

Sitar Arts Center

Financial Statements
and Independent Auditors' Report

June 30, 2019 and 2018

Sitar Arts Center

Financial Statements
June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Sitar Arts Center

We have audited the accompanying financial statements of Sitar Arts Center (“the Organization”), which comprise the statements of financial position as of June 30, 2019 and 2018; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 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 the Organization as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As disclosed in Note 2 to the financial statements, the Organization adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the issuance of the statements of functional expenses, additional footnote disclosures, and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
January 31, 2020

Sitar Arts Center

Statements of Financial Position June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 663,345	\$ 598,029
Investments	290,926	238,534
Accounts receivable	8,818	426
Grants and contributions receivable, net	571,850	759,226
Government grants receivable	50,684	126,477
Prepaid expenses and other assets	34,709	49,254
Property and equipment, net	6,718,504	6,895,881
Total assets	<u>\$ 8,338,836</u>	<u>\$ 8,667,827</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 227,038	\$ 200,275
Deferred revenue	-	5,600
Forgivable loans	1,740,000	1,850,000
Mortgages payable, net	1,554,955	1,596,367
Total liabilities	<u>3,521,993</u>	<u>3,652,242</u>
Net Assets		
Without donor restrictions:		
Undesignated	3,756,935	3,856,122
Board-designated quasi-endowment fund	290,926	233,434
Total without donor restrictions	4,047,861	4,089,556
Total with donor restrictions	768,982	926,029
Total net assets	<u>4,816,843</u>	<u>5,015,585</u>
Total liabilities and net assets	<u>\$ 8,338,836</u>	<u>\$ 8,667,827</u>

See accompanying notes.

Sitar Arts Center

Statement of Activities
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions:			
Individuals	\$ 499,653	\$ -	\$ 499,653
Foundations	339,444	349,600	689,044
Corporate	100,191	-	100,191
Other	23,345	-	23,345
Government grants	488,219	125,000	613,219
In-kind contributions	218,434	-	218,434
Registration income	113,606	-	113,606
Fee for service	130,671	-	130,671
Rental income	5,117	-	5,117
Interest and dividends	10,278	-	10,278
Other income	5,236	-	5,236
Released from restrictions	631,647	(631,647)	-
Total operating revenue and support	<u>2,565,841</u>	<u>(157,047)</u>	<u>2,408,794</u>
Expenses			
Program services:			
Art	148,628	-	148,628
Dance	106,962	-	106,962
Drama	83,322	-	83,322
Music	175,343	-	175,343
Digital Writing	57,318	-	57,318
Afterschool Center	387,932	-	387,932
Early Childhood Arts	280,126	-	280,126
Summer	369,147	-	369,147
Teen	144,687	-	144,687
Total program services	<u>1,753,465</u>	<u>-</u>	<u>1,753,465</u>
Supporting services:			
Management and general	466,978	-	466,978
Fundraising	308,180	-	308,180
Total supporting services	<u>775,158</u>	<u>-</u>	<u>775,158</u>
Total expenses	<u>2,528,623</u>	<u>-</u>	<u>2,528,623</u>
Change in Net Assets from Operations	37,218	(157,047)	(119,829)
Non-Operating Activities			
Unrealized gain on investments	7,258	-	7,258
Realized gain on investments	92	-	92
Depreciation and amortization expense	(196,263)	-	(196,263)
Forgivable loans	110,000	-	110,000
Total non-operating activities	<u>(78,913)</u>	<u>-</u>	<u>(78,913)</u>
Change in Net Assets	<u>(41,695)</u>	<u>(157,047)</u>	<u>(198,742)</u>
Net Assets, beginning of year	<u>4,089,556</u>	<u>926,029</u>	<u>5,015,585</u>
Net Assets, end of year	<u>\$ 4,047,861</u>	<u>\$ 768,982</u>	<u>\$ 4,816,843</u>

See accompanying notes.

