

**FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

SITAR ARTS CENTER

June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

December 13, 2017

To the Board of Directors of:

Sitar Arts Center
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of the Sitar Arts Center (a non-profit organization) which comprise the statements of financial position as of June 30, 2017 and 2016 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 presentation 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 Sitar Arts Center as of June 30, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

James E. Crist, PC

Warren, Rhode Island

Sitar Arts Center
STATEMENTS OF FINANCIAL POSITION
June 30,

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 533,100	\$ 759,758
Grants & pledges receivable (less allowance for uncollectible pledges of \$17,349 in 2017 and \$12,027 in 2016)	580,070	375,519
Accounts receivable - other	2,766	-
Investment in marketable securities	113,608	102,406
Prepaid expenses	40,394	36,397
Total current assets	<u>1,269,938</u>	<u>1,274,080</u>
PROPERTY AND EQUIPMENT:		
Musical instruments	109,578	109,578
Computers, furniture and equipment	402,806	384,940
Building and building improvements	<u>8,775,885</u>	<u>8,341,970</u>
Total property and equipment	9,288,269	8,836,488
Less: accumulated depreciation	<u>2,218,257</u>	<u>2,026,993</u>
Property and equipment, net	<u>7,070,012</u>	<u>6,809,495</u>
OTHER ASSETS:		
Pledges receivable, net of current portion	<u>135,000</u>	<u>155,138</u>
 TOTAL	 <u>\$ 8,474,950</u>	 <u>\$ 8,238,713</u>

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENTS OF FINANCIAL POSITION (continued)
June 30,

	2017	2016
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 138,517	\$ 80,367
Accrued expenses	49,182	53,654
Current maturities of long-term debt	45,880	44,080
Line of credit	-	-
Deferred support	50,942	25,862
Total current liabilities	<u>284,521</u>	<u>203,963</u>
LONG-TERM DEBT,		
less current maturities	<u>3,551,929</u>	<u>3,611,182</u>
NET ASSETS:		
Unrestricted		
Operating	3,673,239	3,872,457
Board designated - Endowment	213,400	100,000
	<u>3,886,639</u>	<u>3,972,457</u>
Temporarily	751,861	451,111
Total net assets	<u>4,638,500</u>	<u>4,423,568</u>
 TOTAL	 <u><u>\$ 8,474,950</u></u>	 <u><u>\$ 8,238,713</u></u>

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT & REVENUE:			
Grants, contracts and contributions:			
Government	\$ 236,145	\$ -	\$ 236,145
Foundation	273,000	320,000	593,000
Individual	973,070	204,450	1,177,520
Other	154,145	89,500	243,645
General income:			
Registration income	117,358	-	117,358
Fee for service	11,385	-	11,385
Interest and dividend income	2,746	-	2,746
Other income	3,487	-	3,487
Realized/Unrealized gain on marketable securities	10,885	-	10,885
Net assets released from restrictions	<u>313,200</u>	<u>(313,200)</u>	<u>-</u>
Total support and reclassifications	<u>2,095,421</u>	<u>300,750</u>	<u>2,396,171</u>
EXPENSES:			
Program services:			
Art	436,246	-	436,246
Dance	261,749	-	261,749
Drama	327,186	-	327,186
Music	610,747	-	610,747
Digital Arts/Writing	<u>174,500</u>	<u>-</u>	<u>174,500</u>
Subtotal Program Services	1,810,428	-	1,810,428
Supporting services:			
Management and general	109,062	-	109,062
Fundraising	<u>261,749</u>	<u>-</u>	<u>261,749</u>
Subtotal Supporting Services	<u>370,811</u>	<u>-</u>	<u>370,811</u>
Net expenses	<u>2,181,239</u>	<u>-</u>	<u>2,181,239</u>
Change in net assets	(85,818)	300,750	214,932
Net assets, July 1, 2016	<u>3,972,457</u>	<u>451,111</u>	<u>4,423,568</u>
Net assets, June 30, 2017	<u>\$ 3,886,639</u>	<u>\$ 751,861</u>	<u>\$ 4,638,500</u>

