

THE SILK ROAD PROJECT, INC.

Financial Statements

June 30, 2021 and 2020

THE SILK ROAD PROJECT, INC.

June 30, 2021 and 2020

CONTENTS

Independent Auditor's Report.....	1
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Cash Flows.....	5
Statements of Functional Expenses.....	6
Notes to Financial Statements.....	7

Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Silk Road Project, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Silk Road Project, Inc. as of June 30, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Silk Road Project, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Silk Road Project, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Silk Road Project, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Silk Road Project, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Edelstein & Company LLP

Boston, Massachusetts
December 14, 2021

THE SILK ROAD PROJECT, INC.

Statements of Financial Position June 30,

	2021	2020
Assets:		
Cash	\$ 2,079,402	\$ 748,329
Grants and contributions receivable, net	2,292,000	384,640
Other receivables	22,503	64,810
Prepaid expenses	65,904	58,810
Inventory	-	2,421
Furniture, equipment and improvements, net	29,954	6,561
Website development costs, net	2,014	8,059
Total assets	<u>\$ 4,491,777</u>	<u>\$ 1,273,630</u>
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 244,901	\$ 349,426
Deferred revenue	10,000	-
Total liabilities	<u>254,901</u>	<u>349,426</u>
Net assets:		
Without donor restrictions:		
Undesignated	715,391	213,933
Board designated	39,533	39,533
Total without donor restrictions	<u>754,924</u>	<u>253,466</u>
With donor restrictions	3,481,952	670,738
Total net assets	<u>4,236,876</u>	<u>924,204</u>
Total liabilities and net assets	<u>\$ 4,491,777</u>	<u>\$ 1,273,630</u>

THE SILK ROAD PROJECT, INC.

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

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support:						
Performance fees	\$ 70,371	\$ -	\$ 70,371	\$ 246,800	\$ -	\$ 246,800
Program income	95,440	-	95,440	174,081	-	174,081
Grants and contributions	1,518,654	3,237,238	4,755,892	1,028,208	360,096	1,388,304
Other income	166,477	-	166,477	26,274	-	26,274
Interest income	529	-	529	264	-	264
Net assets released from restrictions	426,024	(426,024)	-	663,810	(663,810)	-
Total revenue and support	2,277,495	2,811,214	5,088,709	2,139,437	(303,714)	1,835,723
Expenses and losses:						
Expenses:						
Program services	1,124,334	-	1,124,334	1,695,079	-	1,695,079
General and administrative	431,854	-	431,854	595,900	-	595,900
Fundraising	219,849	-	219,849	323,500	-	323,500
Total expenses	1,776,037	-	1,776,037	2,614,479	-	2,614,479
Loss on investment in LLC	-	-	-	36,500	-	36,500
Total expenses and losses	1,776,037	-	1,776,037	2,650,979	-	2,650,979
Change in net assets	501,458	2,811,214	3,312,672	(511,542)	(303,714)	(815,256)
Net assets, beginning of year	253,466	670,738	924,204	765,008	974,452	1,739,460
Net assets, end of year	\$ 754,924	\$ 3,481,952	\$ 4,236,876	\$ 253,466	\$ 670,738	\$ 924,204

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,

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 3,312,672	\$ (815,256)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,235	10,153
Donated furniture	(8,000)	-
Bad debt expense	6,421	44,026
Write off of accounts payable	(157,848)	-
Inventory write off	2,421	-
Loss on investment in LLC	-	36,500
Changes in operating assets and liabilities:		
Grants and contributions receivable, net	(1,907,360)	453,287
Other receivables	35,886	53,286
Prepaid expenses	(7,094)	(13,662)
Inventory	-	589
Accounts payable and accrued expenses	53,323	(73,881)
Deferred revenue	10,000	(100,000)
Net cash provided by (used in) operating activities	<u>1,351,656</u>	<u>(404,958)</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	(20,583)	(7,228)
Investment in LLC	-	(36,500)
Net cash used in investing activities	<u>(20,583)</u>	<u>(43,728)</u>
Net increase (decrease) in cash	1,331,073	(448,686)
Cash, beginning of year	<u>748,329</u>	<u>1,197,015</u>
Cash, end of year	<u>\$ 2,079,402</u>	<u>\$ 748,329</u>
Supplemental disclosure of cash flow information:		
Donated furniture	<u>\$ 8,000</u>	<u>\$ -</u>

THE SILK ROAD PROJECT, INC.