Sitar Arts Center

Statement of Activities
For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support			
Contributions:			
Individuals	\$ 599,129	\$ 375,000	\$ 974,129
Foundations	453,530	152,500	606,030
Corporate	130,628	-	130,628
Other	71,531	-	71,531
Government grants	372,647	162,253	534,900
In-kind contributions	240,113	-	240,113
Registration income	113,289	-	113,289
Fee for service	29,650	-	29,650
Rental income	5,655	-	5,655
Interest and dividends	181	-	181
Other income	1,865	-	1,865
Released from restrictions	515,585	(515,585)	-
Total operating revenue and support	<u>2,533,803</u>	<u>174,168</u>	<u>2,707,971</u>
Expenses			
Program services:			
Art	107,080	-	107,080
Dance	79,155	-	79,155
Drama	61,667	-	61,667
Music	133,756	-	133,756
Digital Writing	44,503	-	44,503
Afterschool Center	439,846	-	439,846
Early Childhood Arts	317,174	-	317,174
Summer	408,133	-	408,133
Teen	167,609	-	167,609
Total program services	<u>1,758,923</u>	<u>-</u>	<u>1,758,923</u>
Supporting services:			
Management and general	146,131	-	146,131
Fundraising	350,458	-	350,458
Total supporting services	<u>496,589</u>	<u>-</u>	<u>496,589</u>
Total expenses	<u>2,255,512</u>	<u>-</u>	<u>2,255,512</u>
Change in Net Assets from Operations	278,291	174,168	452,459
Non-Operating Activities			
Unrealized gain on investments	9,160	-	9,160
Realized gain on investments	200	-	200
Depreciation and amortization expense	(194,734)	-	(194,734)
Forgivable loans	110,000	-	110,000
Total non-operating activities	<u>(75,374)</u>	<u>-</u>	<u>(75,374)</u>
Change in Net Assets	<u>202,917</u>	<u>174,168</u>	<u>377,085</u>
Net Assets, beginning of year	<u>3,886,639</u>	<u>751,861</u>	<u>4,638,500</u>
Net Assets, end of year	<u>\$ 4,089,556</u>	<u>\$ 926,029</u>	<u>\$ 5,015,585</u>

See accompanying notes.

Sitar Arts Center

Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services									Supporting Services			Total Expenses	
	Art	Dance	Drama	Music	Digital Writing	Afterschool Center	Early Childhood Arts	Summer	Teen	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries	\$ 100,896	\$ 80,849	\$ 60,538	\$ 121,075	\$ 40,358	\$ 159,068	\$ 137,217	\$ 126,558	\$ 83,210	\$ 909,769	\$ 79,466	\$ 101,585	\$ 181,051	\$ 1,090,820
Payroll taxes	7,719	6,185	4,631	9,262	3,087	12,169	10,497	9,682	6,366	69,598	5,882	7,771	13,653	83,251
Employee benefits	8,669	5,787	4,340	8,680	2,893	23,689	8,826	13,070	8,344	84,298	2,823	9,924	12,747	97,045
Professional fees	2,745	1,191	4,694	12,392	405	67,507	50,881	95,385	2,024	237,224	95,268	2,429	97,697	334,921
Interest	-	-	-	-	-	-	-	-	-	-	72,239	-	72,239	72,239
Occupancy expenses	2,756	2,067	1,378	3,446	1,378	11,026	11,026	11,715	6,891	51,683	8,958	8,269	17,227	68,910
Event expense	884	-	-	-	-	5,815	860	3,103	1,129	11,791	10,805	132,104	142,909	154,700
Supplies	11,239	5,318	3,481	10,025	5,385	51,226	30,334	71,738	17,404	206,150	22,627	20,971	43,598	249,748
Repairs and maintenance	2,980	2,235	1,490	3,725	1,490	11,919	11,919	12,664	7,449	55,871	9,684	8,939	18,623	74,494
Insurance	1,328	996	664	1,660	664	5,311	5,311	5,643	3,320	24,897	7,348	3,983	11,331	36,228
Printing and publication	493	183	122	502	122	9,293	1,014	3,740	610	16,079	794	767	1,561	17,640
Bank charges	-	-	-	-	-	-	-	-	-	-	20,225	-	20,225	20,225
Dues and subscriptions	1,081	811	1,091	1,352	643	5,708	4,325	5,985	2,703	23,699	3,831	3,244	7,075	30,774
Telephone	300	225	150	374	150	1,198	1,198	1,273	749	5,617	974	899	1,873	7,490
Office supplies and expense	433	325	216	541	216	1,731	1,731	1,840	1,082	8,115	1,407	1,298	2,705	10,820
Uncollectible pledges	-	-	-	-	-	-	-	-	-	-	114,183	-	114,183	114,183
Staff development	686	514	343	857	343	2,742	2,742	2,914	1,714	12,855	2,228	2,057	4,285	17,140
Volunteer expenses	5,280	-	-	220	-	-	-	772	-	6,272	-	-	-	6,272
Parking and transportation	1,139	276	184	1,232	184	2,245	2,245	2,337	1,692	11,534	1,196	1,105	2,301	13,835
Postage and delivery	-	-	-	-	-	485	-	728	-	1,213	251	2,835	3,086	4,299
Miscellaneous	-	-	-	-	-	-	-	-	-	-	6,789	-	6,789	6,789
Evaluations	-	-	-	-	-	16,800	-	-	-	16,800	-	-	-	16,800
Totals	\$ 148,628	\$ 106,962	\$ 83,322	\$ 175,343	\$ 57,318	\$ 387,932	\$ 280,126	\$ 369,147	\$ 144,687	\$ 1,753,465	\$ 466,978	\$ 308,180	\$ 775,158	\$ 2,528,623

