

**THE SILK ROAD PROJECT, INC.**

**Financial Statements**

**June 30, 2018 and 2017**

**THE SILK ROAD PROJECT, INC.**

**June 30, 2018 and 2017**

---

**CONTENTS**

Independent Auditor’s Report.....	1
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Cash Flows.....	4
Statements of Functional Expenses.....	5
Notes to Financial Statements.....	6

## **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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Edelstein & Company LLP*

Boston, Massachusetts  
April 23, 2019

# THE SILK ROAD PROJECT, INC.

## Statements of Financial Position June 30,

	2018	2017
<b>Assets:</b>		
Cash	\$ 1,286,449	\$ 734,298
Grants and contributions receivable, net	1,362,147	1,842,070
Other receivables	230,071	44,581
Prepaid expenses and other current assets	156,564	68,530
Inventory	4,339	-
Equipment and improvements, net	6,328	7,764
<b>Total assets</b>	<u>\$ 3,045,898</u>	<u>\$ 2,697,243</u>
<b>Liabilities and net assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 450,804	\$ 359,425
Deferred revenue	200,000	-
<b>Total liabilities</b>	<u>650,804</u>	<u>359,425</u>
<b>Net assets:</b>		
Unrestricted:		
Undesignated	437,803	(224,567)
Board designated	125,641	125,641
Total unrestricted	<u>563,444</u>	<u>(98,926)</u>
Temporarily restricted	1,831,650	2,436,744
<b>Total net assets</b>	<u>2,395,094</u>	<u>2,337,818</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,045,898</u>	<u>\$ 2,697,243</u>

**THE SILK ROAD PROJECT, INC.**

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

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenue and other support:</b>						
Performance fees	\$ 1,639,908	\$ -	\$ 1,639,908	\$ 2,629,588	\$ -	\$ 2,629,588
Program income	265,514	-	265,514	176,737	-	176,737
Film revenue	-	-	-	624,478	-	624,478
Grants and contributions	1,131,595	359,666	1,491,261	994,126	1,099,612	2,093,738
Merchandise sales	11,233	-	11,233	-	-	-
Other income	36,885	-	36,885	28,934	-	28,934
Interest income	313	-	313	154	-	154
Net assets released from restrictions	964,760	(964,760)	-	1,023,952	(1,023,952)	-
<b>Total revenue and other support</b>	<b>4,050,208</b>	<b>(605,094)</b>	<b>3,445,114</b>	<b>5,477,969</b>	<b>75,660</b>	<b>5,553,629</b>
<b>Expenses and losses:</b>						
Expenses:						
Program services	2,611,889	-	2,611,889	3,631,969	-	3,631,969
General and administrative	471,250	-	471,250	904,864	-	904,864
Fundraising	304,130	-	304,130	440,343	-	440,343
Total expenses	3,387,269	-	3,387,269	4,977,176	-	4,977,176
Loss on impairment of film costs	-	-	-	1,096,082	-	1,096,082
Loss on sales and disposals of equipment	569	-	569	-	-	-
<b>Total expenses and losses</b>	<b>3,387,838</b>	<b>-</b>	<b>3,387,838</b>	<b>6,073,258</b>	<b>-</b>	<b>6,073,258</b>
<b>Change in net assets</b>	<b>662,370</b>	<b>(605,094)</b>	<b>57,276</b>	<b>(595,289)</b>	<b>75,660</b>	<b>(519,629)</b>
<b>Net assets, beginning of year</b>	<b>(98,926)</b>	<b>2,436,744</b>	<b>2,337,818</b>	<b>496,363</b>	<b>2,361,084</b>	<b>2,857,447</b>
<b>Net assets, end of year</b>	<b>\$ 563,444</b>	<b>\$ 1,831,650</b>	<b>\$ 2,395,094</b>	<b>\$ (98,926)</b>	<b>\$ 2,436,744</b>	<b>\$ 2,337,818</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,

2018

2017

### Cash flows from operating activities:

Change in net assets	\$ 57,276	\$ (519,629)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,524	36,089
Loss on impairment of film costs	-	1,096,082
Loss on sales and disposals of equipment	569	-
Bad debt expense	8,000	381,574
Changes in operating assets and liabilities:		
Grants and contributions receivable, net	479,923	(141,409)
Other receivables	(193,490)	30,914
Prepaid expenses and other current assets	(88,034)	9,266
Inventory	(4,339)	-
Accounts payable and accrued expenses	91,379	(212,606)
Deferred revenue	200,000	(49,700)
<b>Net cash provided by operating activities</b>	<u>556,808</u>	<u>630,581</u>

### Cash flows from investing activities:

Proceeds from sales of equipment	2,056	-
Purchases of equipment	(6,713)	(4,418)
<b>Net cash used in investing activities</b>	<u>(4,657)</u>	<u>(4,418)</u>