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT & REVENUE:			
Grants, contracts and contributions:			
Government	\$ 315,886	\$ -	\$ 315,886
Foundation	730,557	207,143	937,700
Individual	969,134	80,442	1,049,576
Other	101,415	-	101,415
General income:			
Registration income	95,941	-	95,941
Fee for service	18,420	-	18,420
Interest and dividend income	2,154	-	2,154
Other income	7,019	-	7,019
Realized/Unrealized loss on marketable securities	(1,068)	-	(1,068)
Net assets released from restrictions	<u>682,500</u>	<u>(682,500)</u>	<u>-</u>
Total support and reclassifications	<u>2,921,958</u>	<u>(394,915)</u>	<u>2,527,043</u>
EXPENSES:			
Program services:			
Art	374,262	-	374,262
Dance	291,093	-	291,093
Drama	270,302	-	270,302
Music	540,602	-	540,602
Digital Arts/Writing	<u>207,928</u>	<u>-</u>	<u>207,928</u>
Subtotal Program Services	1,684,187	-	1,684,187
Supporting services:			
Management and general	124,754	-	124,754
Fundraising	<u>270,301</u>	<u>-</u>	<u>270,301</u>
Subtotal Supporting Services	<u>395,055</u>	<u>-</u>	<u>395,055</u>
Net expenses	<u>2,079,242</u>	<u>-</u>	<u>2,079,242</u>
Change in net assets	842,716	(394,915)	447,801
Net assets, July 1, 2015	<u>3,129,741</u>	<u>846,026</u>	<u>3,975,767</u>
Net assets, June 30, 2016	<u>\$ 3,972,457</u>	<u>\$ 451,111</u>	<u>\$ 4,423,568</u>

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services						Supporting Services				
	Art	Dance	Drama	Music	Digital Arts/ Writing	Total Program Svcs	Mgmt & General	Fund- Raising	Total Support	Functional Expenses	
Salaries	\$ 172,687	\$ 103,613	\$ 129,516	\$ 241,763	\$ 69,075	\$ 716,654	\$ 43,172	\$ 103,613	\$ 146,785	\$ 863,439	
Professional fees	95,852	57,511	71,889	134,193	38,341	397,786	23,963	57,511	81,474	479,260	
Depreciation and amortization	39,353	23,611	29,514	55,093	15,741	163,312	9,838	23,611	33,449	196,761	
Event expense	20,457	12,273	15,342	28,638	8,182	84,892	5,114	12,273	17,387	102,279	
Employee benefits	17,297	10,379	12,973	24,217	6,919	71,785	4,324	10,379	14,703	86,488	
Interest	13,317	7,990	9,987	18,643	5,327	55,264	3,329	7,990	11,319	66,583	
Payroll taxes	13,144	7,887	9,858	18,402	5,258	54,549	3,286	7,887	11,173	65,722	
Occupancy expenses	12,299	7,380	9,225	17,219	4,920	51,043	3,075	7,380	10,455	61,498	
Repairs and maintenance	8,349	5,010	6,263	11,690	3,340	34,652	2,088	5,010	7,098	41,750	
Supplies	8,342	5,004	6,256	11,677	3,336	34,615	2,085	5,004	7,089	41,704	
Insurance	7,038	4,223	5,278	9,853	2,815	29,207	1,759	4,223	5,982	35,189	
Printing and publication	4,651	2,790	3,488	6,511	1,860	19,300	1,163	2,790	3,953	23,253	
Uncollectible pledges	3,716	2,230	2,787	5,203	1,487	15,423	929	2,230	3,159	18,582	
Bank charges	3,646	2,189	2,736	5,107	1,459	15,137	912	2,189	3,101	18,238	
Dues and subscriptions	2,998	1,798	2,248	4,196	1,199	12,439	749	1,798	2,547	14,986	
Office supplies and expense	2,226	1,336	1,670	3,117	891	9,240	557	1,336	1,893	11,133	
Staff development	2,167	1,300	1,625	3,034	867	8,993	542	1,300	1,842	10,835	
Telephone	1,567	940	1,175	2,194	627	6,503	392	940	1,332	7,835	
Parking and transportation	1,514	908	1,135	2,118	605	6,280	378	908	1,286	7,566	
Volunteer expenses	961	578	722	1,348	385	3,994	241	578	819	4,813	
Postage and delivery	902	540	676	1,261	360	3,739	225	540	765	4,504	
Miscellaneous	3,763	2,259	2,823	5,270	1,506	15,621	941	2,259	3,200	18,821	
Totals	\$ 436,246	\$ 261,749	\$ 327,186	\$ 610,747	\$ 174,500	\$ 1,810,428	\$ 109,062	\$ 261,749	\$ 370,811	\$ 2,181,239	