See accompanying notes.

Sitar Arts Center

Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program Services										Supporting Services			Total Expenses
	Art	Dance	Drama	Music	Digital Writing	Afterschool Center	Early Childhood Arts	Summer	Teen	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 60,071	\$ 48,188	\$ 36,042	\$ 72,085	\$ 24,028	\$ 159,068	\$ 137,217	\$ 126,558	\$ 83,210	\$ 746,467	\$ 48,237	\$ 96,585	\$ 144,822	\$ 891,289
Payroll taxes	4,595	3,686	2,757	5,514	1,838	11,411	10,497	9,682	6,366	56,346	3,690	7,389	11,079	67,425
Employee benefits	7,234	5,787	4,340	8,680	2,893	23,689	8,826	13,070	8,344	82,863	1,823	9,924	11,747	94,610
Professional fees	7,062	4,429	6,852	17,788	2,563	84,776	68,150	113,732	12,817	318,169	16,891	15,380	32,271	350,440
Interest	2,888	2,166	1,444	3,610	1,444	11,553	11,553	12,276	7,221	54,155	9,387	8,665	18,052	72,207
Occupancy expenses	2,605	1,954	1,303	3,257	1,303	10,421	10,421	11,073	6,513	48,850	8,466	7,816	16,282	65,132
Event expense	884	-	-	-	-	5,815	860	3,103	1,129	11,791	-	153,927	153,927	165,718
Supplies	14,187	7,529	4,955	13,710	6,859	63,019	42,127	84,268	24,775	261,429	32,207	29,816	62,023	323,452
Repairs and maintenance	1,784	1,338	892	2,230	892	7,135	7,135	7,581	4,460	33,447	5,797	5,352	11,149	44,596
Insurance	1,284	963	642	1,606	642	5,138	5,138	5,459	3,211	24,083	7,208	3,853	11,061	35,144
Printing and publication	620	278	185	661	185	9,800	1,521	4,279	927	18,456	1,206	1,148	2,354	20,810
Bank charges	835	626	417	1,044	417	3,340	3,340	3,548	2,087	15,654	2,713	2,505	5,218	20,872
Dues and subscriptions	355	266	728	444	280	2,803	1,420	2,898	888	10,082	1,471	1,065	2,536	12,618
Telephone	301	226	150	376	150	1,204	1,204	1,279	752	5,642	978	903	1,881	7,523
Office supplies and expense	501	375	250	626	250	2,002	2,002	2,128	1,252	9,386	1,627	1,502	3,129	12,515
Uncollectible pledges	638	479	319	798	319	2,553	2,553	2,713	1,596	11,968	2,075	1,915	3,990	15,958
Staff development	226	170	113	283	113	905	905	962	566	4,243	736	679	1,415	5,658
Volunteer expenses	591	380	68	519	117	7,868	625	1,011	445	11,624	-	-	-	11,624
Parking and transportation	368	276	184	461	184	1,474	1,474	1,566	921	6,908	1,196	1,105	2,301	9,209
Postage and delivery	-	-	-	-	-	485	-	728	-	1,213	251	775	1,026	2,239
Miscellaneous	51	39	26	64	26	206	206	219	129	966	172	154	326	1,292
Evaluations	-	-	-	-	-	25,181	-	-	-	25,181	-	-	-	25,181
Totals	\$ 107,080	\$ 79,155	\$ 61,667	\$ 133,756	\$ 44,503	\$ 439,846	\$ 317,174	\$ 408,133	\$ 167,609	\$ 1,758,923	\$ 146,131	\$ 350,458	\$ 496,589	\$ 2,255,512