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

	2021				2020			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Compensation and related expenses:								
Salaries	\$ 366,109	\$ 190,199	\$ 147,366	\$ 703,674	\$ 310,720	\$ 183,458	\$ 155,198	\$ 649,376
Payroll taxes and employee benefits	100,680	51,953	36,010	188,643	94,770	55,979	47,336	198,085
Total compensation and related expenses	466,789	242,152	183,376	892,317	405,490	239,437	202,534	847,461
Performer/Artist fees	399,890	-	650	400,540	558,314	-	-	558,314
Contract services	86,844	49,016	3,280	139,140	423,295	100,450	92,133	615,878
Occupancy	41,342	11,519	11,131	63,992	30,735	18,149	15,352	64,236
Publication/multimedia	61,366	-	500	61,866	21,220	-	-	21,220
Professional fees	-	53,205	-	53,205	-	63,230	-	63,230
Miscellaneous	12,186	23,422	1,833	37,441	355	29,489	-	29,844
Travel	28,446	-	4,677	33,123	134,629	52,983	4,553	192,165
Insurance	-	20,272	-	20,272	-	19,348	-	19,348
Supplies	3,051	13,787	909	17,747	2,512	6,942	495	9,949
Depreciation and amortization	-	11,235	-	11,235	-	10,153	-	10,153
Meals and entertainment	8,167	88	1,332	9,587	48,382	-	235	48,617
Commissions on performances	7,556	-	-	7,556	31,050	-	-	31,050
Public relations and hospitality	35	-	6,540	6,575	2,426	-	2,446	4,872
Bad debt expense	1,000	5,421	-	6,421	-	44,026	-	44,026
Printing and copying	-	57	5,234	5,291	14,023	-	5,066	19,089
Equipment and venue rental	3,900	-	-	3,900	10,116	-	223	10,339
Advertising	3,742	-	-	3,742	8,288	793	224	9,305
Telephone and internet	20	1,231	-	1,251	-	9,747	-	9,747
Postage and delivery	-	449	387	836	570	1,153	239	1,962
Artist royalties	-	-	-	-	3,674	-	-	3,674
	<u>\$ 1,124,334</u>	<u>\$ 431,854</u>	<u>\$ 219,849</u>	<u>\$ 1,776,037</u>	<u>\$ 1,695,079</u>	<u>\$ 595,900</u>	<u>\$ 323,500</u>	<u>\$ 2,614,479</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 nonprofit corporation in November 1998 and commenced its operations in January 1999. One of the Project’s major programs is The Silk Road Ensemble (the “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 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 revenue and support, 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 and reported as follows:

Net assets without donor restrictions represent expendable resources that are available for support of the Project’s general operations. These net assets may be used at the discretion of the Project’s management and the Board of Directors.

Net assets with donor restrictions represent resources restricted by donors and grantors. Some donor restrictions are temporary in nature, for a specific purpose or time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Income on these invested endowment funds are utilized in accordance with the donors’ stipulations.

The Project had no net assets with donor restrictions which were perpetual in nature at June 30, 2021 and 2020, or during the years then ended.

Recently Adopted Accounting Pronouncement

On July 1, 2020, the Project adopted Financial Accounting Standards Board’s (“FASB”) Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and its subsequent amendments (“ASU 2014-09”), which creates a single, comprehensive revenue recognition model for recognizing revenue from contracts with customers. The core principle of this new revenue recognition standard is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 was adopted on a modified retrospective basis, and did not result in a significant change in the judgment or timing associated with the recognition of revenue for the Project. As such, the adoption of ASU 2014-09 did not result in a cumulative adjustment as of July 1, 2020, and it did not have a material impact on the Project’s financial statements.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Revenue and Support

Grants and contributions are recorded as revenue in the period in which the donor's commitment is made, if unconditional. Unconditional grants and contributions are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are classified as support with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the purpose restriction or expiration of the time restriction. Conditional grants and contributions are recognized as revenue when the performance and/or control barriers are met by the Project.

Performance fees are generated from concerts performed by The Silk Road Ensemble or various members of the Ensemble. The transaction price is equivalent to the agreed upon amount contained in the contracts for the concerts. The delivery of the concert is considered the performance obligation, and revenue is recognized when the concert occurs.