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services						Supporting Services			
	Art	Dance	Drama	Music	Digital Arts/ Writing	Total Program Svcs	Mgmt & General	Fund- Raising	Total Support	Functional Expenses
Salaries	\$ 153,664	\$ 119,516	\$ 110,979	\$ 221,958	\$ 85,369	\$ 691,486	\$ 51,221	\$ 110,979	\$ 162,200	\$ 853,686
Professional fees	84,009	65,340	60,673	121,347	46,672	378,041	28,003	60,673	88,676	466,717
Depreciation and amortization	43,090	33,514	31,121	62,241	23,939	193,905	14,363	31,121	45,484	239,389
Interest	12,850	9,994	9,281	18,561	7,139	57,825	4,283	9,281	13,564	71,389
Payroll taxes	11,641	9,054	8,408	16,816	6,467	52,386	3,880	8,408	12,288	64,674
Occupancy expenses	11,427	8,887	8,253	16,505	6,348	51,420	3,809	8,252	12,061	63,481
Event expense	11,141	8,665	8,046	16,092	6,189	50,133	3,714	8,046	11,760	61,893
Supplies	9,331	7,257	6,739	13,477	5,184	41,988	3,110	6,739	9,849	51,837
Repairs and maintenance	7,245	5,635	5,232	10,464	4,025	32,601	2,415	5,232	7,647	40,248
Employee benefits	6,147	4,782	4,440	8,881	3,416	27,666	2,049	4,441	6,490	34,156
Insurance	4,787	3,724	3,458	6,915	2,660	21,544	1,596	3,457	5,053	26,597
Printing and publication	3,517	2,735	2,540	5,080	1,954	15,826	1,172	2,540	3,712	19,538
Bank charges	3,445	2,679	2,488	4,975	1,914	15,501	1,148	2,488	3,636	19,137
Dues and subscriptions	2,582	2,009	1,865	3,730	1,435	11,621	861	1,865	2,726	14,347
Telephone	1,512	1,176	1,092	2,184	840	6,804	504	1,092	1,596	8,400
Office supplies and expense	1,020	794	737	1,474	567	4,592	340	737	1,077	5,669
Uncollectible pledges	949	739	686	1,371	528	4,273	317	685	1,002	5,275
Staff development	746	581	539	1,078	415	3,359	249	539	788	4,147
Volunteer expenses	719	559	519	1,040	400	3,237	240	519	759	3,996
Parking and transportation	659	512	476	952	366	2,965	220	475	695	3,660
Postage and delivery	417	325	301	603	232	1,878	139	302	441	2,319
Miscellaneous	3,364	2,616	2,429	4,858	1,869	15,136	1,121	2,430	3,551	18,687
Totals	\$ 374,262	\$ 291,093	\$ 270,302	\$ 540,602	\$ 207,928	\$ 1,684,187	\$ 124,754	\$ 270,301	\$ 395,055	\$ 2,079,242

The accompanying notes are an integral part of these statements.

Sitar Arts Center
STATEMENTS OF CASH FLOWS
For the Years ended June 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 214,932	\$ 447,801
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	196,760	182,524
Allowance for uncollectible pledges	5,322	(12,125)
Net (gain) loss on investments	(10,885)	1,068
Forgiveness of note payable	(20,000)	(20,000)
Non-cash contributions	(165,711)	(241,563)
Reinvested dividends	(2,425)	-
Decrease (increase) in operating assets:		
Grants, pledges and other receivable	(189,735)	487,685
Prepaid expenses	(3,997)	(7,160)
Increase (decrease) in operating liabilities:		
Accounts payable - trade	58,150	(17,179)
Accrued expenses	(4,472)	16,302
Deferred support	25,080	17,504
Net cash provided by operating activities	<u>103,019</u>	<u>854,857</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(451,781)	(1,441,175)
Purchase of investments	-	(101,139)
Proceeds from sale of investments	<u>185,053</u>	<u>254,199</u>
Net cash used by investing activities	<u>(266,728)</u>	<u>(1,288,115)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cost of loan acquisition	-	(13,434)
Proceeds from long term debt	-	575,000
Payment of long term debt	<u>(62,949)</u>	<u>(138,141)</u>
Net cash (used) provided by financing activities	<u>(62,949)</u>	<u>423,425</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(226,658)	(9,833)
Cash and cash equivalents, beginning of year	<u>759,758</u>	<u>769,591</u>
Cash and cash equivalents, end of year	<u>\$ 533,100</u>	<u>\$ 759,758</u>

