FINANCIAL STATEMENTS

WASHINGTON
PERFORMING ARTS

FOR THE YEARS ENDED
AUGUST 31, 2018 AND 2017

WASHINGTON PERFORMING ARTS

CONTENTS

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 statements of financial position as of August 31, 2018 and 2017, 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 WPA as of August 31, 2018 and 2017, 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.

Gelman Rosenberg & Freedman

January 29, 2019

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WASHINGTON PERFORMING ARTS

STATEMENTS OF FINANCIAL POSITION
AS OF AUGUST 31, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	$ 303,230	$ 528,601
Investments, net of borrowings on margin of $272,166 and $181,278 at August 31, 2018 and 2017, respectively	1,175,240	1,298,448
Contributions receivable	1,965,990	1,884,753
Accounts receivable	10,780	12,125
Prepaid expenses	234,371	220,128
Total current assets	3,689,611	3,944,055
FIXED ASSETS		
Furniture and equipment	939,952	937,149
Leasehold improvements	558,932	558,932
	1,498,884	1,496,081
Less: Accumulated depreciation and amortization	(955,583)	(870,781)
Net fixed assets	543,301	625,300
NONCURRENT ASSETS		
Trademark	2,000	2,000
Investments, long-term	7,220,678	7,005,318
Deposits	95,352	97,537
Contributions receivable, net of current portion	184,908	600,729
Total noncurrent assets	7,502,938	7,705,584
TOTAL ASSETS	**$ 11,735,850**	**$ 12,274,939**

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 306,679	$ 283,061
Deferred revenue	875,181	898,431
Deferred rent	69,915	61,018
Total current liabilities	1,251,775	1,242,510
LONG-TERM LIABILITIES		
Deferred rent, long-term portion	886,607	955,374
Total liabilities	2,138,382	2,197,884
NET ASSETS		
Unrestricted	1,304,930	1,383,890
Temporarily restricted	3,141,546	3,589,003
Permanently restricted	5,150,992	5,104,162
Total net assets	9,597,468	10,077,055
TOTAL LIABILITIES AND NET ASSETS	**$ 11,735,850**	**$ 12,274,939**

WASHINGTON PERFORMING ARTS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
REVENUE				
Contributions	$ 1,134,462	$ 2,076,961	$ 46,830	$ 3,258,253
Admissions	2,568,204	-	-	2,568,204
Special events	137,255	1,019,567	-	1,156,822
Contracts	52,474	-	-	52,474
Investment income	99,256	518,126	-	617,382
In-kind contributions	20,470	-	-	20,470
Other income	103,607	-	-	103,607
Net assets released from donor restrictions	4,062,111	(4,062,111)	-	-
Total revenue	8,177,839	(447,457)	46,830	7,777,212
EXPENSES				
Program Services:				
Production Costs	3,194,874	-	-	3,194,874
Production Support	1,409,063	-	-	1,409,063
Education Costs	1,001,296	-	-	1,001,296
Education Support	357,333	-	-	357,333
Total program services	5,962,566	-	-	5,962,566
Supporting Services:				
Management and General	704,875	-	-	704,875
Fundraising	1,589,358	-	-	1,589,358
Total supporting services	2,294,233	-	-	2,294,233
Total expenses	8,256,799	-	-	8,256,799
Changes in net assets	(78,960)	(447,457)	46,830	(479,587)
Net assets at beginning of year	1,383,890	3,589,003	5,104,162	10,077,055
NET ASSETS AT END OF YEAR	**$ 1,304,930**	**$ 3,141,546**	**$ 5,150,992**	**$ 9,597,468**

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
	$ 1,126,473	$ 2,724,210	$ -	$ 3,850,683
	1,904,645	-	-	1,904,645
	196,582	1,317,086	-	1,513,668
	-	-	-	-
	170,975	757,492	-	928,467
	20,675	-	-	20,675
	102,295	-	-	102,295
	4,251,925	(4,251,925)	-	-
	7,773,570	546,863	-	8,320,433
	2,668,665	-	-	2,668,665
	1,342,717	-	-	1,342,717
	998,591	-	-	998,591
	359,329	-	-	359,329
	5,369,302	-	-	5,369,302
	662,133	-	-	662,133
	1,634,575	-	-	1,634,575
	2,296,708	-	-	2,296,708
	7,666,010	-	-	7,666,010
	107,560	546,863	-	654,423
	1,276,330	3,042,140	5,104,162	9,422,632
	$ 1,383,890	**$ 3,589,003**	**$ 5,104,162**	**$ 10,077,055**

See accompanying notes to financial statements.