Program income consists of revenue from various programs related to the Project's mission and consist primarily of artist residencies and the Global Musician Workshop. The transaction price for the artist residencies is the amount of consideration to which the Project expects to be entitled in exchange for transferring the promised deliverables to the customer as outlined in the contract. The performance obligations for the artist residencies consists of meetings with the students for the residencies. Revenue for the artist residencies is recognized at the point in time when the residencies are complete. The transaction price for the Global Musician Workshop is set at a stated rate for attendees. Holding the workshop for registered participants is the performance obligation, and revenue is recognized on the date that the workshop commences as registration fees are not refundable after commencement of the program. Any amounts received in advance of meeting performance obligations are reported as deferred revenue.

Other income consists of revenue from sources other than those described above, which is received outside of the normal course of operations. This revenue is recognized when the events associated with the revenue occur.

Contributions of furniture, equipment and improvements are recorded as contributions at fair value on the date of donation. Such contributions are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture, equipment and improvements are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Project reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Project reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The Project receives in-kind support in the form of contributed office space and parking (through June 30, 2020), 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 a federally insured bank.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Inventory

Inventory consisted of CD recordings and T-shirts and was stated at lower of cost or net realizable value. Cost was determined by the first-in, first-out method. During the year ended June 30, 2021, the Project disposed of all remaining inventory and will no longer be carrying inventory for sale.

Furniture, Equipment and Improvements

Furniture, equipment and improvements are recorded at cost if purchased, or at fair value at the time of receipt, if donated, net of accumulated depreciation and amortization. Expenditures for maintenance, repairs, and renewals are charged to expense when incurred, whereas additions in excess of \$1,000 are capitalized. The improvements were fully amortized in a prior year. Depreciation on the furniture and equipment is computed using the straight-line method over the estimated useful lives of the respective assets ranging from three to five years.

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 Project allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are recorded directly according to their natural expenditure classification. The financial statements report certain categories of expenses that are attributed to both program and support services. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits, and occupancy, which are allocated on the basis of estimates of time and effort.

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 December 14, 2021, the date these financial statements became available to be issued. Except for the event disclosed in Note 8, no events have occurred subsequent to the statement of financial position date and through the date of evaluation that met the criteria required for disclosure or accrual.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

Reclassifications

Certain amounts from 2020 have been reclassified on the statement of functional expenses in order to conform to 2021 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

3. Grants and Contributions Receivable

Grants and contributions receivable, net consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Receivable in less than one year	\$ 1,225,000	\$ 384,640
Receivable in one to five years	<u>1,100,000</u>	<u>-</u>
	2,325,000	384,640
Less - discount to net present value	<u>(33,000)</u>	<u>-</u>
	<u>\$ 2,292,000</u>	<u>\$ 384,640</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, 2021.

At June 30, 2021, the Project had a conditional grant outstanding in the amount of \$200,000, which will not be recognized as revenue until such time as the Project meets the performance and/or control barriers included in the terms the grant agreement.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

4. Furniture, Equipment and Improvements

Furniture, equipment and improvements consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 63,741	\$ 37,075
Leasehold improvements	103,915	103,915
	<u>167,656</u>	<u>140,990</u>
Less - accumulated depreciation	<u>(137,702)</u>	<u>(134,429)</u>
	<u><u>\$ 29,954</u></u>	<u><u>\$ 6,561</u></u>

Depreciation expense for the years ended June 30, 2021 and 2020 amounted to \$5,190 and \$4,109, respectively. During the years ended June 30, 2021 and 2020, the Project disposed of certain fully depreciated furniture and equipment with an original cost of \$1,917 and \$1,565, respectively.

5. Website Development Costs

Website development costs consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Website development costs	\$ 18,133	\$ 18,133
Less - accumulated amortization	<u>(16,119)</u>	<u>(10,074)</u>
	<u><u>\$ 2,014</u></u>	<u><u>\$ 8,059</u></u>

Amortization expense for the years ended June 30, 2021 and 2020 amounted to \$6,045 and \$6,044, respectively.

Future amortization of the website development costs will be \$2,014 for the year ending June 30, 2022.