The accompanying notes are an integral part of these statements.

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

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. Basis of Accounting

The Organization recognizes income on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

3. Basis of Presentation

The financial statements are presented in accordance with FASB Accounting Standard Codification (FASB ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The Organization had no permanently restricted net assets as of June 30, 2017 and 2016.

4. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated for financial statement purposes using the straight-line method based on the property's estimated life. Additions and improvements that add materially to productive capacity or extend the life of an asset are capitalized. Normal repairs and maintenance are charged against income. When facilities are retired or sold, their cost and accumulated depreciation are removed from the accounts and related gains or losses are included in income. In case of trade items, any remaining book value increases the basis of the new acquisitions.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donation asset to a specific purpose. The estimated lives used in determining depreciation are:

Musical instruments	5 years
Computers, furniture and equipment	5 - 7 years
Building and building improvements	10 - 40 years

6. Income Taxes

The Organization is a not-for-profit organization that is generally exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been classified as an organization that is not a private foundation under Section 590(a)(1). Income that is not related to exempt purposes, less applicable deductions, is subject to Federal and District of Columbia corporate income taxes. The Organization did not have any unrelated business income for the years ended June 30, 2017 and 2016.

7. Cash and Cash Equivalents

For purposes of the statements of financial position and cash flows, the Organization considers all unrestricted highly liquid investments, with an initial maturity of three months or less, to be considered cash.

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Contributed Services

The value of contributed legal, teaching, and other professional services meeting the requirements for recognition in the financial statements was recorded at the value of \$196,408 and \$184,057 for the years ended June 30, 2017 and 2016, respectively. Various volunteers provided other services to the Organization, but these services do not meet the criteria for recognition.

9. Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received as temporarily restricted but utilized in the same year are recorded as unrestricted contributions for financial statement presentation purposes.

10. Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

11. 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 functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Uncertain Tax Provisions

Accounting for uncertain income tax positions, relating to both federal and state income taxes, are required when a more likely than not threshold is attained. If such positions result in uncertainties, then the unrecognized tax liability is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. With the adoption of these new rules, the Organization assessed its tax positions in accordance with the guidance. The Organization has determined that its tax status as a DC non-profit corporation is its only tax position and is highly certain. Therefore, these new rules had no impact on the Organization's financial statements.

13. New Accounting Pronouncement

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03 related to *Simplifying the Presentation of Debt Issuance Costs*, as part of its simplification initiative. The ASU changes the presentation of debt issuance costs in the financial statements. Under the ASU, an entity presents such costs in the Statements of Financial Position as a direct deduction from the related debt liability, rather than as an asset. Amortization of the costs is reported as interest expense. The guidance in the ASU is effective for fiscal years beginning after December 15, 2015. During the year ended June 30, 2017, the Organization adopted the new ASU and applied it retrospectively.

14 Subsequent Events

Management has evaluated subsequent events through December 13, 2017, the date which the financial statements were available to be issued.

NOTE B – 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 contribution to the plan for the years ended June 30, 2017 and 2016 were \$14,741 and \$14,725, respectively.

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE C – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at the end of the year represent grants and contributions that have been received and designated as temporarily restricted by the grantor. As these funds are expended, the temporary restrictions expire and the temporarily restricted net assets are reclassified to unrestricted net assets on the statement of activities.

