



## Financial Statements

June 30, 2017 and 2016



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# RICHMOND PERFORMING ARTS ALLIANCE

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
Richmond Performing Arts Alliance  
Richmond, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Richmond Performing Arts Alliance, formerly Richmond CenterStage (the "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 accounting principles generally accepted in the United States; 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richmond Performing Arts Alliance as of June 30, 2017 and 2016, 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.

## **Emphasis of Matter**

As described in Note 2, the financial statements of Richmond Performing Arts Alliance only, with its investments in subsidiaries reported by the equity method of accounting, have been prepared solely to present the separate results of operations and financial position of Richmond Performing Arts Alliance. The Organization publishes consolidated financial statements, which are its primary financial statements. We also have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Richmond Performing Arts Alliance, RPAC, Inc. and related entities as of June 30, 2017 and 2016 and for the years then ended, and we expressed an unmodified opinion on those consolidated financial statements.

A handwritten signature in black ink, appearing to read "Keita", with a stylized flourish at the end.

November 14, 2017  
Glen Allen, Virginia

## RICHMOND PERFORMING ARTS ALLIANCE

### Statements of Financial Position June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 362,853	\$ 709,597
Accounts receivable	17,616	36,797
Pledges and grants receivable, net - current	2,789,010	712,816
Other current assets	-	29,486
Advances to affiliates	-	<u>1,556,222</u>
Total current assets	<u>3,169,479</u>	<u>3,044,918</u>
Property and equipment, net	<u>10,556,808</u>	<u>11,099,344</u>
Other assets:		
Pledges and grants receivable, net - non-current	4,024,427	6,841,187
Investment in partnership	38,505	49,954
Investment in endowment	2,569,242	2,230,711
Investment in and advances to affiliates	<u>107,098,979</u>	<u>92,685,158</u>
Total other assets	<u>113,731,153</u>	<u>101,807,010</u>
	<u>\$ 127,457,440</u>	<u>\$ 115,951,272</u>

See accompanying notes to financial statements.

**RICHMOND PERFORMING ARTS ALLIANCE**

Statements of Financial Position, Continued  
June 30, 2017 and 2016

<u>Liabilities and Net Assets</u>	<u>2017</u>	<u>2016</u>
Current liabilities:		
Line of credit, net - current	\$ 800,199	\$ -
Accounts payable	21,138	68,234
Accrued expenses	20,000	20,000
Deferred revenue - current	1,069,063	1,069,063
Due to affiliate	<u>-</u>	<u>1,852,672</u>
Total current liabilities	1,910,400	3,009,969
Long-term obligations:		
Line of credit, net	1,977,721	1,615,020
Deferred revenue - non-current	<u>12,562,939</u>	<u>14,145,906</u>
Total liabilities	<u>16,451,060</u>	<u>18,770,895</u>
Net assets:		
Unrestricted	105,518,050	91,708,849
Temporarily restricted	3,233,816	3,228,020
Permanently restricted	<u>2,254,514</u>	<u>2,243,508</u>
Total net assets	<u>111,006,380</u>	<u>97,180,377</u>
	<u>\$ 127,457,440</u>	<u>\$ 115,951,272</u>

See accompanying notes to financial statements.

## RICHMOND PERFORMING ARTS ALLIANCE

Statements of Activities  
Year Ended June 30, 2017, with Comparative Totals for 2016

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenues:					
Contributions and grants	\$ 122,475	\$ 390,254	\$ 11,006	\$ 523,735	\$ 2,710,303
Program revenue and special events	383,399	-	-	383,399	1,094,932
Naming rights income (see Note 7)	1,511,293	-	-	1,511,293	884,532
Development fee (see Note 8)	6,960,416	-	-	6,960,416	-
Equity in income of affiliates	6,013,618	-	-	6,013,618	(5,115,475)
Interest income	93,874	-	-	93,874	248,112
Investment income, net	-	288,989	-	288,989	120,099
Other revenue	330,576	-	-	330,576	97,886
	<u>15,415,651</u>	<u>679,243</u>	<u>11,006</u>	<u>16,105,900</u>	<u>40,389</u>
Net assets released from restriction	<u>673,447</u>	<u>(673,447)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses:					
Program services:					
Program expense	1,070,074	-	-	1,070,074	1,033,115
Depreciation	512,429	-	-	512,429	687,405
Support services:					
General and administrative	326,665	-	-	326,665	269,394
Fundraising	370,729	-	-	370,729	682,542
Total expenses	<u>2,279,897</u>	<u>-</u>	<u>-</u>	<u>2,279,897</u>	<u>2,672,456</u>
Change in net assets	13,809,201	5,796	11,006	13,826,003	(2,632,067)
Net assets, beginning of year	<u>91,708,849</u>	<u>3,228,020</u>	<u>2,243,508</u>	<u>97,180,377</u>	<u>99,812,444</u>
Net assets, end of year	<u>\$ 105,518,050</u>	<u>\$ 3,233,816</u>	<u>\$ 2,254,514</u>	<u>\$ 111,006,380</u>	<u>\$ 97,180,377</u>

See accompanying notes to financial statements.