See accompanying notes.

Sitar Arts Center

Statements of Cash Flows For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (198,742)	\$ 377,085
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized gain on investments	(7,350)	(9,360)
Depreciation and amortization	196,263	194,734
Amortization of debt issuance costs	5,470	3,645
Forgivable loans	(110,000)	(110,000)
Donated securities	(98,607)	(50,748)
Change in allowance for uncollectible receivables	(9,663)	1,037
Change in present value discount on multi-year grants and contributions receivable	(18,971)	26,792
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,392)	5,072
Grants and contributions receivable	216,010	(74,716)
Government grants receivable	75,793	(126,477)
Prepaid expenses and other assets	14,545	(8,860)
Increase (decrease) in:		
Accounts payable and accrued expenses	26,763	19,393
Deferred revenue	(5,600)	(52,159)
	77,519	195,438
Net cash provided by operating activities	77,519	195,438
Cash Flows from Investing Activities		
Purchases of property and equipment	(18,886)	(20,603)
Purchases of investments and reinvested interest	(47,118)	(154,983)
Proceeds from sales of investments	100,683	217,737
	34,679	42,151
Net cash provided by investing activities	34,679	42,151
Cash Flows from Financing Activity		
Principal payments on mortgages payable	(46,882)	(45,087)
	(46,882)	(45,087)
Net cash used in financing activity	(46,882)	(45,087)
Net Increase in Cash and Cash Equivalents	65,316	192,502
Cash and Cash Equivalents, beginning of year	598,029	405,527
Cash and Cash Equivalents, end of year	\$ 663,345	\$ 598,029
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	\$ 72,239	\$ 66,173
Non-Cash Investing and Financing Transaction		
Gain on forgivable loans	\$ 110,000	\$ 110,000

See accompanying notes.

Sitar Arts Center

Notes to Financial Statements June 30, 2019 and 2018

1. Nature of Operations

The Sitar Arts Center (“the Organization”) was incorporated on June 26, 1998. The mission of the Organization is to offer possibilities that transform the lives of children and teens born into a world of unequal access to opportunity. The Organization engages children and teens in the highest quality visual, performing, and digital arts so that students learn about themselves and gain critical life skills for learning and work in the 21st century.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Organization’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for a Board-designated quasi-endowment fund for operations, as described in Note 12.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Sitar Arts Center

Notes to Financial Statements June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Cash Equivalents

For the purpose of the statements of financial position and the statements of cash flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Accounts Receivable

Accounts receivable are all due within one year and recorded at net realizable value. Management determines the allowance for doubtful accounts by using historical experience. There is no provision for doubtful accounts, based on management's evaluation of the accounts receivable at June 30, 2019 and 2018, as management deems all accounts receivable to be fully collectible.

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of activities.