The breakdown by funds as of June 30, 2017 and 2016 is as follows:

	Balance <u>7/1/2016</u>	<u>Additions</u>	Net Assets <u>Released</u>	Balance <u>6/30/17</u>
Ballet Theatre	\$ 15,000	\$ -0-	\$ 15,000	\$ -0-
Instrumental Academy	20,000	12,500	20,000	12,500
Camp Sitar	15,000	61,385	15,000	61,385
Teen Initiative	10,000	-0-	10,000	-0-
ECA	6,000	-0-	6,000	-0-
Suite 102	125,500	110,000	5,500	230,000
Strategic Planning	11,143	-0-	11,143	-0-
Youth Services	13,276	-0-	-0-	13,276
Video to DVD project	250	-0-	-0-	250
Operating for the following yr	<u>234,942</u>	<u>430,065</u>	<u>230,557</u>	<u>434,450</u>
	<u>\$451,111</u>	<u>\$613,950</u>	<u>\$313,200</u>	<u>\$751,861</u>

	Balance <u>7/1/2015</u>	<u>Additions</u>	Net Assets <u>Released</u>	Balance <u>6/30/16</u>
Ballet Theatre	\$ -0-	\$ 15,000	\$ -0-	\$ 15,000
Instrumental Academy	-0-	20,000	-0-	20,000
Camp Sitar	-0-	15,000	-0-	15,000
Capital	145,000	-0-	145,000	-0-
Teen Initiative	-0-	10,000	-0-	10,000
ECA	-0-	6,000	-0-	6,000
Suite 102	-0-	125,500	-0-	125,500
Strategic Planning	-0-	11,143	-0-	11,143
Youth Services	13,276	-0-	-0-	13,276
Video to DVD project	250	-0-	-0-	250
Operating for the following yr	<u>687,500</u>	<u>84,942</u>	<u>537,500</u>	<u>234,942</u>
	<u>\$846,026</u>	<u>\$287,585</u>	<u>\$682,500</u>	<u>\$451,111</u>

Sitar Arts Center
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE D – CASH & CASH EQUIVALENTS

Concentration of Risk - Cash

The Organization maintains its cash in bank accounts that, at times, may exceed federally insured limits. The aggregate of all uninsured balances at June 30, 2017 was \$24,857. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss on cash and cash equivalents.

The Organization maintains an account with a brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Security Investor Protection Corporation. The brokerage firm maintains additional insurance to cover any significant credit risk on cash and cash equivalents. The Organization has not experienced any losses in such account. The Organization believes that it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE E – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are as follows:

	<u>2017</u>	<u>2016</u>
Individuals and Organizations	\$662,419	\$351,717
Foundations	<u>70,000</u>	<u>190,967</u>
Total unconditional promises to give	732,419	542,684
Less: Allowance for uncollectible promises	<u>17,349</u>	<u>12,027</u>
Net unconditional promises to give	<u>\$ 715,070</u>	<u>\$ 530,657</u>
Receivables due in less than one year	\$580,070	\$ 375,519
Receivables due in one to two years	50,000	123,279
Receivables due in two to three years	35,000	31,859
Receivables due in three to four years	30,000	-0-
Receivables due in four to five years	<u>20,000</u>	<u>-0-</u>
Net unconditional promises to give	<u>\$715,070</u>	<u>\$ 530,657</u>

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June 30, 2017 and 2016

NOTE F – INVESTMENT IN SECURITIES

The Organization classifies investment in securities as available-for-sale securities. All securities are carried at their fair market values in the statement of financial position. Unrealized gains and losses are included in the accompanying statement of activities. As of June 30, 2017 and 2016, detail of the unrealized gains and losses for available-for-sale securities was as follows:

	<u>2017</u>	<u>2016</u>
Amortized cost	\$101,532	\$101,108
Gross unrealized gain	<u>12,076</u>	<u>1,298</u>
Fair market value	<u>\$113,608</u>	<u>\$102,406</u>

NOTE G – NOTES PAYABLE

On January 16, 2004, the Organization entered into a demand loan. This note is unsecured and payable on June 30, 2016. Interest at 3.5% per annum will be paid quarterly on the outstanding balance. The balance of the note at June 30, 2015 was \$100,000. This note was forgiven and converted as a contribution to the Organization on September 29, 2015.