## RICHMOND PERFORMING ARTS ALLIANCE

Statements of Activities, Continued  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Contributions and grants	\$ 676,431	\$ 2,033,872	\$ -	\$ 2,710,303
Program revenue and special events	1,094,932	-	-	1,094,932
Naming rights income (see Note 7)	884,532	-	-	884,532
Equity in losses of affiliates	(5,115,475)	-	-	(5,115,475)
Interest income	248,112	-	-	248,112
Investment income, net	5,292	114,807	-	120,099
Other revenue	97,886	-	-	97,886
Total support and revenues	<u>(2,108,290)</u>	<u>2,148,679</u>	<u>-</u>	<u>40,389</u>
Net assets released from restriction	<u>1,431,823</u>	<u>(1,431,823)</u>	<u>-</u>	<u>-</u>
Expenses:				
Program services:				
Program expense	1,033,115	-	-	1,033,115
Depreciation	687,405	-	-	687,405
Support services:	-			
General and administrative	269,394	-	-	269,394
Fundraising	682,542	-	-	682,542
Total expenses	<u>2,672,456</u>	<u>-</u>	<u>-</u>	<u>2,672,456</u>
Change in net assets	(3,348,923)	716,856	-	(2,632,067)
Net assets, beginning of year	<u>95,057,772</u>	<u>2,511,164</u>	<u>2,243,508</u>	<u>99,812,444</u>
Net assets, end of year	<u>\$ 91,708,849</u>	<u>\$ 3,228,020</u>	<u>\$ 2,243,508</u>	<u>\$ 97,180,377</u>

See accompanying notes to financial statements.

**RICHMOND PERFORMING ARTS ALLIANCE**

Statements of Functional Expenses  
Year Ended June 30, 2017, with Comparative Totals for 2016

	2017				2016
	Program Services	General and Administrative	Fundraising	Total	Total
Salaries	\$ 227,364	\$ 124,827	\$ 80,197	\$ 432,388	\$ 306,316
Taxes, payroll	20,351	11,173	7,178	38,702	27,027
Employee benefits	25,040	13,748	8,833	47,621	39,453
Education	55,237	-	-	55,237	62,119
Fundraising	-	-	128,605	128,605	30,442
Gala expenses	-	-	129,649	129,649	544,641
Taxes, licenses and fees	10,084	23,754	-	33,838	36,607
Travel, meals, meeting expense	4,557	3,138	691	8,386	7,758
Depreciation	512,429	45,549	11,387	569,365	763,783
Supplies, printing, postage	1,413	1,690	726	3,829	3,345
Professional fees	3,660	34,208	1,098	38,966	59,192
Office rent, equipment and insurance	12,431	5,152	525	18,108	33,893
Utilities	11,708	16,099	1,463	29,270	19,634
Office expense and miscellaneous	1,058	11,964	377	13,399	12,808
In-kind expenses	7,500	7,500	-	15,000	21,052
Interest expense	93,323	-	-	93,323	58,868
Performance expense	12,639	-	-	12,639	83,545
Marketing	83,709	27,863	-	111,572	61,973
Operating subsidy for RPAC entities	500,000	-	-	500,000	500,000
	<u>\$ 1,582,503</u>	<u>\$ 326,665</u>	<u>\$ 370,729</u>	<u>\$ 2,279,897</u>	<u>\$ 2,672,456</u>

See accompanying notes to financial statements.

**RICHMOND PERFORMING ARTS ALLIANCE**

Statements of Functional Expenses, Continued  
Year Ended June 30, 2016

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 177,988	\$ 56,021	\$ 72,307	\$ 306,316
Taxes, payroll	15,704	4,943	6,380	27,027
Employee benefits	22,924	7,216	9,313	39,453
Education	62,119	-	-	62,119
Fundraising	-	-	30,442	30,442
Gala expenses	-	-	544,641	544,641
Taxes, licenses and fees	10,928	25,679	-	36,607
Travel, meals, meeting expense	2,224	5,340	194	7,758
Depreciation	687,405	61,103	15,275	763,783
Supplies, printing, postage	994	1,834	517	3,345
Professional fees	5,908	51,511	1,773	59,192
Office rent, equipment and insurance	27,356	6,210	327	33,893
Utilities	7,854	10,799	981	19,634
Office expense and miscellaneous	775	11,641	392	12,808
In-kind expenses	10,526	10,526	-	21,052
Interest expense	57,790	1,078	-	58,868
Performance expense	83,545	-	-	83,545
Marketing	46,480	15,493	-	61,973
Operating subsidy for RPAC entities	500,000	-	-	500,000
	<u>\$ 1,720,520</u>	<u>\$ 269,394</u>	<u>\$ 682,542</u>	<u>\$ 2,672,456</u>

See accompanying notes to financial statements.

## RICHMOND PERFORMING ARTS ALLIANCE

### Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 13,826,003	\$ (2,632,067)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	569,365	763,783
Gain on sale of property and equipment	-	(6,104)
Contributions restricted for endowment	(11,006)	-
Equity in (income) losses of affiliates	(6,013,618)	5,115,475
Investment income reinvested	(54,951)	(55,696)
Unrealized net loss (gain) on investments	(176,558)	53,527
Realized net gain on sale of investments	(46,007)	(100,291)
Changes in operating assets and liabilities:		
Accounts receivable	19,181	(19,752)
Pledges and grants receivable, net	740,566	(5,000,996)
Advances to affiliates, net	(296,450)	(1,931,782)
Other current assets	29,486	(29,486)
Accounts payable	(47,096)	40,573
Accrued expenses	-	(3,000)
Deferred revenue	(1,582,967)	8,239,969
	6,955,948	4,434,153
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(26,829)	(291,470)
Proceeds from sale of property and equipment	-	400,136
Purchase of investments	(154,566)	(219,878)
Proceeds from the sale of investments	105,000	200,000
Advances to affiliates	(8,400,203)	(16,601,754)
	(8,476,598)	(16,512,966)
Net cash used in investing activities		

See accompanying notes to financial statements.