WASHINGTON PERFORMING ARTS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (479,587)	$ 654,423
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	84,802	86,588
Unrealized gain	(315,306)	(752,140)
Realized (gain) loss	(119,109)	76,052
Decrease (increase) in:		
Contributions receivable	334,584	(654,560)
Accounts receivable	1,345	112,477
Prepaid expenses	(14,243)	(16,165)
Deposits	2,185	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	23,618	43,204
Deferred revenue	(23,250)	166,010
Deferred rent abatement	(59,870)	209,706
Net cash used by operating activities	(564,831)	(74,405)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	(2,803)	(18,090)
Purchase of investments	(988,445)	(2,499,903)
Sale of investments	1,058,542	2,526,288
Net cash provided by investing activities	67,294	8,295
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from margin borrowings, net of repayments	272,166	181,278
Net cash provided by financing activities	272,166	181,278
Net (decrease) increase in cash and cash equivalents	(225,371)	115,168
Cash and cash equivalents at beginning of year	528,601	413,433
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 303,230**	**$ 528,601**
SUPPLEMENTAL INFORMATION:		
Interest Paid	**$ 5,586**	**$ 4,076**
Donated Securities	**$ 811,064**	**$ 1,155,779**

See accompanying notes to financial statements.

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 FASB ASC 958, *Not-for-Profit Entities*.

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 in the Statements of Activities and Changes 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. 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.

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.

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

Uncertain tax positions -

For the years ended August 31, 2018 and 2017, 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 -

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 WPA 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 WPA 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 WPA. 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.

Advertising costs -

Advertising costs related to various WPA programs are expensed as incurred. Advertising expense amounted to $422,458 and $421,639 for the years ended August 31, 2018 and 2017, respectively.

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

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 -

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.

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 August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of WPA's financial statements, it is not expected to alter WPA's reported financial position.

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

New accounting pronouncements not yet adopted (continued) -

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 Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. 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 ASU at the required implementation date.

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

2. INVESTMENTS

Investments consisted of the following at August 31, 2018 and 2017:

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Common stocks	$ 947,896	$ 1,243,801	$ 995,405	$ 1,195,268
Fixed income mutual funds	6,798,581	7,399,580	6,855,416	7,237,151
Money market funds	24,703	24,703	52,625	52,625
Borrowings on margin	(272,166)	(272,166)	(181,278)	(181,278)
TOTAL INVESTMENTS	**$ 7,499,014**	**$ 8,395,918**	**$ 7,722,168**	**$ 8,303,766**

Included in investment income are the following at August 31, 2018 and 2017:

	2018	2017
Interest and dividends	$ 223,908	$ 290,811
Unrealized gain	315,306	752,140
Realized gain (loss)	119,109	(76,052)
Management fees	(40,941)	(38,432)
TOTAL INVESTMENT INCOME	**$ 617,382**	**$ 928,467**

During 2015, WPA borrowed on its investment margin to fund operations due to a short-term operating cash shortfall. At August 31, 2018 and 2017, the balance on the margin account was $272,166 and $181,278, respectively.

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 interest rates of 5.00% and 3.25% per annum for the years ended August 31, 2018 and 2017, respectively.

