parameters -

WPA 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, WPA 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.

WPA 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 -

WPA has a policy of appropriating for distribution each year 5% of its endowment funds on a three year rolling average. In establishing this policy, WPA considered the long-term expected return on its endowment. Accordingly, over the long-term, WPA 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 WPA's 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.

**12. SUBSEQUENT EVENTS**

In preparing these financial statements, WPA has evaluated events and transactions for potential recognition or disclosure through December 18, 2019, the date the financial statements were issued.