## RICHMOND PERFORMING ARTS ALLIANCE

### Statements of Cash Flows, Continued Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:		
Contributions restricted to endowment	\$ 11,006	\$ -
Proceeds from line of credit	1,162,900	1,615,020
Payments on note payable	<u>-</u>	<u>(401,917)</u>
Net cash provided by financing activities	<u>1,173,906</u>	<u>1,213,103</u>
Change in cash and cash equivalents	(346,744)	(10,865,710)
Cash and cash equivalents, beginning of year	<u>709,597</u>	<u>11,575,307</u>
Cash and cash equivalents, end of year	<u><u>\$ 362,853</u></u>	<u><u>\$ 709,597</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u><u>\$ 92,245</u></u>	<u><u>\$ 57,790</u></u>
Noncash transactions:		
Payment of note payable with proceeds from sale of property and equipment	<u><u>\$ -</u></u>	<u><u>\$ (356,896)</u></u>

See accompanying notes to financial statements.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements

#### 1. Nature of Operations:

Richmond Performing Arts Alliance (the “Organization”) a non-profit corporation organized in December 2000 for the purpose of supporting the performing arts in the Commonwealth of Virginia. During 2017, the Organization changed its name from Richmond CenterStage to Richmond Performing Arts Alliance.

The Organization’s *Vision* is to be a catalyst for creative and vibrant arts throughout the Richmond, Virginia area.

The Organization’s *Mission* is to provide diverse local and world-class performing arts, transformative arts education experiences for students of all ages, and inspirational venues—all to strengthen the cultural and economic vitality of Greater Richmond.

In addition to its comprehensive BrightLights Education Initiatives and wide array of performances and productions, Richmond Performing Arts Alliance hosts a range of resident arts companies in a collaborative environment. The Organization provides support for these distinctive venues: Altria Theater at Monroe Park, Carpenter Theatre and Dorothy Pauley Square downtown, which houses Rhythm Hall, Showcase Gallery, the Libby S. Gottwald Playhouse and the Genworth BrightLights Education Center.

#### *Dominion Arts Center (Formerly, Richmond CenterStage)*

In January 2005, the Organization entered into an agreement with the Carpenter Center for the Performing Arts (the “Carpenter Center”) to transfer substantially all assets of the Carpenter Center, at fair value, to the Organization. In addition, the Organization entered into a transfer agreement with the Richmond Redevelopment and Housing Authority (“RRHA”) to receive property, previously owned by the Carpenter Center, which is commonly known as the Thalhimer property. In June 2007, the Organization began to renovate the Carpenter Center and construct a performing arts center within the adjacent Thalhimer property. This adjacent facility includes a multi-purpose performance hall, a 200-seat community playhouse, a performing arts education center, offices and support space.

The entire facilities, including the former Carpenter Center, were named *Richmond CenterStage*. During 2008, the names of the two major property sections of *Richmond CenterStage* were changed to *Carpenter Theatre* and *Dorothy Pauley Square*. The facilities were completed in September 2009. In December 2015, the Organization changed the name of *Richmond CenterStage* to *Dominion Arts Center* in connection with the receipt of a \$5.5 million grant, which is recorded as grants receivable and deferred revenue at June 30, 2017 (see Note 7).

A wholly-owned, controlled subsidiary of the Organization, RPAC, Inc. (“RPAC Inc.”) was formed in July 2007 with responsibility for (1) construction implementation and oversight, (2) management of the *Dominion Arts Center* facilities and (3) management of the *Altria Theater* under an agreement with the City of Richmond.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 1. Nature of Operations, Continued:

RPAC Inc. is the general partner and manages the operations of Richmond Performing Arts Center, LLLP ("RPAC LLLP"), which was formed in December 2008 and controls the *Carpenter Theatre* through a capital lease with the City of Richmond.

RPAC Inc. was not a member, but the Manager of Richmond Performing Arts Tenant, LLC ("RPAC Tenant") through January 27, 2016, at which time RPAC Inc. acquired 100% of the membership interest in RPAC Tenant. RPAC Tenant leases the *Carpenter Theatre* from RPAC LLLP and is a limited partner in RPAC LLLP.

RPAC Inc. is the Manager and effective December 31, 2016, the sole member of Richmond Performing Arts SCP, LLC ("RPA SCP"), which was formed in December 2008 and is the state tax credit limited partner in RPAC LLLP.

#### Altria Theater

In March 2012, RPAC Inc., as general partner, organized a partnership, Landmark Theater, LLLP ("LT LLLP"), to rehabilitate, develop and lease the *Altria Theater*, a performing arts venue located in downtown Richmond, Virginia formerly named the *Landmark Theater*. In December 2012, LT LLLP entered into an agreement with the Economic Development Authority of the City of Richmond to lease the *Altria Theater*. LT LLLP renovated the *Altria Theater*, which was funded using federal and state tax credits, contributions for naming rights, and contributions from the City of Richmond, local corporations, and private individuals.

In connection with earning federal and state historic tax credits for the rehabilitation, RPAC Inc. created Landmark Theater Master Tenant, LLC and Landmark Theater SCP, LLC. Additionally, RPAC, Inc. federal New Market Tax Credits ("NMTC") to help fund the rehabilitation of *Altria Theater*.

RPAC, Inc. is the managing member of Landmark Theater Master Tenant, LLC ("LTM Tenant"), which was formed in December 2012 and subleases the *Altria Theater* from LT LLLP and is a limited partner in LT LLLP.

RPAC, Inc. is the managing member of Landmark Theater SCP, LLC ("LT SCP"), which was formed in December 2012 and is the state tax credit limited partner in LT LLLP. RPAC, Inc. is the general partner of LT LLLP that was established in December 2012.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies:

**Basis of Presentation:** The accompanying financial statements include only the accounts of the Organization. The Organization's investment in and advances to RPAC Inc., RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP have been reported by the equity method of accounting, and the Organization has recognized its share of the operating results of RPAC Inc., RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP for each fiscal year. As a result of RPAC Inc.'s control over RPAC LLLP, RPAC Tenant, RPA SCP, LT LLLP, LTM Tenant, and LT SCP, the Organization consolidates the financial statements of these entities for primary financial reporting purposes.