Following is a summary, by years, of contributions receivable at August 31, 2018 and 2017:

Year Ending August 31,	2018	2017
2018	$ -	$ 1,884,753
2019	1,965,990	641,160
2020	211,161	-
Total	2,177,151	2,525,913
Less: Current maturities	(1,965,990)	(1,884,753)
Less: Present value discount	(26,253)	(40,431)
LONG-TERM CONTRIBUTIONS RECEIVABLE	**$ 184,908**	**$ 600,729**

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at August 31, 2018 and 2017:

	2018	2017
Program	$ 1,245,129	$ 1,542,332
Education	1,006,394	797,707
General	634,876	533,528
Time Restricted	255,147	715,436
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**$ 3,141,546**	**$ 3,589,003**

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.

	2018	2017
Program	$ 1,526,614	$ 1,646,276
Education	1,311,091	1,081,037
General	137,688	122,501
Time Restricted	1,086,718	1,402,111
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	**$ 4,062,111**	**$ 4,251,925**

6. IN-KIND CONTRIBUTIONS

During the years ended August 31, 2018 and 2017, 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 years ended August 31, 2018 and 2017.

	2018	2017
Donated legal services	$ 20,000	$ 20,000
Other donations	470	675
TOTAL IN-KIND CONTRIBUTIONS	**$ 20,470**	**$ 20,675**

7. 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 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:

Year Ending August 31,	
2019	$ 401,880
2020	411,925
2021	422,211
2022	435,442
2023	460,207
Thereafter	1,787,517
	$ 3,919,182

Rent expense for the years ended August 31, 2018 and 2017 totaled $353,005 and $342,650, respectively. The deferred rent liability for the years ended August 31, 2018 and 2017 totaled $956,522 and $1,016,392, respectively.

8. 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. Employer contributions totaled $86,741 and $96,575 for the years ended August 31, 2018 and 2017, respectively.

9. 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 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 WPA 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, 2018 and 2017.

- *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, 2018:

	Level 1	Level 2	Level 3	Total August 31, 2018
Asset Class - Investments:				
Common Stocks	$ 1,243,801	$ -	$ -	$ 1,243,801
Fixed Income Mutual Funds	7,399,580	-	-	7,399,580
Money Market Funds	24,703	-	-	24,703
Borrowings on Margin	(272,166)	-	-	(272,166)
TOTAL	**$ 8,395,918**	**$ -**	**$ -**	**$ 8,395,918**

9. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, WPA's investments as of August 31, 2017:

	Level 1	Level 2	Level 3	Total August 31, 2017
Asset Class - Investments:				
Common Stocks	$ 1,195,268	$ -	$ -	$ 1,195,268
Fixed Income Mutual Funds	7,237,151	-	-	7,237,151
Money Market Funds	52,625	-	-	52,625
Borrowings on Margin	(181,278)	-	-	(181,278)
TOTAL	**$ 8,303,766**	**$ -**	**$ -**	**$ 8,303,766**

10. ENDOWMENT

WPA's 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, WPA 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.

10. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended August 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 1,697,841	$ 5,104,162	$ 6,802,003
Investment return:				
Investment income	-	180,890	-	180,890
Net depreciation (realized and unrealized)	-	337,236	-	337,236
Total investment return	-	518,126	-	518,126
Contributions	-	-	46,830	46,830
Appropriation of endowment assets for expenditure	-	(324,854)	-	(324,854)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 1,891,113**	**$ 5,150,992**	**$ 7,042,105**

Changes in endowment net assets for the year ended August 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 1,269,795	$ 5,104,162	$ 6,373,957
Investment return:				
Investment income	-	231,861	-	231,861
Net appreciation (realized and unrealized)	-	525,631	-	525,631
Total investment return	-	757,492	-	757,492
Appropriation of endowment assets for expenditure	-	(329,446)	-	(329,446)
ENDOWMENT NET ASSETS, END OF YEAR	**$ -**	**$ 1,697,841**	**$ 5,104,162**	**$ 6,802,003**

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 WPA to retain as fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature as of August 31, 2018 and 2017.

10. ENDOWMENT (Continued)

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.

11. SUBSEQUENT EVENTS

In preparing these financial statements, WPA has evaluated events and transactions for potential recognition or disclosure through January 29, 2019, the date the financial statements were issued.