### Cash flows from financing activities:

Payments on film production loan	-	(120,079)
<b>Net cash used in financing activities</b>	<u>-</u>	<u>(120,079)</u>

<b>Net increase in cash</b>	552,151	506,084
<b>Cash, beginning of year</b>	<u>734,298</u>	<u>228,214</u>
<b>Cash, end of year</b>	<u>\$ 1,286,449</u>	<u>\$ 734,298</u>

**THE SILK ROAD PROJECT, INC.**

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

	2018				2017			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Compensation and related expenses:								
Salaries	\$ 270,536	\$ 182,221	\$ 149,467	\$ 602,224	\$ 396,564	\$ 227,102	\$ 281,913	\$ 905,579
Payroll taxes and employee benefits	104,045	54,789	45,021	203,855	112,444	62,198	57,407	232,049
Total compensation and related expenses	374,581	237,010	194,488	806,079	509,008	289,300	339,320	1,137,628
Performer/Artist fees	1,112,150	-	-	1,112,150	1,600,673	-	-	1,600,673
Travel	280,055	20,853	43,131	344,039	415,125	12,628	40,883	468,636
Contract services	231,463	15,624	38,614	285,701	496,098	18,938	26,395	541,431
Commissions on performances	191,075	-	-	191,075	354,450	-	-	354,450
Publications/multimedia	132,558	-	-	132,558	29,884	-	-	29,884
Meals and entertainment	96,538	-	1,442	97,980	96,621	-	1,424	98,045
Equipment rental	65,620	-	-	65,620	82,465	-	-	82,465
New performance works	64,750	-	-	64,750	9,400	-	-	9,400
Media and contract services	22,803	17,102	17,102	57,007	17,963	-	-	17,963
Professional fees	-	51,651	-	51,651	-	51,935	-	51,935
Miscellaneous	16,426	25,400	-	41,826	8,615	29,962	-	38,577
Supplies	4,231	17,248	4,014	25,493	7,384	13,544	11,518	32,446
Website	-	19,210	-	19,210	-	22,504	-	22,504
Insurance	-	19,088	-	19,088	-	18,600	-	18,600
Inventory purchases	13,982	-	-	13,982	-	-	-	-
Occupancy	-	13,500	-	13,500	-	13,500	-	13,500
Telephone	-	10,217	-	10,217	-	11,904	-	11,904
Advertising	2,780	4,979	1,250	9,009	3,078	590	3,600	7,268
Bad debt expense	-	8,000	-	8,000	-	381,574	-	381,574
Depreciation and amortization	-	5,524	-	5,524	-	36,089	-	36,089
Public relations and hospitality	401	961	4,089	5,451	1,205	567	17,203	18,975
Postage and delivery	-	4,883	-	4,883	-	3,229	-	3,229
Artist royalties	2,476	-	-	2,476	-	-	-	-
	<u>\$ 2,611,889</u>	<u>\$ 471,250</u>	<u>\$ 304,130</u>	<u>\$ 3,387,269</u>	<u>\$ 3,631,969</u>	<u>\$ 904,864</u>	<u>\$ 440,343</u>	<u>\$ 4,977,176</u>

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

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

### 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’s primary sources of revenue and support are from performance fees, 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, 2018 or 2017, 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. Any amounts received in advance of the program date are reported as deferred revenue.



# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

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

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

Film revenue consists of revenue earned through exhibition in theaters and licensing to a premium cable network. Revenue from film rentals by theaters is recognized as the film is exhibited. Revenue from the licensing of the film to a cable network is recognized when the film is available to license.

The Project uses an intermediary in executing transactions with third parties related to the film and distribution of revenue. The Project serves as a principal in these transactions as it has substantial risks and rewards of ownership in the film, and therefore, recognizes the film revenue on a gross basis. Commissions or other payments to third parties are recorded as expense.

Revenue from merchandise sales represents proceeds from sales of The Silk Road Ensemble recordings and T-shirts and is recognized at the time of sale.

The Project receives in-kind support in the form of contributed office space, which is recognized at fair value. Additionally, 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.

#### *Inventory*

Inventory consists of CD recordings and T-shirts and is stated at lower of cost or net realizable value. Cost is determined by the first-in, first out method.

#### *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.

#### *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

---

### 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 in the United States of America 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 management has evaluated the effect which subsequent events may have on these financial statements. Management's evaluation was completed on April 23, 2019, 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.