**Cash and Cash Equivalents:** The Organization considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

**Pledges and Grants Receivable:** The Organization has recorded pledges receivable related to the completed construction and renovation of the venues, the Organization's endowment, naming rights, and for education. Management reviews these pledges on an annual basis to determine collectability. The allowance for doubtful pledges was \$3,610 as of June 30, 2017 and \$8,110 as of June 30, 2016.

**Accounts Receivable:** Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. At June 30, 2017 and 2016, no allowance for uncollectible accounts was considered necessary.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statements of activities. Investments in partnerships with a less than 20% ownership percentage are reported at cost and evaluated for impairment on an annual basis.

**Credit Risk and Concentrations:** Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, and pledges receivable. The Organization places its cash and cash equivalents with financial institutions in amounts which from time to time exceed federally insured limits. Accounts receivable and pledges and grants receivable are from individuals, corporations and foundations located primarily in the Richmond, Virginia area. The Organization believes its credit risk related to these accounts receivable and pledges and grants receivable is limited due to the nature of its donors.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Credit Risk and Concentrations, Continued:** At June 30, 2017, two donors accounted for 97% of pledges and grants receivable. Three donors accounted for 52% of contributions and grants revenue for 2017. At June 30, 2016, one donor accounted for 79% of pledges and grants receivable. One donor accounted for 25% of contributions and grants revenue for 2016. These concentrations were the result of the Organization's capital campaign strategy to secure construction gifts from a small pool of large donors to renovate the *Altria Theater* or for naming rights related to the venues.

**Property and Equipment:** The various classes of property and equipment are stated at cost or fair value at the date of donation. Depreciation of property is computed primarily using the straight-line method over the estimated useful lives of the various assets as follows: buildings - 30 to 40 years; building improvements - 10 to 25 years; and furniture and equipment - 5 to 7 years. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred.

The Organization has implemented Financial Accounting Standards Board ("FASB") guidance related to accounting for the impairment of long-lived assets, which requires the Organization under certain circumstances to review long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows the recorded amounts of the assets will be reduced to their fair value. No impairments were identified during 2017 and 2016.

**Financial Statement Presentation:** The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those whose use by the Organization has not been limited by donors to a specific time period or purpose.

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Permanently restricted net assets consist of endowment fund investments to be held indefinitely, the income from which is expended to support the activities of the Organization.

**Recognition of Revenue:** Contributions and grants, except for a specific grant related to naming rights (see Note 7), are recognized as revenue when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions and grants that are restricted by the donor as to purpose or time are reported as an increase in temporarily or permanently restricted net assets even if the restriction expires in the fiscal year in which the contribution or grant is recognized. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Recognition of Revenue, Continued:** Program and special event revenue received in advance is deferred and recognized when the program or special event is delivered. Amounts received in connection with naming rights are also deferred and recognized over the period of the naming rights (see Note 7).

**Contributed Materials and Services:** The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and are of the type that would have been purchased if not contributed, would be recognized in the financial statements, if material. The Organization recognized contributed materials and services of \$15,000 in 2017 and \$21,052 in 2016.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, fund-raising campaign solicitations and various committee assignments. The value of these services could not be estimated and is not recognized in the financial statements.

**Income Taxes:** Richmond Performing Arts Alliance is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2) of the Internal Revenue Code.

**Income Tax Uncertainties:** The Organization has adopted FASB guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Organization's financial statements.

In accordance with the FASB guidance, the Organization discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the facts and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Organization's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Organization has completed its assessment and determined that there were no tax positions which would require recognition under the interpretation. The Organization's tax returns are not currently under examination by any tax authority.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

**Reclassifications:** Certain prior year balances have been reclassified to conform with current year presentation.

**Subsequent Events:** Management has evaluated subsequent events through November 14, 2017, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

#### 3. Pledges and Grants Receivable:

Pledges and Grants receivable represent unconditional promises to give which have been made by donors but have not yet been received by the Organization. Pledges and grants which will not be received in the subsequent year have been discounted using an estimated rate of return (1.96% for 2017 and 1.41% for 2016) which could be earned if such contributions and grants had been received in the current year.

Total pledges and grants receivable, which are a component of deferred revenue or temporarily and permanently restricted net assets, were as follows at June 30:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 2,792,620	\$ 720,926
Receivable in future years	<u>4,508,224</u>	<u>7,295,167</u>
	7,300,844	8,016,093
Less: Allowance for doubtful pledges	(3,610)	(8,110)
Less: Discount to net present value	<u>(483,797)</u>	<u>(453,980)</u>
	<u>\$ 6,813,437</u>	<u>\$ 7,554,003</u>

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 4. Investments:

Investments held in the Organization's endowment consisted of the following at June 30:

	2017		2016	
	Cost	Market	Cost	Market
Mutual funds	\$ 2,119,809	\$ 2,569,242	\$ 1,957,837	\$ 2,230,711

The following schedule summarizes the net investment income for the years ended June 30:

	2017	2016
Interest and dividends	\$ 77,873	\$ 73,335
Unrealized net gain (loss)	165,109	(53,527)
Realized net gain	46,007	100,291
	\$ 288,989	\$ 120,099

The Organization has a 1% interest in Elephant Eye Theatricals, LLC, which was organized to develop theatrical presentations. In connection with this investment, the Organization entered into a Presentation Rights Agreement giving the Organization first call on any shows developed by Elephant Eye in Richmond or a 75-mile radius. The investment is valued at \$38,505 as of June 30, 2017 and \$49,954 as of June 30, 2016. The Organization recognized an unrealized loss of \$1,449 in 2017 and \$4,708 in 2016. During 2017, the Organization received a \$10,000 distribution from the investment.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 5. Property and Equipment:

The Organization had the following property and equipment as of June 30:

	2017	2016
Land	\$ 4,299,019	\$ 4,299,019
Land improvements	645,899	645,899
Buildings	6,283,329	5,990,845
Equipment	1,693,814	1,693,814
Furniture and fixtures	2,555,249	2,555,249
Construction in progress	-	265,656
	15,477,310	15,450,482
Accumulated depreciation	4,920,502	4,351,138
	\$ 10,556,808	\$ 11,099,344

#### 6. Agreements with City of Richmond:

The Organization and RPAC Inc. are parties to a Comprehensive Agreement with the City of Richmond which placed certain legal requirements on the parties.