On April 7, 2006, the Organization purchased the condominium unit #101 at 1700 Kalorama Road, NW, Washington DC. To finance this purchase, the Organization entered into two loan agreements. The first loan was with M & T Bank in the amount of \$2,500,000 at a fixed rate of 6.76%. This loan was refinanced on June 10, 2011 in the amount of \$2,230,000 at a variable rate of one-month LIBOR plus 3.5%, adjusted monthly. The loan is secured by its property with monthly principal payment of \$4,212 plus interest, due on June 2, 2014. The interest rate as of June 30, 2014 was 3.6515%. In addition, on June 10, 2011, the Organization entered into an interest rate swap agreement for an amount equal to the remaining principal balance on the loan. This swap agreement exchanged the variable rate for a fixed rate of 4.6% resulting in monthly principal and interest payments of \$12,900.

On October 30, 2014, the Organization refinanced its mortgage with Capital One, NA in the amount of \$1,185,000. The mortgage is secured by its property, monthly principal and interest payments of \$6,387, interest is calculated at the rate of 4.125% per annum and is due on November 14 2024. The balance of this mortgage as of June 30, 2017 and 2016 was \$1,115,551 and \$1,145,009, respectively.

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June 30, 2017 and 2016

NOTE G – NOTES PAYABLE (continued)

The second loan the Organization entered into due to the purchase of the property was \$1,800,000 from the DC Department of Housing and Community Development. This loan is secured by the property, and is due in thirty years without interest. Beginning with the year 2017, at each anniversary date of this loan, \$90,000 of the principle balance will be forgiven as long as the note is not in default. This note is subordinated under the loan with Capital One Bank. The note balance as of June 30, 2017 and 2016 was \$1,800,000.

On June 20, 2005, the Organization entered into a loan through the D.C. Department of Housing and Community Development. This note is payable on or before June 20, 2025. The note bears a 0% interest rate. Beginning June 20, 2006, at each anniversary date of this loan, \$20,000 of the principle balance will be forgiven as long as the note is not in default. The balance of the note at June 30, 2017 and 2016 was \$160,000 and \$180,000, respectively.

On August 28, 2015, the Organization purchased unit #102 at 1700 Kalorama Road, NW, Washington DC for the amount of \$1,300,000. Sitar Arts Center purchased this suite in response to the community need for high quality creative youth development programs. To purchase this property, the Organization borrowed from two financial institutions \$561,258. The first position loan amounted to \$460,000, interest paid monthly at the rate of 4.125% per annum, secured by the property and due on August 28, 2020. The second position note, secured by the property amounted to \$115,000. Principal and interest is due monthly, payable at the rate of 4% per annum on a 25 year amortization and is due of August 28, 2020. The balance of each loan as of June 30, 2017 was \$440,915 and \$110,578 and as of June 30, 2016 was \$451,942 and \$113,042, respectively.

The future maturities of the notes are as follows:

For the year ended June 30, 2018	\$ 45,880
June 30, 2019	47,806
June 30, 2020	49,811
June 30, 2021	540,945
June 30, 2022	
and thereafter	<u>2,942,602</u>
	<u>\$ 3,627,044</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE G – NOTES PAYABLE (continued)

As of June 30, 2017 and 2016, respectively, the Organization's notes payable were as follows on the Statement of Financial Position:

	<u>2017</u>	<u>2016</u>
Notes Payable	\$ 3,627,044	\$ 3,689,993
Less: Loan acquisition costs, net of accumulated amortization of \$10,545 and \$5,049 for 2017 and 2016, respectively	<u>(29,235)</u>	<u>(34,731)</u>
Notes Payable, net	<u>\$ 3,597,809</u>	<u>\$ 3,655,262</u>

NOTE H - LINE OF CREDIT

The Organization has a bank line of credit available totaling \$150,000, 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. The balances on this line of credit as of June 30, 2017 and 2016 were \$ -0-.

NOTE I – SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In accordance with FASB ASC 230-10-45-29; 230-10-50-2, formerly SFAS No. 95, paragraph 29, a statement of cash flows is presented for the years ended June 30, 2017 and 2016, respectively. Certain information, which Statement No. 95 requires to be disclosed, is as follows:

	2017	2016
Cash paid for the following:		
Interest	\$ 70,702	\$67,400
Income taxes	\$0	\$0

NOTE J – RECLASSIFICATIONS

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation.