

**THE SILK ROAD PROJECT, INC.**

**Financial Statements**

**June 30, 2015 and 2014**

# THE SILK ROAD PROJECT, INC.

June 30, 2015 and 2014

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## **Independent Auditor's Report**

To the Board of Directors  
The Silk Road Project, Inc.  
Allston, Massachusetts

We have audited the accompanying financial statements of The Silk Road Project, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 Silk Road Project, Inc. as of June 30, 2015, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The financial statements of The Silk Road Project, Inc. as of June 30, 2014 and for the year then ended, were audited by other auditors whose report dated April 10, 2015, expressed an unmodified opinion on those statements.

*Edelstein & Company LLP*

Boston, Massachusetts  
February 1, 2016

# THE SILK ROAD PROJECT, INC.

## Statements of Financial Position June 30,

	2015	2014
<b>Assets:</b>		
Cash	\$ 106,255	\$ 344,513
Grants and contributions receivable, net	1,441,963	50,000
Other receivables	5,000	-
Prepaid expenses and other current assets	43,290	13,663
Equipment and improvements, net	9,750	35,395
Film costs	1,298,533	565,845
Website development costs, net	61,600	92,400
<b>Total Assets</b>	<u><u>\$ 2,966,391</u></u>	<u><u>\$ 1,101,816</u></u>
<b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 393,418	\$ 153,337
Film production loan	465,733	-
<b>Total liabilities</b>	<u>859,151</u>	<u>153,337</u>
<b>Net assets:</b>		
Unrestricted	402,477	727,508
Temporarily restricted	1,704,763	220,971
<b>Total net assets</b>	<u>2,107,240</u>	<u>948,479</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 2,966,391</u></u>	<u><u>\$ 1,101,816</u></u>

**THE SILK ROAD PROJECT, INC.**

**Statements of Activities and Changes in Net Assets  
For the Years Ended June 30,**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and support:</b>						
Performance fees	\$ 2,640,882	\$ -	\$ 2,640,882	\$ 497,500	\$ -	\$ 497,500
Program income	90,703	-	90,703	-	-	-
Grants and contributions	455,475	2,716,847	3,172,322	2,285,562	213,384	2,498,946
Other income	9,794	-	9,794	9,222	-	9,222
Interest income	395	-	395	1,317	-	1,317
Net assets released from restrictions	1,233,055	(1,233,055)	-	117,413	(117,413)	-
<b>Total revenue and support</b>	<b>4,430,304</b>	<b>1,483,792</b>	<b>5,914,096</b>	<b>2,911,014</b>	<b>95,971</b>	<b>3,006,985</b>
<b>Expenses:</b>						
Program services	3,583,416	-	3,583,416	1,438,991	-	1,438,991
General and administrative	694,131	-	694,131	647,788	-	647,788
Fundraising	477,788	-	477,788	516,537	-	516,537
<b>Total expenses</b>	<b>4,755,335</b>	<b>-</b>	<b>4,755,335</b>	<b>2,603,316</b>	<b>-</b>	<b>2,603,316</b>
<b>Change in net assets</b>	<b>(325,031)</b>	<b>1,483,792</b>	<b>1,158,761</b>	<b>307,698</b>	<b>95,971</b>	<b>403,669</b>
<b>Net assets, beginning of year</b>	<b>727,508</b>	<b>220,971</b>	<b>948,479</b>	<b>419,810</b>	<b>125,000</b>	<b>544,810</b>
<b>Net assets, end of year</b>	<b>\$ 402,477</b>	<b>\$ 1,704,763</b>	<b>\$ 2,107,240</b>	<b>\$ 727,508</b>	<b>\$ 220,971</b>	<b>\$ 948,479</b>

The accompanying notes are an integral part of these financial statements.

# THE SILK ROAD PROJECT, INC.

## Statements of Cash Flows

For the Years Ended June 30,

2015

2014

### Cash flows provided by operating activities:

Change in net assets	\$ 1,158,761	\$ 403,669
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	58,010	28,398
Changes in operating assets and liabilities:		
Grants and contributions receivable	(1,391,963)	450,000
Other receivables	(5,000)	-
Prepaid expenses and other current assets	(29,627)	(1,933)
Accounts payable and accrued expenses	240,081	(12,337)
<b>Net cash provided by operating activities</b>	<u>30,262</u>	<u>867,797</u>

### Cash flows used in investing activities:

Film costs incurred	(732,688)	(565,845)
Purchases of equipment and improvements	(1,565)	(8,204)
Website development costs incurred	-	(38,900)
<b>Net cash used in investing activities</b>	<u>(734,253)</u>	<u>(612,949)</u>