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, 2021 and 2020, 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 as of June 30, 2021 and for the year then ended.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

7. Net Assets

Board designated net assets at June 30, 2021 and 2020 consisted of \$39,533 designated for immigrant/migrant related work and future initiatives.

Net assets with donor restrictions were available for the following purposes or periods at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
The American Silkroad	\$ 2,773,000	\$ -
Time restrictions	394,000	176,668
Scale the impact of musical and learning programs	201,904	321,500
Indigenous communities projects	32,000	7,000
Commission for new works	20,000	20,000
Phoenix Rising project	20,000	-
Emergency artist relief	13,098	20,070
Artistic director	11,000	63,000
Global Musician Workshop	10,000	-
Cross-cultural work in Houston, TX	5,000	5,000
Public relations and marketing	1,950	-
Diversity, equity and inclusion programs	-	42,500
Composer fees	-	15,000
	<u>\$ 3,481,952</u>	<u>\$ 670,738</u>

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

7. Net Assets (continued)

Net assets released from restrictions for the years ended June 30, 2021 and 2020 were comprised of the following:

	2021	2020
Expiration of time restrictions	\$ 176,668	\$ 211,000
Scale the impact of musical and learning programs	119,596	330,025
Artistic director	52,000	-
Diversity, equity and inclusion programs	42,500	7,500
Composer fees	15,000	-
Emergency artist relief	10,210	48,433
Public relations and marketing	3,050	-
Worcester programming	2,500	-
Virtual concert	2,500	-
Other programming	2,000	-
Seeds project	-	40,000
Falling Out of Time recording	-	20,852
Emergence commission	-	6,000
	<u>\$ 426,024</u>	<u>\$ 663,810</u>

8. Paycheck Protection Program Loans

The Project entered into a second Paycheck Protection Program (“PPP”) loan agreement for \$148,276 on March 25, 2021, granted by the Small Business Administration (“SBA”) under the Economic Aid Act. Under the loan agreement, all or a portion of the loan and accrued interest is forgivable based on the amount of qualifying expenses incurred and levels of employee headcount and salaries maintained during a measurement period. As the Project expected to meet the PPP’s eligibility criteria for forgiveness in full, it accounted for the entire loan amount as a grant, and recorded revenue as the qualifying expenses were incurred. During the coverage period as defined in the loan agreement, and prior to June 30, 2021, the Project incurred qualifying expenses in excess of the loan amount, and therefore, recognized the entire loan amount of \$148,276 and accrued interest through June 30, 2021 as grant revenue. On September 27, 2021, the Project received full forgiveness of the PPP loan from the SBA.

On April 21, 2020, the Project entered into a PPP loan agreement for \$137,792 granted by the SBA under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The terms of the loan were similar to those noted above. As the Project expected to meet the PPP’s eligibility criteria for forgiveness in full, it accounted for the entire loan amount as a grant, and recorded revenue as the qualifying expenses were incurred. During the coverage period as defined in the loan agreement, and prior to June 30, 2020, the Project incurred qualifying expenses in excess of the loan amount, and therefore, recognized the entire loan amount of \$137,792 as grant revenue. On November 2, 2020, the Project received full forgiveness of the PPP loan from the SBA.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

9. Investment in LLC

In November 2019, The Silk Road Ensemble recorded “Falling Out of Time” (“FOoT”), a work which was commissioned by the Project. In April 2020, the master of FOoT was sold by the Project to In a Circle Records (“ICR”), who is responsible for producing, releasing and distributing the recording. Additionally, an LLC was formed specifically for the purpose of purchasing a ten-year license of the recording from ICR. In accordance with the licensing agreement, ICR will collect all income from the sales of FOoT, and will distribute the balance of income after certain expenses and a 10% management fee (“net income”) to the LLC until the investors have recouped their investment and a 15% risk premium. Subsequently, the net income will be split 50/50 between ICR and the LLC.

In April 2020, the Project invested \$36,500 in the LLC which is the equivalent of a 36.5% interest. This investment entitles the Project to receive distributions from the LLC equal to its interest in the net income from sales of the recording. As a result of the COVID-19 pandemic, all in-person performances by The Silk Road Ensemble at which the FOoT recording was to be sold were canceled. As a result, management of the Project did not expect future sales of the recording to result in a return of its investment in the LLC. As such, as of June 30, 2020, management had determined that the investment had no future value and recognized a loss equal to its investment of \$36,500 during the year ended June 30, 2020.