Grants and Contributions Receivable

Grants and contributions receivable are reflected at either net realizable value or at net present value based on projected cash flows. Amounts receivable in more than one year were discounted to net present value at an average annual rate of 2.0% and 3.5% at June 30, 2019 and 2018, respectively, using a rate that considers market and credit risk. Management reviews receivables on an annual basis to determine if any receivables are potentially uncollectible. Receivable balances that are determined to be uncollectible are included in the overall allowance for uncollectible receivables, which reduces receivables in the statements of financial position. The allowance for uncollectible receivables was \$8,723 and \$18,386 for the years ended June 30, 2019 and 2018, respectively.

Government Grants Receivable

Government grants receivable principally represent amounts due from federal and other government agencies. The entire amount of government grants receivable is expected to be collected within one year and is recorded at net realizable value. No allowance for doubtful accounts has been recorded, as management believes that all receivables are fully collectible.

Sitar Arts Center

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment purchased at a cost of \$1,000 or more and with a useful life exceeding one year are capitalized and recorded at cost. Depreciation and amortization is computed using the straight-line method of depreciation and amortization over the estimated useful lives of the individual assets, as follows:

Musical instruments	5 years
Furniture and equipment	5 – 7 years
Building and building improvements	10 – 40 years

Land is not depreciated or amortized. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance are expensed as incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation and amortization are eliminated from the respective accounts, and the resulting gain or loss is included in revenue or expenses.

Revenue Recognition

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. The Organization reports contributions and grants as restricted support if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets without donor restrictions.

Government grants that are cost reimbursable in nature are recognized as revenue as the related expenditures are incurred. Costs incurred in excess of cash received are reflected as government grants receivable, and cash received in excess of costs incurred is reflected as refundable advances in the accompanying statements of financial position.

Forgivable loans are treated as government grants, as there is reasonable assurance that the Organization will meet the terms necessary for forgiveness of the loans provided. These forgivable loans are described in Note 8, and revenue is recognized as loans are forgiven over the terms of the agreements as non-operating activities in the accompanying statements of activities.

Revenue from events is recognized at the time of the event. Revenue from all other sources is recognized when earned.

Sitar Arts Center

Notes to Financial Statements
June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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

Advertising

The Organization expenses advertising costs as incurred. Advertising expenses totaled \$219 and \$1,130 for the years ended June 30, 2019 and 2018, respectively.

Measure of Operations

The Organization includes in its measure of operations all revenues and expenses that are an integral part of its programs and supporting activities and excludes realized and unrealized gains and losses on investments, depreciation and amortization expense, and forgivable loans.

Adopted Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability footnote, which is permitted by the ASU in the year of adoption. The implementation had no impact on previously reported net assets.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. These reclassifications have no effect on the change in net assets previously reported.

Sitar Arts Center

Notes to Financial Statements June 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2020, the date the financial statements were available to be issued.

Subsequent to year end, on September 29, 2019, the Organization signed a letter of intent to purchase property located at 1724 Kalorama Road, NW in Washington, D.C. The terms of the purchase include a purchase price of \$4,300,569, and an agreement that the Organization will allow the seller to utilize space located in the property under a shared space agreement. A purchase agreement has not yet been entered into as of January 31, 2020, the date the financial statements were available to be issued.

3. Liquidity and Availability

The Organization has \$1,383,017 of financial assets available within one year of the statement of financial position date. The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Management periodically reviews the Organization's liquid asset needs and adjusts the cash and cash equivalent balances as necessary. Amounts in excess of operating liquidity are invested in various short-term investments and highly liquid securities. The Organization also considers its Board-designated quasi-endowment fund, which is comprised of funds set aside for use in operations, to be available to meet cash needs for general expenditures.