### Cash flows provided by financing activities:

Loan received for film production	<u>465,733</u>	<u>-</u>
<b>Net (decrease) increase in cash</b>	(238,258)	254,848
<b>Cash, beginning of year</b>	<u>344,513</u>	<u>89,665</u>
<b>Cash, end of year</b>	<u>\$ 106,255</u>	<u>\$ 344,513</u>

**THE SILK ROAD PROJECT, INC.**

**Statements of Functional Expenses  
For the Years Ended June 30,**

	2015				2014			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Compensation and related expenses:								
Salaries	\$ 371,441	\$ 276,128	\$ 310,215	\$ 957,784	\$ 368,446	\$ 259,166	\$ 298,996	\$ 926,608
Payroll taxes and employee benefits	147,752	97,975	99,890	345,617	125,431	88,230	101,790	315,451
Total compensation and related expenses	519,193	374,103	410,105	1,303,401	493,877	347,396	400,786	1,242,059
Performer/Artist fees	1,870,384	-	-	1,870,384	413,901	-	-	413,901
Travel	375,006	8,658	28,030	411,694	170,655	9,803	56,594	237,052
Commissions on performances	358,283	-	-	358,283	74,625	-	-	74,625
Contract services	254,226	6,997	-	261,223	137,844	15,396	29,955	183,195
Professional fees	-	141,838	-	141,838	2,825	103,121	-	105,946
Meals and entertainment	99,598	-	7,210	106,808	64,481	-	3,212	67,693
Depreciation and amortization	-	58,010	-	58,010	-	28,398	-	28,398
Supplies	9,267	21,858	4,328	35,453	6,858	23,334	4,166	34,358
New performance works	34,590	-	-	34,590	6,300	-	-	6,300
Public relations and hospitality	6,933	504	21,454	28,891	4,090	-	20,480	24,570
Website	-	26,739	-	26,739	-	34,425	-	34,425
Miscellaneous	10,045	11,226	-	21,271	9,451	20,063	-	29,514
Publications/multi media	19,991	-	-	19,991	16,765	-	-	16,765
Equipment rental	17,674	-	-	17,674	4,736	-	-	4,736
Telephone	-	16,872	-	16,872	-	24,254	-	24,254
Occupancy	-	13,500	-	13,500	-	13,500	-	13,500
Insurance	-	11,759	-	11,759	-	23,827	-	23,827
Advertising	2,858	-	5,720	8,578	4,733	945	12	5,690
Media and contract services	5,368	-	-	5,368	27,850	-	-	27,850
Postage and delivery	-	2,067	-	2,067	-	3,326	-	3,326
Cultivation events	-	-	941	941	-	-	1,332	1,332
	<u>\$ 3,583,416</u>	<u>\$ 694,131</u>	<u>\$ 477,788</u>	<u>\$ 4,755,335</u>	<u>\$ 1,438,991</u>	<u>\$ 647,788</u>	<u>\$ 516,537</u>	<u>\$ 2,603,316</u>

The accompanying notes are an integral part of these financial statements.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 1. Organization and Purpose

The Silk Road Project, Inc. (The “Project”) is a developer of musical and multimedia projects for public educational purposes. The Project was incorporated as a Massachusetts not-for-profit corporation in November 1998, and commenced its operations in January 1999. One of the Project’s major programs is The Silk Road Ensemble. The Silk Road Ensemble is comprised of performers and composers from more than 20 countries, who co-create art, performance and ideas. Through performances and the creation of new music, cultural partnerships, education programs, and cross-disciplinary collaborations, the Project seeks to create meaningful change at the intersection of the arts, education, and business.

The Project is also producing a documentary film based on the The Silk Road Ensemble, and it has secured grants and loans to fund the development of the film.

The Project’s primary sources of revenue and support are from performance fees and grants and contributions.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

In order to ensure the observance of limitations and restrictions placed on the use of resources available to The Silk Road Project, Inc., the Project determines the classification of its net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Project and changes therein are classified as follows:

- 1) *Unrestricted net assets* represent expendable resources that are available for support of the Project’s general operations.
- 2) *Temporarily restricted net assets* represent resources restricted by donors for a specific period or purpose.
- 3) *Permanently restricted net assets* represent resources which cannot be expended. Income on these invested endowment funds are utilized in accordance with donors’ stipulations.

The Project had no permanently restricted net assets as of June 30, 2015 or 2014, or during the years then ended.