10. Related Party Transactions

Included in accounts payable at June 30, 2020 was \$75,000 payable to a company owned by two of the Project’s founding Board members for fees earned by one of the Project’s founding Board members. The amount outstanding was paid in full during the year ended June 30, 2021.

11. Collaborative Agreement

The Project has a collaborative agreement with Harvard University (“Harvard”) which expires on December 31, 2021. 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, 2021 and 2020, the Project reimbursed Harvard \$793,776 and \$871,841, respectively. For purposes of the presentation in the statements of functional expenses, the reimbursements to Harvard have been classified into their natural categories.

12. Employee Benefit Plans

The Project’s employees are eligible to participate in the Harvard University Tax Deferred Annuity 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 \$50,908 and \$48,058 for the years ended June 30, 2021 and 2020, respectively.

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

13. Concentrations

Approximately 66% and 22% of revenue and support for the years ended June 30, 2021 and 2020 was received from two donors and one donor, respectively. Approximately 97% of grants and contributions receivable at June 30, 2021 was due from two donors, and approximately 91% of grants and contributions receivable at June 30, 2020 was due from two donors, one of whom is a member of the Board of Directors.

The Project has a potential concentration of credit risk in that, from time to time, it maintains deposits with a financial institution 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.

14. In-Kind Contributions

The Project occupies office space in a building owned by Harvard University at no charge. As a result, the Project recorded the fair value of in-kind rent amounting to \$63,604 for the year ended June 30, 2021, and in-kind rent and parking amounting to \$78,436 for the year ended June 30, 2020, which is included in grants and contributions on the statements of activities and changes in net assets, and in occupancy and travel expenses on the statements of functional expenses. The Project did not receive parking at no charge from Harvard during the year ended June 30, 2021. In addition, during the year ended June 30, 2021, the Project received a contribution of furniture from a member of the Board of Directors, and recorded the fair value of the furniture amounting to \$8,000. The revenue is included in grants and contributions on the statement of activities and changes in net assets for the year ended June 30, 2021, and is included in furniture, equipment and improvements at June 30, 2021.

15. Availability and Liquidity

The Project's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date at June 30, 2021 and 2020 are comprised of the following:

	<u>2021</u>	<u>2020</u>
Cash	\$ 2,079,402	\$ 748,329
Grants and contributions receivable, net	2,292,000	384,640
Other receivables	<u>22,503</u>	<u>64,810</u>
Total financial assets	4,393,905	1,197,779
Less amount not available for general expenditure within one year:		
Net assets with donor restrictions	<u>(3,281,952)</u>	<u>(494,071)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,111,953</u>	<u>\$ 703,708</u>

THE SILK ROAD PROJECT, INC.

Notes to Financial Statements

15. Availability and Liquidity (continued)

Included in financial assets available to meet general expenditures within one year are time restricted net assets comprised of grants and contributions receivable which are collectible within one year. As part of the Project's liquidity plan, excess cash is held in a savings account. Additionally, the Project maintains a \$250,000 line of credit, as discussed in Note 6. At June 30, 2021 and 2020, \$250,000 remained available on the line of credit.

16. Contingency

In a prior year, 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 were to 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 was to be paid back NEH was based on a percentage of NEH's proportional funding for the film. Under the terms of the grant agreement with NEH, the Project believed it had a reasonable basis for estimating a contingent loss and believed it was probable that a claim would be asserted by NEH, and thus the Project began recording a contingent liability over the term of the grant agreement which totaled \$157,848 in prior years. However, over the term of the agreement, a claim or request for a required payment was never made by NEH, despite written and oral communications by the Project with personnel at the NEH, therefore, the Project now believes that the likelihood is remote that a claim will be asserted by NEH and is thus revising the estimate of the contingent liability to zero. The revision of the estimate resulted in revenue of \$157,848 which is included in other income on the statement of activities and changes in net assets for the year ended June 30, 2021.

17. Uncertainty Regarding the Impact of COVID-19

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its effects on the Project's industry, financial condition, liquidity, and operations. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Project is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity, and the specific impact is not readily determinable as of the date of these financial statements. Management believes that the controls put into place at the start of the COVID-19 pandemic allow for prompt response to program limitations imposed by the continuing pandemic. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.