Additionally, the Organization considers net assets with donor restrictions for use in current programs that are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

Financial assets that are available for general expenditures within one year of the statement of financial position date comprise the following at June 30, 2019:

Cash and cash equivalents	\$	663,345
Investments		290,926
Accounts receivable		8,818
Grants and contributions receivable – due within one year		369,244
Government grants receivable		50,684
		<hr/>
Total available for general expenditures	\$	<u>1,383,017</u>

Sitar Arts Center

Notes to Financial Statements
June 30, 2019 and 2018

4. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Organization maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Organization has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

5. Investments and Fair Value Measurements

The Organization follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Organization uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

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Notes to Financial Statements June 30, 2019 and 2018

5. Investments and Fair Value Measurements (continued)

The following table presents the Organization's fair value hierarchy for those investments measured on a recurring basis at June 30, 2019:

	Level 1	Level 2	Level 3	Total
Mutual fund:				
Moderate growth fund	\$ 290,926	\$ -	\$ -	\$ 290,926
Total investments	\$ 290,926	\$ -	\$ -	\$ 290,926

The following table presents the Organization's fair value hierarchy for those investments measured on a recurring basis at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Mutual fund:				
Moderate growth fund	\$ 238,534	\$ -	\$ -	\$ 238,534
Total investments	\$ 238,534	\$ -	\$ -	\$ 238,534

Investment income consists of the following for the years ended June 30:

	2019	2018
Interest and dividends	\$ 10,278	\$ 181
Unrealized gain	7,258	9,160
Realized gain	92	200
Total investment income	\$ 17,628	\$ 9,541

The Organization did not have any investment management expenses for the years ended June 30, 2019 and 2018.

Sitar Arts Center

Notes to Financial Statements June 30, 2019 and 2018

6. Receivables

Grants and contributions receivable are promised as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 369,244	\$ 401,250
Due in one to five years	<u>219,150</u>	<u>403,154</u>
Total grants and contributions receivable	588,394	804,404
Less: allowance for uncollectible receivables	(8,723)	(18,386)
Less: discount to present value	<u>(7,821)</u>	<u>(26,792)</u>
Grants and contributions receivable, net	<u><u>\$ 571,850</u></u>	<u><u>\$ 759,226</u></u>

The entire amount of government grants receivable is expected to be collected within one year and is recorded at net realizable value.

7. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,400,971	\$ 1,400,971
Building	4,679,658	4,679,658
Building improvements	2,706,557	2,695,256
Furniture and equipment	430,994	423,409
Musical instruments	<u>109,578</u>	<u>109,578</u>
Total property and equipment	9,327,758	9,308,872
Less: accumulated depreciation and amortization	<u>(2,609,254)</u>	<u>(2,412,991)</u>
Property and equipment, net	<u><u>\$ 6,718,504</u></u>	<u><u>\$ 6,895,881</u></u>

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Notes to Financial Statements June 30, 2019 and 2018

8. Forgivable Loans

On June 20, 2005, the Organization received a forgivable loan of \$400,000 from the District of Columbia's Department of Housing and Community Development. The loan is unsecured and bears a 0% interest rate and matures on June 20, 2025. Beginning June 20, 2006, at each anniversary date of this loan, \$20,000 of the principal balance will be forgiven as long as the loan is not in default. The revenue is recorded as amortization of forgivable loans and is included as a non-operating activity in the accompanying statements of activities. The balance of the loan at June 30, 2019 and 2018 was \$120,000 and \$140,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

On February 13, 2006, the Organization received another forgivable loan of \$1,800,000 from the District of Columbia's Department of Housing and Community Development for the purchase of property. The loan bears a 0% interest rate. This loan is secured by the property's deed of trust and matures on February 13, 2036. Beginning February 13, 2017, at each anniversary date of this loan, \$90,000 of the principal balance will be forgiven as long as the note is not in default. In the event of the sale of the property or noncompliance with loan requirements, the obligation is payable in accordance with the stipulated loan provisions. The revenue is recorded as amortization of forgivable loans and included as a non-operating activity in the accompanying statements of activities. The balance of the loan at June 30, 2019 and 2018 was \$1,620,000 and \$1,710,000, respectively, and is included in forgivable loans in the accompanying statements of financial position.

9. Mortgages Payable

On October 30, 2014, the Organization entered into a mortgage with Capital One, NA in the amount of \$1,185,000. The mortgage is secured by its property's deed of trust and matures on November 14, 2024. The mortgage requires monthly principal and interest payments of \$6,387, and interest is calculated at the rate of 4.125% per annum. The balance of this mortgage as of June 30, 2019 and 2018 was \$1,051,517 and \$1,083,430, respectively, and is included in mortgages payable in the accompanying statements of financial position.