#### *Revenue and Support*

Contributions and pledges, which include grants, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are classified as temporarily restricted support are reclassified to unrestricted net assets upon satisfaction of the purpose restriction or expiration of the time restriction.

Performance fees are recognized on the date of the related performances.

Program income consists of revenue from education programs which is recognized on the date that the programs take place.



# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *Revenue and Support (continued)*

The Project receives contributions of time by volunteers, including Board members. These contributions do not meet the criteria for recognition of in-kind support, and therefore they have not been reflected in the financial statements.

#### *Cash*

Cash consists of deposits held in checking and savings accounts at federally insured banks.

#### *Equipment and Improvements*

Equipment and improvements are recorded at cost, if purchased, or at fair value at the time of receipt, if donated. Expenditures for maintenance, repairs, and renewals are charged to expense when incurred, whereas additions in excess of \$1,000 are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to five years.

#### *Film Costs*

Film costs include production costs associated with the production of a documentary film. Amortization of capitalized production costs will be provided for using the straight-line method over the estimated useful life of the film, which approximates the individual film-forecast method based on the ratio of current period actual revenues to the estimated remaining total revenues. The Project reviews, and revises when necessary, its total revenue estimates from the film, which may result in a change in the rate of amortization and/or a write down of the film costs to fair value. For the years ended June 30, 2015 and 2014, the Project incurred no amortization expense, as the film was still in the production phase and had yet to be released.

#### *Website Development Costs*

Website development costs consist of costs incurred in connection with the development of the Project's website which are being amortized on a straight-line basis over three years.

#### *Advertising*

The Project expenses advertising costs as incurred.

#### *Functional Allocation of Expenses*

The costs of providing programs and other activities have been detailed in the statement of functional expenses and summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (continued)

#### *Use of Estimates and Subsequent Events*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Project's estimate of the recoverability of film costs require significant estimates. It is at least reasonably possible that management's estimates will change in the near term.

The Project's management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on February 1, 2016, the date these financial statements became available to be issued. No events have occurred subsequent to the statement of financial position date and through the date of evaluation that meet the criteria required for disclosure or accrual.

#### *Income Taxes*

The Project is a publicly supported tax-exempt organization pursuant to Section 501 (c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal income taxes. The Project is also exempt from Massachusetts income tax under Massachusetts General Law Chapter 180. Returns for tax years beginning with those filed for the year ended June 30, 2012 are open to examination.

#### *Reclassifications*

Certain amounts from 2014 have been reclassified on these financial statements in order to conform to 2015 presentation.

### 3. Grants and Contributions Receivable

Grants and contributions receivable consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 650,000	\$ 50,000
Receivable in one to five years	850,000	-
	<u>1,500,000</u>	<u>50,000</u>
Less - discount to net present value	(58,037)	-
	<u>\$ 1,441,963</u>	<u>\$ 50,000</u>

Grants and contributions receivable are reported at their net realizable value based on the amount management expects to collect on outstanding balances. The present value of estimated future cash flows was determined using a discount rate of 3% for the year ended June 30, 2015.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 4. Equipment and Improvements

Equipment and improvements consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 51,253	\$ 69,736
Leasehold improvements	103,915	103,915
	<u>155,168</u>	<u>173,651</u>
Less - accumulated depreciation	(145,418)	(138,256)
	<u>\$ 9,750</u>	<u>\$ 35,395</u>

Depreciation expense for the years ended June 30, 2015 and 2014 amounted to \$27,210 and \$28,398, respectively. During the year ended June 30, 2015, the Project cycled off fully depreciated furniture and equipment having an original cost of \$20,048, that are no longer in use or have been disposed.

### 5. Film Costs

The Project entered into an agreement with a film production company to create a documentary about the Silk Road Ensemble. Under the terms of the agreement, the Project advances all direct costs of production of the Film to the film production company in accordance with the approved budget. The originally approved budget for the Film was increased to \$1,650,000 from \$1,325,000 during 2015. As of June 30, 2015 and 2014, the Project had capitalized \$1,298,533 and \$565,845, respectively, of production costs which are included in the statement of financial position as film costs. The Project's maximum remaining obligation under the agreement as of June 30, 2015 was \$351,467.