The City of Richmond agreed to provide grant funding of \$25,000,000, and, in accordance with the Comprehensive Agreement, the Organization transferred title of the *Carpenter Theatre* land and building to the City by special warranty deed in 2008.

The Comprehensive Agreement provided for the Organization to transfer the *Carpenter Theatre* property to the City. The Organization transferred the property to the City in May 2008, followed by the December 30, 2008 execution of the lease agreement by which RPAC LLLP leased the *Carpenter Theatre* property from the City. The Organization's historical cost basis in the *Carpenter Theatre* land (\$1,040,000) and building (\$5,032,878) was recorded as part of RPAC LLLP's property and equipment.

The lease agreement executed with the City provides for RPAC LLLP to pay annual rent of \$1 to the City for the *Carpenter Theatre* through December 30, 2048, with the option to purchase the property for \$1 at the end of the lease. RPAC LLLP is responsible for the ongoing routine maintenance and repair of the *Carpenter Theatre*.

Under the terms of the lease agreement, RPAC LLLP is to indemnify, defend and hold harmless the City and its officers, directors, agents and employees, from and against any and all losses, claims, liabilities, or damages arising from the use or occupancy of the leased *Carpenter Theatre*, including any matters that arise from the sublease of the *Carpenter Theatre*.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 6. Agreements with City of Richmond, Continued:

Under the Comprehensive Agreement, RPAC Inc. provided construction management oversight for the renovation of the *Carpenter Theatre* and the construction of *Dorothy Pauley Square* using funding for construction transferred to it by the Organization. After the completion of the renovation and construction in September 2009, RPAC Inc. became responsible for managing the facilities, including but not limited to, scheduling use of the facilities, renting the facilities, entering services contracts, ticketing, marketing, hiring/firing staff, payroll processing, and approving finances and operating budgets. To support operations, the City has agreed to contribute annually up to \$500,000 in a dollar-for-dollar match to Organization contributions. The Organization has begun to raise contributions for an endowment fund. The primary use of investment earnings of the endowment will be to fund its contributions to RPAC Inc.

The Comprehensive Agreement also provided that RPAC Inc. will have a lease on *Dorothy Pauley Square*, which is owned by the Organization. The December 30, 2008 lease agreement between the Organization and RPAC Inc. for the *Dorothy Pauley Square* facilities provides for annual rent of \$1 for 99 years, with all operating costs to be paid by RPAC Inc.

On July 11, 2012, LT LLLP entered into a lease with the Economic Development Authority of the City of Richmond (the "EDA") for the *Altria Theater*. The lease is for a term of 99 years at a rental of \$1 per year, which has been paid in full by LT LLLP. The lease allowed for LT LLLP to engage in construction and restoration activities for certain improvements and repairs so long as they were in accordance with certain historic requirements. Further, the lease was executed with the intent that LT LLLP would enter into a sublease agreement with LTM Tenant and that LTM Tenant would use a management company to operate the *Altria Theater* as a performing arts facility.

Under the terms of the lease agreement, LT LLLP is to indemnify, defend and hold harmless the EDA and its officers, directors, agents and employees, from and against any and all losses, claims, liabilities, or damages arising from the use or occupancy of the leased *Altria Theater*, including any matters that arise from the sublease of the *Altria Theater*.

#### 7. Naming Rights:

During 2013, the EDA sold the naming rights to the *Altria Theater* as a whole and to certain internal portions of the *Altria Theater* for a series of conditional payments totaling \$12,000,000. The EDA was required to donate the initial payment from these sales to RCS, which amounted to approximately \$3,000,000 and subsequent payments totaling \$9,000,000 have been made directly to the Organization. The naming rights for *Altria Theater* as a whole are for 20 years and took effect on October 1, 2013. The naming rights for internal portions of the *Altria Theater* are for 10 years and took effect on October 1, 2013. The revenue received by the Organization will be amortized over the respective effective period.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 7. Naming Rights, Continued:

During 2016, the Organization sold the naming rights to the *Dominion Arts Center* in connection with a grant for \$5.5 million. The naming rights for *Dominion Arts Center* are for 15 years and took effect on January 1, 2016. The grant revenue received by the Organization will be amortized over the respective effective period.

#### 8. Investments in and Advances to Affiliates - Other Agreements:

Investments in and advances to affiliates consist of the following at June 30:

	2017	2016
Investment in RPAC, Inc.	\$ 107,098,979	\$ 46,625,091
Advances to RPAC, Inc.	-	23,060,067
Note receivable from RPAC, LLLP	-	23,000,000
	\$ 107,098,979	\$ 92,685,158

The combined condensed financial position of the affiliates as of June 30, 2017 and 2016 is set forth below:

	2017	2016
<u>Assets</u>		
Cash and cash equivalents	\$ 8,110,626	\$ 6,283,628
Accounts receivable	959,406	1,260,581
Property and equipment, net	133,758,804	138,938,648
Other assets	5,140,956	5,139,562
Due from related parties	-	296,451
Total assets	\$ 147,969,792	\$ 151,918,870
<u>Liabilities and Equity</u>		
Accounts payable	\$ 1,055,584	\$ 1,880,112
Accrued expenses	158,382	7,114,711
Due to Organization	-	46,060,067
Deferred revenue	8,227,660	8,090,787
Note payable, noncurrent	4,961,600	4,961,600
Equity	107,098,979	46,625,092
Noncontrolling interest	26,467,587	37,186,501
Total liabilities and equity	\$ 147,969,792	\$ 151,918,870