### 3. Grants and Contributions Receivable

Grants and contributions receivable, net consisted of the following at June 30, 2018 and 2017:

	2018	2017
Receivable in less than one year	\$ 1,051,750	\$ 802,850
Receivable in one to five years	320,000	1,080,000
	<u>1,371,750</u>	<u>1,882,850</u>
Less - discount to net present value	(9,603)	(40,780)
	<u>\$ 1,362,147</u>	<u>\$ 1,842,070</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 years ended June 30, 2018 and 2017.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

### 4. Equipment and Improvements

Equipment and improvements consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Equipment	\$ 31,412	\$ 55,261
Leasehold improvements	103,915	103,915
	<u>135,327</u>	<u>159,176</u>
Less - accumulated depreciation	<u>(128,999)</u>	<u>(151,412)</u>
	<u>\$ 6,328</u>	<u>\$ 7,764</u>

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to \$5,524 and \$5,289, respectively. Leasehold improvements were fully amortized in a prior year.

### 5. Impairment Loss

In a prior year, the Project entered into an agreement with a film production company to create a documentary about the Silk Road Ensemble. During the year ended June 30, 2017, the Project recognized an impairment loss of \$1,096,082 on the film production costs as management estimated that there would be no further revenue earned from the film.

### 6. Line of Credit

The Project has a line of credit with its bank permitting advances of up to \$250,000. Advances bear interest at the prime rate plus 1.5%, with a minimum rate of 5%. The line of credit is secured by all assets of the Project. There were no outstanding balances on the line of credit at June 30, 2018 and 2017, or during the years then ended. Under the terms of the agreement, the Project is subject to certain restrictive covenants. The Project was in compliance with all covenant requirements at June 30, 2018.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

### 7. Net Assets

Board designated net assets at June 30, 2018 and 2017 consisted of \$125,641, designated for future initiatives.

Temporarily restricted net assets were available for the following purposes or periods at June 30, 2018 and 2017:

	2018	2017
Cultural Entrepreneurship	\$ 272,945	\$ 372,945
Increase capacity for fundraising	541,558	814,113
Commission for new works	20,000	-
Lame Deer Residency	-	63,578
Education and refugee programs	-	33,672
Time restrictions	997,147	1,152,436
	<u>\$ 1,831,650</u>	<u>\$ 2,436,744</u>

Net assets released from restrictions for the years ended June 30, 2018 and 2017 were comprised of the following:

	2018	2017
Performances	\$ 40,000	\$ 65,000
Cultural Entrepreneurship	100,000	47,405
Increase capacity for fundraising	282,021	76,421
Lame Deer Residency	63,578	15,522
Education and refugee programs	33,672	23,828
Heroes program	10,000	-
Global musician workshop	5,200	6,265
Rice University residency	25,000	8,256
Expiration of time restrictions	405,289	781,255
	<u>\$ 964,760</u>	<u>\$ 1,023,952</u>

### 8. Related Party Transactions

Included in performer/artist fees for the year ended June 30, 2017 was \$685,000, 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. In addition, an employee and former consultant of this company are members of the Project's Board of Directors.

During the year ended June 30, 2017, the Project entered into an agreement with the same company which provides for a Project employee to perform certain services to the company one day each week, in exchange for which the company will pay the Project \$18,973 a year. The agreement commenced on June 1, 2017 and was effective through October 31, 2018. During the years ended June 30, 2018 and 2017, \$6,324 and \$1,581, respectively, was included in other income on the statement of activities and changes in net assets for amounts earned under the terms of this agreement. At June 30, 2017, \$1,581 was receivable under the terms of this agreement, and was included in other receivables on the statement of financial position.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

### 9. Collaborative Agreement

The Project has a collaborative agreement with Harvard University (“Harvard”) which expires on June 30, 2020. Under the terms of the agreement, 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, 2018 and 2017, the Project reimbursed Harvard \$787,743 and \$1,138,047, respectively. For purposes of the presentation in the statement of functional expenses, the reimbursements to Harvard have been classified into their natural categories.

### 10. 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 \$45,162 and \$69,941 for the years ended June 30, 2018 and 2017, respectively.

### 11. Concentrations

Approximately 15% and 18% of revenue for the years ended June 30, 2018 and 2017, respectively, was received from one donor. Approximately 95% of grants and contributions receivable at June 30, 2018 was due from five donors, two of whom are members of the Board of Directors and approximately 93% of grants and contributions receivable at June 30, 2017 was due from four donors, two of whom are members of the Board of Directors.

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. The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured depository institution for each account ownership category.

### 12. Lease

The Project leases office space from Harvard University as a tenant-at-will. In October 2017, Harvard began donating the office space. As a result, the Project recorded in-kind rent for the year ended June 30, 2018 in the amount of \$10,125. Rent expense amounted to \$13,500 for each of the years ended June 30, 2018 and 2017.

# THE SILK ROAD PROJECT, INC.

## Notes to Financial Statements

---

### 13. 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 a 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. At June 30, 2018 and 2017, the Project has a liability of \$157,848 and \$131,489, respectively, payable under this formula for the first two reporting periods, which is included in accounts payable on the statement of financial position.

In addition, the production company is eligible to receive 33.33% of the domestic net proceeds after all other obligations associated with the film are met, including all advances, marketing and distribution expenses.