### 6. Website Development Costs

Website development costs consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Website development costs	\$ 92,400	\$ 92,400
Less - accumulated amortization	(30,800)	-
	<u>\$ 61,600</u>	<u>\$ 92,400</u>

Amortization of the website development costs will amount to \$30,800 for each of the years ending June 30, 2016 and 2017.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 7. Film Production Loan

In September 2014, the Project entered into a co-financing and marketing agreement with a media company in exchange for a variable return based on the revenues earned from worldwide gross proceeds. The maximum loan amount is \$575,000, and during the year ended June 30, 2015, proceeds of \$465,733 were received from the media company. Repayments on the loan will be made as provided by the agreement's waterfall arrangement, which stipulates the benchmarks by which the media company's loan will be paid. Since the financing agreement does not provide for the sale of an undivided ownership interest in the film's copyright, the funds received have not been reported net of the film costs.

### 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Cultural Entrepreneurship	\$ 213,384	\$ 163,384
New compositions for the Silk Road Ensemble working title "Rivers"	49,416	57,587
Education - Passion Driven Learning	200,000	-
Time restrictions	1,241,963	-
	<u>\$ 1,704,763</u>	<u>\$ 220,971</u>

Net assets released from restrictions for the years ended June 30, 2015 and 2014 were comprised of payments for the following:

	<u>2015</u>	<u>2014</u>
Silk Road Connect program	\$ 50,000	\$ 75,000
New compositions for the Silk Road Ensemble working title "Rivers"	8,171	42,413
Performances	345,000	-
Film production	829,884	-
	<u>\$ 1,233,055</u>	<u>\$ 117,413</u>

### 9. Related Party Transactions

Included in performer/artist fees for the years ended June 30, 2015 and 2014 was \$1,042,000 and \$140,000, respectively which was paid to a company owned by two of the Project's directors for performance fees earned by one of the Project's Directors.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 10. Collaborative Agreement

In accordance with a collaborative agreement between the Project and Harvard University (“Harvard”), which expires on June 30, 2020, the Project’s employees are employees of Harvard. The Project reimburses Harvard for salaries plus an agreed upon percentage for payroll taxes and benefits. In addition, the Project provides certain educational programs and performances for Harvard, as stipulated in the collaborative agreement. During the years ended June 30, 2015 and 2014, the Project reimbursed Harvard \$1,338,070 and \$1,242,059, respectively. For purposes of the presentation in the statement of functional expenses, the reimbursements to Harvard have been classified into their natural categories.

### 11. Employee Benefit Plans

The Project's employees are eligible to participate in the Harvard University Tax Deferred Annuity (“TDA”) Plan. Employees are eligible to participate immediately upon hire and can make voluntary contributions to the plan up to the Internal Revenue Code limit. The Project does not make contributions to this plan.

The Project's employees are also eligible to participate in the Harvard University 2001 Staff Retirement Program after six months of employment and if they work at least half time. The Project's contributions are vested three years after the date of employment. The Project made contributions to the plan of \$91,636 and \$86,437 for the years ended June 30, 2015 and 2014, respectively.

### 12. Concentrations

Approximately 20% and 35% of revenue for the years ended June 30, 2015 and 2014, respectively, was received from one donor. Approximately 67% of grants and contributions receivable at June 30, 2015 was due from one donor.

The Project has a potential concentration of credit risk in that, from time to time, it maintains deposits with financial institutions in excess of amounts insured by Federal Deposit Insurance Corporation (“FDIC”). The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution for each account ownership category.

### 13. Lease Commitment

The Project was committed through June 2015 under a lease for office space with Harvard University. Rent expense amounted to \$13,500 for each of the years ended June 30, 2015 and 2014. The Project continues to lease the office space as a tenant-at-will.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

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### 14. Contingencies

The Project was awarded a \$400,000 grant and additional matching funds of \$100,000 from the National Endowment for the Humanities (“NEH”) to support the production of the film. The grant agreement includes a contingency provision which requires the Project to return funding to NEH if all income earned from the film during the grant period and for seven years following the grant completion date exceeds \$50,000. Any amounts due to NEH will be paid out of the Project’s share of the worldwide gross proceeds derived from the distribution, exhibition and exploitation of the film. The formula by which the Project will pay back NEH is based on a percentage of NEH’s proportional funding for the film. No liability has been recorded at June 30, 2015 as the amount cannot be reasonably estimated.

The Project engaged a law firm to handle certain legal matters associated with the Film and has incurred approximately \$51,000 in legal fees through June 30, 2015. Under the terms of the agreement, if the documentary is not profitable, the Project will not be liable for a portion of the legal fees. The legal fees incurred are included in accounts payable as of June 30, 2015.

In addition, the production company is eligible to receive a percentage of the net proceeds after all other obligations associated with the film are met.