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 8. Investments in and Advances to Affiliates - Other Agreements, Continued:

The combined condensed results of operations of the affiliates for the years ended June 30, 2017 and 2016 are set forth below:

	2017	2016
<u>Support and Revenues</u>		
Grants	\$ 64,646	\$ 64,646
Program revenues	5,892,828	7,213,188
Contributions	1,405,000	2,140,000
Interest income	51,740	241,670
Total	7,414,214	9,659,504
 <u>Expenses</u>		
Program services:		
Program expense	6,528,620	11,260,926
Depreciation	5,228,348	5,283,053
Losses allocable to noncontrolling interest	(688,083)	(1,769,000)
Total	11,068,885	14,774,979
 Gain from purchase on noncontrolling interest	9,668,289	-
 Net gain (loss)	\$ 6,013,618	\$ (5,115,475)

#### Partnership Agreements

RPAC LLLP was organized as a taxable limited liability limited partnership in order that third-party investors could invest in limited partner equity interests and receive specific individual allocations of Federal Historic Tax Credits, New Markets Tax Credits, and Virginia Rehabilitation Tax Credits (which RPAC LLLP earned for the rehabilitation of the *Carpenter Theater*) that were agreed upon in the entity formation documents. As of June 30, 2017, no further capital contributions are required or expected from the partners.

Under the partnership agreement, RPAC LLLP was obligated to pay the Organization a development fee of up to \$6,960,416 for its services in connection with the development of *Dominion Arts Center*. In addition, RPAC LLLP and RPAC Inc. have certain obligations to indemnify the investor limited partners as stipulated in the partnership agreement. The development fee obligation was paid during 2017 and was returned to RPAC Inc. in the form of a capital contribution. The obligations to indemnify ceased with the buyout of the limited partner interests during 2017 and 2016.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 8. Investments in and Advances to Affiliates - Other Agreements, Continued:

LT LLLP is organized as a taxable limited liability limited partnership in order that third-party investors could invest in limited partner equity interests and receive specific individual allocations of Federal Historic Tax Credits, New Markets Tax Credits, and Virginia Rehabilitation Tax Credits (which LT LLLP earned for the rehabilitation of the *Altria Theater*) that were agreed upon in the entity formation documents. No further capital contributions are required or expected from the partners.

##### Sublease Agreements

RPAC LLLP has subleased the *Carpenter Theatre* to RPAC Tenant under a 32-year agreement that expires in September 2041. In 2012, the lease was amended to reduce currently payable rents, with no effect on aggregate rents due under the lease. The base rent escalates from \$558,240 for 2016 to over \$4.5 million in 2041. In addition, RPAC Tenant pays all insurance and operating expenses, other than repairs to real property and property taxes which are paid by RPAC LLLP. The lease term commenced with the September 2009 opening of the facility. Scheduled minimum lease payments for the following fiscal years are as follows: \$1,287,990 for 2018, \$1,378,575 for 2019, \$1,494,405 for 2020, \$1,592,910 for 2021, and \$1,673,595 for 2022. Scheduled aggregate minimum lease payments for 2023 to the end of the lease in 2042 approximate \$60.3 million.

LT LLLP has subleased the *Altria Theater* to LTM Tenant under a 34-year agreement that expires in December 2046. The base rent escalates from \$337,500 for 2016 to \$865,500 in 2046. In addition, LTM Tenant pays all insurance, repairs and maintenance, taxes and operating expenses as additional rent. Scheduled minimum lease payments for the following fiscal years are as follows: \$614,000 for 2018, \$675,000 for 2019, \$770,000 for 2020, \$840,500 for 2021, and \$841,500 for 2022. Scheduled aggregate minimum lease payments for 2023 to the end of the lease in 2046 approximate \$20.9 million.

##### Management Agreements

RPAC LLLP and RPAC Tenant have contractually engaged RPAC Inc. to manage the operations of *Dominion Arts Center* and also agreed to allow RPAC Inc. to engage a professional management company to provide those management services. In December 2008, RPAC Inc. entered into a management agreement with a professional management company covering *Dominion Arts Center*, which provided for minimum monthly payments of \$8,000, plus certain incentive fees, for all management services for these venues. In addition to the monthly payments and incentive fees, RPAC Inc. reimburses the professional management company for the costs of using its employees, as well as, other direct venue expenses. This agreement was subsequently extended to 2015, with minimum monthly fees of \$10,000 and certain incentive fees. In March 2015, the agreement was renewed through 2022, with minimum monthly fees of \$5,000 and certain incentive fees.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 8. Investments in and Advances to Affiliates - Other Agreements, Continued:

##### Management Agreements, Continued

In July 2012, LT LLLP entered into a management agreement with a professional management company to manage the *Altria Theater*. The management agreement included a provision that, at the time that LT LLLP entered into a master lease of the *Altria Theater* with LTM Tenant, LT LLLP would assign all of its rights, title and interest in the management agreement to LTM Tenant. The master lease of the *Altria Theater* was executed on December 20, 2012. The term of the management agreement is for 60 months and began on July 11, 2012, with the option to renew for five additional one-year terms. As compensation for its services under the management agreement, the management company is to receive a monthly fixed management fee of \$5,000 and an incentive fee based on the *Altria Theater's* net operating profit or loss. In addition to the monthly payments and incentive fees, the professional management company will be reimbursed for the costs of using its employees, as well as, other direct venue expenses. In March 2015, the agreement was renewed through 2018, with minimum monthly fees of \$5,000 and certain incentive fees.