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Notes to Financial Statements June 30, 2019 and 2018

9. Mortgages Payable (continued)

On August 28, 2015, the Organization purchased unit #102 at 1700 Kalorama Road, NW in Washington, D.C. for the amount of \$1,300,000. The Organization purchased this suite in response to the community need for high quality creative youth development programs. To purchase this property, the Organization borrowed \$561,258 from two financial institutions resulting in a primary loan and a subordinated loan. The primary loan amounted to \$460,000 and is secured by the property's deed of trust. The primary loan matures on August 28, 2020, and interest is paid monthly at the rate of 4.125% per annum. The subordinated loan is also secured by the property's deed of trust, and amounted to \$115,000. This subordinated loan also matures on August 28, 2020. Principal and interest is due monthly, payable at the rate of 4% per annum on a 25-year amortization. The balance of each loan was \$416,973 and \$104,734 at June 30, 2019 and \$428,961 and \$107,715 at June 30, 2018, respectively, and is included in mortgages payable in the accompanying statements of financial position.

The Organization incurred debt issuance costs in the refinancing of its mortgage obligation. These costs are being amortized over the term of the related debt using the effective interest method. Debt issuance costs, net of amortization, are reported as a direct deduction from the face amount of the mortgage payable to which such costs relate. Deferred debt issuance costs totaled \$18,269 and \$23,739 at June 30, 2019 and 2018, respectively. Amortization expense was \$5,470 and \$3,645 for the years ended June 30, 2019 and 2018, respectively, and is included as a component of interest expense in the accompanying statements of activities.

The future principal payments under these mortgages payable are as follows at June 30:

2020	\$	48,836
2021		540,822
2022		36,224
2023		37,769
2024		39,277
Thereafter		<u>870,296</u>
Total future principal payments	\$	<u><u>1,573,224</u></u>

Sitar Arts Center

Notes to Financial Statements June 30, 2019 and 2018

10. Line of Credit

The Organization maintains a \$150,000 line of credit with a bank, under which the Organization may borrow, at the variable interest rate of one-month LIBOR plus 3.5%. The line of credit is secured by the Organization's non-realty assets and is due on demand. When the line is utilized, interest-only payments are due on a monthly basis. There was no outstanding balance on this line of credit at both June 30, 2019 and 2018.

11. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at June 30:

	<u>2019</u>	<u>2018</u>
Program restricted:		
Instrumental Academy	\$ 15,000	\$ 15,000
Camp Sitar	120,206	130,078
Suite 102	120,000	130,000
Youth services	13,276	13,276
Video to DVD project	250	250
Time restricted	<u>500,250</u>	<u>637,425</u>
Total net assets with donor restrictions	<u>\$ 768,982</u>	<u>\$ 926,029</u>

12. Board-Designated Quasi-Endowment

The Organization's Board-designated quasi-endowment fund was established by the governing Board to invest donations without restrictions from donors into a fund in which the principal is invested to provide income and sustain the Organization for the long-term. The principal of the fund resulted from internal designation and is classified as net assets without donor restrictions. Accordingly, the Board-designated quasi-endowment fund is not subject to the D.C. Uniform Prudent Management of Institutional Funds Act.

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Notes to Financial Statements
June 30, 2019 and 2018

12. Board-Designated Quasi-Endowment (continued)

Composition of Funds and Changes in Board-Designated Quasi-Endowment Fund

Composition of funds and changes in the Board-designated quasi-endowment fund were as follows for the years ended December 31:

	2019	2018
Beginning balance	\$ 233,434	\$ 213,434
Purchases	51,201	20,000
Interest and dividend income	12,779	-
Unrealized loss	(4,488)	-
Appropriation of assets for expenditure	(2,000)	-
Ending balance	<u>\$ 290,926</u>	<u>\$ 233,434</u>

Return Objectives, Risk Parameters, and Strategies

The Organization's investment policy provides for a strategy of long-term growth of the Board-designated quasi-endowment fund. Under this policy, the endowment assets are invested with the goal of maximizing total return while avoiding unnecessary risk and maintaining the purchasing power of the underlying assets.

The investment objective is to achieve a real rate of return (net of inflation and expenses) sufficient to generate gains and income on the total funds invested. Risk is evaluated in terms of total portfolio rather than individual investment. To minimize the risk, the portfolio allows for diversification across asset classes, economic sectors, industry groups, and individual securities.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a strategy in which investment returns are achieved through continued reinvestment of realized capital gains and earned income. The Organization employs a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Sitar Arts Center

Notes to Financial Statements
June 30, 2019 and 2018

12. Board-Designated Quasi-Endowment (continued)

Investment Policy and How the Investment Objectives Relate to Spending Policy

The Organization's governing Board guides the financial management of the Board-designated quasi-endowment fund, and makes decisions on the expenditures of the earnings. The income earned from the fund is utilized for the Organization's programs and operations.

13. Contingencies

Government Grants

Funds received from federal and other government agencies are subject to an audit under the provisions of the grant agreements. The ultimate determination of amounts received under these grants is based upon the allowance of costs reported to and accepted by the oversight agencies. Until such grants are closed out, a potential contingency exists to refund any amounts received in excess of allowable costs. Management is of the opinion that no material liability exists.

14. In-Kind Contributions

Donated Services

The Organization receives donated services in the form of teaching and other professional services, which totaled \$141,087 and \$178,852 for the years ended June 30, 2019 and 2018, respectively. Services are recognized only when they create or enhance nonfinancial assets, or require specialized skills, are provided by qualified individuals, and would typically be purchased if not donated. Donated services are recognized as revenue and expense in the accompanying statements of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used. These donated services are included in in-kind contributions in the accompanying statements of activities.

The Organization also receives a substantial amount of services donated by volunteers in carrying out its program services. These donated services are not reflected in the accompanying financial statements since they do not meet the criteria for recognition under FASB ASC 958, *Accounting for Contributions Received and Contributions Made*.

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Notes to Financial Statements June 30, 2019 and 2018

14. In-Kind Contributions (continued)

Donated Goods

Donated goods consist of various items contributed to the Organization for use in programs and activities. These goods are recorded as in-kind contributions in the accompanying statements of activities at their estimated value at the date of receipt. Donated goods for the years ended June 30, 2019 and 2018 were \$23,371 and \$30,583, respectively.

Additionally, the Organization receives donated goods for the gala and silent auction event. Donated auction items are recorded at their estimated fair value at the date of donation, and subsequently adjusted based on the proceeds received. Donated auction items totaled \$53,976 and \$30,678 for the years ended June 30, 2019 and 2018, respectively.

15. Related Party Transactions

During the years ended June 30, 2019 and 2018, the Organization's Board members and their families made contributions to the Organization amounting to \$40,780 and \$107,434, respectively.

16. Retirement Plan

The Organization maintains a SIMPLE IRA retirement plan for the benefit of its employees. All employees are eligible to participate and the Organization matches employee contributions up to 3% of each employee's compensation. The Organization's contributions to the plan for the years ended June 30, 2019 and 2018 were \$14,500 and \$12,836, respectively.

17. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The Organization allocates the majority of its expenses utilizing an indirect cost allocation methodology. Expenses that are allocated include salaries, employee benefits, and payroll taxes, which are allocated on the basis of estimates of time and effort. Additionally, the remaining expenses are allocated using an overhead general administrative allocation, which is based on the actual staff allocations of time and efforts of programming.

Sitar Arts Center

Notes to Financial Statements
June 30, 2019 and 2018

18. Income Taxes

The Organization is recognized as a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3), and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no significant unrelated business taxable income. Contributions to the Organization are deductible as provided in IRC Section 170(b)(1)(A)(vi).

Management has evaluated the Organization's tax positions and concluded that the Organization's financial statements do not include any uncertain tax positions.