#### 9. Line of Credit:

RPAC Inc. had available a revolving line of credit with a commercial bank that provided for borrowings of up to \$21,500,000 to fund the renovations of the *Altria Theater*. Interest on outstanding borrowings accrued and was payable monthly at an interest rate of LIBOR plus 2.5%. The line of credit was collateralized by certain assets of the Organization, RPAC Inc., and LT LLLP. The line of credit was paid in full and closed during 2016.

In 2016, the Organization entered into a promissory note for a line of credit with a commercial bank that allows borrowings up to \$3,000,000. The note includes a step-down provision that reduces the principal amount of the loan to \$2,000,000 at June 10, 2018 and \$1,000,000 at December 10, 2020. The note also includes a term note conversion feature that allows both the Organization and the commercial bank to mutually agree to convert the outstanding balance on December 10, 2020 into a five-year term loan. Interest on outstanding borrowings accrues and is payable monthly at an interest rate of LIBOR plus 3.5% (3.87% at June 30, 2017 and 3.71% at June 30, 2016). The note is collateralized by certain real property of the Organization and has an outstanding balance of \$2,800,199 at June 30, 2017 and \$1,635,503 at June 30, 2016. Interest expense was \$92,245 for 2017 and \$32,728 for 2016.

The note is shown net of deferred loan costs incurred in connection with obtaining the note of \$22,279, which is net of \$3,621 of accumulated amortization, at June 30, 2017. Amortization expense was \$1,078 for each of 2017 and 2016. The deferred loan costs are being amortized over a period of ten years.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 10. Notes Payable:

In October 2013, the Organization entered into a promissory note with a commercial bank with an initial principal balance of \$374,438. The promissory note required monthly principal and interest payments of \$2,466, including interest at 5.25%, through October 15, 2018. The note was collateralized by real property. The promissory note was paid in full during 2016. Interest expense was \$13,648 for 2016.

In June 2014, the Organization entered into a loan with a commercial bank that provided for multiple advances up to \$1,500,000. Interest on outstanding borrowings accrued and was payable monthly at an interest rate 4.8%. Interest only payments were due through December 31, 2015. Principal and interest payments are due through June 30, 2016, at which time the loan matured and all outstanding borrowings, along with any unpaid interest, was due. The loan was collateralized by certain assets of the Organization. The loan was paid in full during 2016. Interest expense was \$11,221 for 2016.

#### 11. Commitments and Contingencies:

The Historic Tax Credits ("HTC") related to the qualified expenditures by RPAC LLLP for the renovation of the *Carpenter Theatre* and by LT LLLP for the renovation of the *Altria Theater* are subject to five years of compliance under Section 47 of the Internal Revenue Code. For RPAC LLLP, this compliance ended August 14, 2014 and for LT LLLP, the HTC compliance for its Federal HTC of \$12,610,790 and State HTC of \$15,639,881 will end September 12, 2019. The HTC recapture decreases by 20% each year during the five year compliance period. The New Markets Tax Credit ("NMTC") compliance is for seven years as described in Section 45D of the Internal Revenue Code. For RPAC LLLP's approximately \$2.4 million in NMTC, the compliance ended December 31, 2015. The NMTC compliance for LT LLLP's approximately \$2.5 million in NMTC will end December 12, 2019. The NMTC recapture is a full recapture of the NMTC previously taken plus interest. The tax credits are also contingent on maintaining compliance with applicable sections of the Internal Revenue Code and other regulatory requirements.

While the Organization has no knowledge of any problems with obtaining and maintaining the above-cited compliance, any such potential noncompliance could require a substantial adjustment to the contributed capital of the investor limited partners.

Through January 27, 2016, pursuant to the RPAC LLLP partnership agreement, certain investor limited partners were to receive priority returns as RPAC LLLP makes distributions and certain guaranteed payments. These payments were payable as fees or return of capital as RPAC LLLP had net cash flow or in certain other circumstances. The priority return amounted to \$136,011 for the year ended June 30, 2016. The guaranteed payment was \$135,564 for the year ended June 30, 2016.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 11. Commitments and Contingencies, Continued:

Pursuant to the LT LLLP partnership agreement, LTM Tenant is entitled to an annual priority return, meaning an annual distribution to LTM Tenant of an amount equal to one percent (1%) of its Adjusted Capital Contribution beginning as of its Admission Date (December 20, 2012), payable from net cash flow. Priority return payments were \$250,782 for 2017 and \$14,045 for 2016.

Pursuant to the RPAC Tenant and LTM Tenant operating agreements, RPAC Inc. is obligated to fund any operating deficits of the *Carpentree Theatre* and the *Altria Theater* to the extent required to enable RPAC Tenant and LTM Tenant to pay operating expenses and make the rent payments required by the sublease agreements. Such Operating Deficit Loans do not bear interest and are subordinated to any other debt of RPAC Tenant and LTM Tenant. Unpaid rents for RPAC Tenant, which account for the majority of the Operating Deficit Loans balance, amounted to \$13,197,871 at June 30, 2017 and \$11,792,401 at June 30, 2016. Unpaid rents for LTM Tenant, which account for all of the Operating Deficit Loans balance, amounted to \$2,360,625 at June 30, 2017 and \$2,180,875 at June 30, 2016.

The Organization has unconditionally guaranteed the performance obligations of RPAC Inc. to make all payments required under all agreements related to *Dominion Arts Center's* future operations and the *Altria Theater* renovations and future operations.

Pursuant to its articles of incorporation, the Organization has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Organization's request in such capacities. Pursuant to the Comprehensive Agreement with the City of Richmond, agreements related to the tax credit financing arrangements, and several other contractual agreements, RPAC Inc. and the Organization have provided various indemnifications to third parties.

The maximum liability under these obligations is not estimable; however, the Organization believes that the estimated fair value of these indemnification obligations is not material to the Organization's financial position.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 12. Temporarily Restricted Net Assets:

Temporarily restricted net assets consisted of the following at June 30:

	2017	2016
Cash and cash equivalents	\$ 68,751	\$ 47,500
Pledges receivable	2,768,908	3,073,352
Income from endowment	396,157	107,168
	\$ 3,233,816	\$ 3,228,020

Temporarily restricted net assets were donor-restricted for the following at June 30:

	2017	2016
Operations	\$ 38,500	\$ 2,699
Education and programming	53,750	62,500
Capital expenditures/ <i>Altria Theater</i> renovation	2,745,409	3,055,653
Income from endowment	396,157	107,168
	\$ 3,233,816	\$ 3,228,020

During 2017, net assets released from restriction totaling \$79,004 were used for education and programming, \$180,000 were used for rent subsidies for resident companies and related costs, and \$414,443 were primarily 2017 collections on capital pledges where the capital expenditures had been incurred in previous years related to the renovation of *Altria Theater*.

During 2016, net assets released from restriction totaling \$311,473 were used for education and programming, \$240,000 were used for rent subsidies for resident companies and related costs, and \$880,350 were used to fund construction-related expenditures, primarily through capital contributions from the Organization to RPAC, Inc., which were passed through to LT LLLP for the renovation of *Altria Theater*.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 13. Permanently Restricted Net Assets:

Permanently restricted net assets consist of assets endowed to the Organization, of which the principal is to be held in perpetuity and any related income generated used to fund future programs. Permanently restricted net assets consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 44,303	\$ 64,000
Pledges receivable	37,127	55,965
Investments	<u>2,173,084</u>	<u>2,123,543</u>
	<u>\$ 2,254,514</u>	<u>\$ 2,243,508</u>

The Organization has a goal to raise \$10 million towards its endowment.

#### 14. Endowment Funds:

The Organization has received donor-restricted contributions in the form of cash and pledges intended to establish the Organization's endowment fund. As required by accounting principles generally accepted in the United States, the net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law:* The Organization has interpreted the Virginia State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of original gifts received and designated as endowments. As a result of this interpretation, the Organization would classify as permanently restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment funds not classified as permanently restricted net assets would be classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA.

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 14. Endowment Funds, Continued:

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and a donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

*Return Objectives and Risk Parameters:* In March 2015, the Organization adopted a policy for the endowment fund that attempts to provide a predictable stream of funding to the Organization's program(s) supported by the endowment. The adopted policy incorporates investment and spending practices to maintain the purchasing power of the endowment assets. Endowment assets include donor-restricted contributions that the Organization must hold in perpetuity. Under this policy, the endowment assets, at the present, are to be invested in one or more broadly diversified funds holding both equities and fixed income instruments. As the endowment fund grows, further investment diversification alternatives will be considered.

The Organization expects its endowment funds over time to provide an average rate of return of more than five percent annually. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives:* To satisfy its long-term rate-of-return objectives, the Organization invests in a balanced mutual fund in the moderate allocation category. The mutual fund offers exposure to stocks (about two-thirds of the portfolio) and bonds (about one-third of the portfolio). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy:* The Organization has an endowment goal of \$10,000,000 and has a policy of limiting spending of investment income until the goal is achieved. In establishing this policy, the Organization considered the long-term expected return on endowments and believes that an endowment this size will generate sufficient income to support the Organization's expected spending levels.

**RICHMOND PERFORMING ARTS ALLIANCE**

Notes to Financial Statements, Continued

**14. Endowment Funds, Continued:**

*Funds with Deficits:* From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 or 2016.

Endowment net asset composition by type of fund was as follows as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 396,157</u>	<u>\$ 2,254,514</u>	<u>\$ 2,650,671</u>

Changes in endowment net assets were as follows for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	<u>\$ -</u>	<u>\$ 107,168</u>	<u>\$ 2,243,508</u>	<u>\$ 2,350,676</u>
Investment return:				
Investment income	-	77,873	-	77,873
Realized net gain	-	46,007	-	46,007
Unrealized net gain	-	165,109	-	165,109
Total investment return	<u>-</u>	<u>288,989</u>	<u>-</u>	<u>288,989</u>
New contributions	<u>-</u>	<u>-</u>	<u>11,006</u>	<u>11,006</u>
Appropriations for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 396,157</u>	<u>\$ 2,254,514</u>	<u>\$ 2,650,671</u>

**RICHMOND PERFORMING ARTS ALLIANCE**

Notes to Financial Statements, Continued

**14. Endowment Funds, Continued:**

Endowment net asset composition by type of fund was as follows as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 107,168	\$ 2,243,508	\$ 2,350,676

Changes in endowment net assets were as follows for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ -	\$ 2,243,508	\$ 2,243,508
Investment return:				
Investment income	-	55,696	-	55,696
Realized net gain	-	100,291	-	100,291
Unrealized net loss	-	(48,819)	-	(48,819)
Total investment return	-	107,168	-	107,168
New contributions	-	-	-	-
Appropriations for expenditure	-	-	-	-
Net assets, end of year	\$ -	\$ 107,168	\$ 2,243,508	\$ 2,350,676

## RICHMOND PERFORMING ARTS ALLIANCE

### Notes to Financial Statements, Continued

#### 15. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

**Mutual funds:** Valued at the net asset value (“NAV”) of shares held by the Organization at year end.

The Organization’s investments are in a mutual fund that invests in value stocks (60% to 70%) and fixed income securities (30% to 40%), and the fair value \$2,569,242 at June 30, 2017 and of \$2,230,711 at June 30, 2016 was based upon Level 1 valuation criteria.

#### 16. Retirement Plan:

Employees of the Organization may participate in a 401(k) savings plan, whereby the employees may elect to make contributions pursuant to a salary reduction agreement upon meeting the plan requirements. The Organization may make discretionary contributions to the plan. The Organization’s contributions to the plan amounted to \$4,708 during 2017 and \$4,746 during 2016.