

ARTS COUNCIL OF GREATER LANSING, INC.
AUDITED FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017
WITH REPORT OF INDEPENDENT AUDITOR

TABLE OF CONTENTS

Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-13



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arts Council of Greater Lansing, Inc.
Lansing, Michigan

We have audited the accompanying financial statements of the Arts Council of Greater Lansing, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2018 and 2017, 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arts Council of Greater Lansing, Inc. as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Warmels & Comstock, PLLC
East Lansing, Michigan
March 22, 2019

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND 2017

Assets	2018	2017
Current Assets		
Cash and savings accounts	\$ 218,804	\$ 69,308
Grants receivable	43,441	163,910
Long-term investments appropriated for current use	26,000	26,000
Prepaid expenses	24,052	20,409
Total Current Assets	312,297	279,627
Non-current Assets		
Property and equipment, net	41,536	44,928
Long-term investments	572,216	635,820
Interest in assets held by foundation	1,066,691	1,039,908
Total Non-current Assets	1,680,443	1,720,656
Total Assets	\$ 1,992,740	\$ 2,000,283
Liabilities and Net Assets		
Current Liabilities		
Payroll taxes	\$ 5,925	\$ 4,992
Accrued wages and related expenses	7,738	7,738
Accounts payable	10,554	8,366
Accrued paid time off	985	985
Grants payable	158,425	143,847
Other accrued liabilities	5,500	-
Deferred revenue	28,045	27,045
Total Current Liabilities	217,172	192,973
Net Assets		
With donor restrictions	-	31,000
Without donor restrictions	1,775,568	1,776,310
Total Net Assets	1,775,568	1,807,310
Total Liabilities and Net Assets	\$ 1,992,740	\$ 2,000,283

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

Changes in net assets without donor restrictions	<u>2018</u>	<u>2017</u>
Revenues and Gains:		
Government grants	\$ 216,202	\$ 254,179
All other grants and contracts	227,337	154,404
Investment income from agency endowment	41,178	41,256
Investment gain (loss), net	52,179	118,197
Contributions	30,689	29,489
Membership dues	13,860	12,675
Program service fees	51,845	52,305
Gross profit on fundraising events, net of direct benefits of \$6,478 and \$5,245	18,569	22,950
Contributed services	47,741	39,452
Contributed materials	5,000	9,200
Interest income	41	18
	<hr/>	<hr/>
Total Revenues, Gains, and Other Support Without Donor Restrictions	704,641	734,125
Net Assets Released from Restriction	31,000	-
Expenses:		
Program services:		
Arts education and professional development	216,574	297,438
Arts promotion and advocacy	381,908	227,651
	<hr/>	<hr/>
Total Program Expenses	598,482	525,089
Supporting services:		
Management and general	96,640	85,475
Fundraising	41,261	53,563
	<hr/>	<hr/>
Total Expenses	736,383	664,127
	<hr/>	<hr/>
Increase (Decrease) in Net Assets Without Donor Restrictions	(742)	69,998
Changes in net assets with donor restrictions		
Contributions	-	31,000
Net assets released from restriction	(31,000)	-
	<hr/>	<hr/>
Increase (Decrease) in Net Assets With Donor Restrictions	(31,000)	31,000
	<hr/>	<hr/>
Increase (Decrease) in Total Net Assets	(31,742)	100,998
Net Assets at Beginning of Year	1,807,310	1,706,312
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 1,775,568</u>	<u>\$ 1,807,310</u>

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018					
	Education & Development	Promotion & Programming	Program Total	Management and General	Fundraising	Total
Grants - organizations	\$ 38,774	\$ 116,321	\$ 155,095	\$ -	\$ -	\$ 155,095
Grants - individuals	5,800	-	5,800	-	-	5,800
Art project fees	-	147,092	147,092	-	-	147,092
Salaries and wages	55,063	55,063	110,126	45,886	27,531	183,543
Pension and retirement	1,069	1,069	2,138	891	535	3,564
Employee benefits	2,432	2,432	4,864	2,026	1,216	8,106
Payroll taxes	4,451	4,451	8,902	3,710	2,226	14,838
Management fees	-	-	-	4,000	-	4,000
Accounting	2,743	2,743	5,486	3,989	499	9,974
Advertising and promotion	-	7,174	7,174	6,456	717	14,347
Office expenses	5,345	5,345	10,690	6,236	891	17,817
Computer and IT expenses	4,524	4,524	9,048	5,278	754	15,080
Occupancy costs	6,433	6,433	12,866	7,505	1,072	21,443
Travel	953	953	1,906	1,112	159	3,177
Arts events and conferences	69,156	-	69,156	3,640	3,089	75,885
Depreciation	424	424	848	2,545	-	3,393
Insurance	61	61	122	366	-	488
In-kind expense - services	14,346	27,823	42,169	3,000	2,572	47,741
In-kind expense - materials	5,000	-	5,000	-	-	5,000
Total	\$ 216,574	\$ 381,908	\$ 598,482	\$ 96,640	\$ 41,261	\$ 736,383

**ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	2017					
	Education & Development	Promotion & Programming	Program Total	Management and General	Fundraising	Total
Grants - organizations	\$ 41,951	\$ 125,852	\$ 167,803	\$ -	\$ -	\$ 167,803
Grants - individuals	83,000	-	83,000	-	-	83,000
Salaries and wages	51,926	51,926	103,852	43,272	25,963	173,087
Pension and retirement	1,566	1,566	3,132	1,305	783	5,220
Employee benefits	296	296	592	246	148	986
Payroll taxes	3,793	3,793	7,586	3,161	1,896	12,643
Management fees	-	-	-	-	10,417	10,417
Accounting	2,479	2,479	4,958	3,606	451	9,015
Advertising and promotion	-	5,261	5,261	4,735	526	10,522
Office expenses	5,919	5,919	11,838	6,906	987	19,731
Computer and IT expenses	3,248	3,248	6,496	3,790	541	10,827
Occupancy costs	5,691	5,691	11,382	6,640	949	18,971
Travel	1,442	1,442	2,884	1,682	240	4,806
Arts events and conferences	75,397	-	75,397	3,968	4,862	84,227
Depreciation	427	427	854	2,559	-	3,413
Insurance	101	101	202	605	-	807
In-kind expense - materials	14,202	19,650	33,852	3,000	2,600	39,452
In-kind expense - services	6,000	-	6,000	-	3,200	9,200
Total	\$ 297,438	\$ 227,651	\$ 525,089	\$ 85,475	\$ 53,563	\$ 664,127

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ (31,742)	\$ 100,998
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,393	3,413
Investment (gain) loss, net	(93,357)	(159,452)
Changes in operating assets and liabilities:		
Grants and other receivables	120,469	(20,566)
Accounts payable	2,185	5,428
Prepaid expenses	(3,643)	695
Grants payable	14,580	(43,828)
Payroll taxes	933	(2,394)
Accrued wages	-	1,869
Other accrued liabilities	5,500	-
Deferred revenue	1,000	(6,825)
	<u>19,318</u>	<u>(120,662)</u>
Net cash provided by (used in) operating activities	19,318	(120,662)
Cash flows from investing activities:		
Cash received from investments	<u>130,178</u>	<u>67,256</u>
Net cash provided by investing activities	<u>130,178</u>	<u>67,256</u>
Net increase (decrease) in cash accounts	149,496	(53,406)
Cash accounts - beginning of year	<u>69,308</u>	<u>122,714</u>
Cash accounts - end of year	<u>\$ 218,804</u>	<u>\$ 69,308</u>

**ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Organization and Accounting Policies

Organization

The Arts Council of Greater Lansing, Inc. (Arts Council) is organized to benefit the people of the greater Lansing area by promoting artistic expression and appreciation, coordinating cultural development of the arts, facilitating communication among arts organizations, advocating arts within the community, and providing facilities as a center for the arts. The Arts Council is organized as a not-for-profit charitable organization under section 501(c)(3) and, as such, is exempt from federal and state income taxes on its related activities.

Major Program Descriptions

The Arts Council programs are grouped under one of two major program types - Education and Professional Development, and Arts Promotion, Awareness, and Advocacy.

Education and Professional Development consists of a multifaceted approach to supporting artists, students, and arts organizations throughout the community which provides professional development grants, group workshops, artists-in-residence in public schools, maintenance of online resources, and individual consultations and technical assistance.

Arts promotion spans several media outlets and community events. Endeavors include billboards showcasing artists' work, distributing print materials with lists of arts and cultural events, social media, website and mobile applications, and events such as Arts Night Out and rotating gallery exhibits within the offices of Arts Council.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Receivables

Revenue sources primarily include grants from state and local governments, non-profit and for-profit organizations, public contributions, and fees for services.

Contributions and pledges receivable that are expected to be collected within one year are recorded at their net realizable value. The Organization evaluates each receivable for collectability. All balances were determined to be collectible at September 31, 2018 and 2017, therefore no allowances for uncollectible accounts has been recorded.

ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Accounting Policies (continued)

Contributed Materials and Services

The Organization recognizes contributed services at their fair value if the services have value to the Organization and require specialized skills, are provided by individuals possessing those skills, and would have been purchased if not provided by contributors. Contributed materials and services that are recorded in the accompanying statement of activities represent a variety of services and materials used primarily for the Holiday Glitter, the Creative Placemaking Summit, artist promotion, and administrative support.

In addition to the contributed materials and services which have been recorded in the financial statements, the Arts Council benefits from volunteers whose services do not meet the criteria for recognition according to generally accepted accounting principles. The estimated value of these volunteers is \$153,740 and \$143,747 for the years ended September 30, 2018 and 2017, respectively, and include such services as board member meetings, grant review panels, interns, and fundraising event volunteers.

Deferred Revenue

Deferred revenue represents advance sponsorship receipts which have not yet been expended for an event to occur in the following fiscal year. At September 30, 2018 and 2017, the majority or entirety of these receipts relate to the Creative Placemaking Summit held each October and the Holiday Glitter fundraiser held each December, respectively. Revenues and expenses related to these activities are reflected in the Statement of Activities in the period the event occurs. Included in receivables at September 31, 2018, is \$30,000 attributable to deferred revenue.

Restricted Contributions

If the Organization receives donor-restricted contributions and all such restrictions are met within the same period, all such contributions are reported as contributions without donor restrictions (see Note 11).

Advertising Costs

The Arts Council incurs advertising costs for print media and billboards related to program, management and general, and fundraising functions. These costs are expensed in the period in which the advertising first takes place.

Property and Equipment

Leasehold improvements and equipment are capitalized at cost basis when the purchase price exceeds \$5,000. If assets are contributed, they are capitalized at fair value if it is greater than \$5,000. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Investment Income and Expenses

Investments are carried at fair value (see Note 4), and investment income includes interest and dividends received and accrued, realized gains and losses, and unrealized gains and losses, all of which are reflected within investment gains (losses), net of direct expenses, in the statements of activities. Investment-related expenses are included in net gain or loss of investments.

**ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 1 – Organization and Accounting Policies (continued)

Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All expenses used allocations except for grants, management fees, and contributed services and materials. Expenses are allocated on the basis of estimates of time and effort.

Liquidity

The Organization’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2018
Cash and savings accounts	\$ 218,803
Grants and accounts receivable	73,441
Appropriation of endowment fund	26,000
Total	\$ 318,244

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization has a quasi-endowment of \$572,216. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from the quasi-endowment could be made available if necessary.

Note 2 – Property and Equipment

The details of property and equipment are presented below:

	2018	2017	Estimated Life
Equipment	\$ 29,172	\$ 60,659	3-10 Years
Leasehold improvements	50,051	50,051	39 Years
Gross equipment cost	79,223	110,710	
Accumulated depreciation	37,687	65,782	
Property and equipment, net	\$ 41,536	\$ 44,928	

**ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Endowments

Capital Region Community Foundation

The Arts Council adopted FAS 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others. Accordingly, the Arts Council has recorded agency assets held by the CRCF. The increase or decrease in this asset is due to contributions from the Arts Council, earnings or losses on those contributions, distributions, and fees during the year.

The Arts Council has made two investments with the Capital Region Community Foundation (CRCF) represented by an interest in the assets held by CRCF. CRCF will maintain these separate investments and the Arts Council may elect to receive the earnings currently or have them reinvested. Upon the request of the Arts Council, distributions in excess of the net income of the fund may be made in any year if approved by the governing board of the CRCF. This arrangement conveys variance power to CRCF.

During the year ended September 30, 2010, the Arts Council invested \$650,000 with CRCF. This money was earned primarily as a result of the land and building sale recognized in the year-ended September 30, 2008. During the year ended September 30, 2012, the Council invested \$100,000 with CRCF.

Merrill Lynch, Pierce, Fenner & Smith

Separately, the board designated a quasi-endowment fund consisting of investments primarily in publicly traded securities (see Note 4) during the year ended September 30, 2011. These investments are held and managed by Merrill Lynch, Pierce, Fenner & Smith (MLPFS). The source of the funds was a bequest without donor restrictions.

The tables below present endowment net asset composition by type of fund and the changes in endowment net assets for the years ended September 30, 2018 and 2017, respectively.

	2018	2017
	Without Donor Restrictions	Without Donor Restrictions
Board-designated endowment funds (MLPFS)	\$ 598,216	\$ 661,820
Interest in assets held by foundation (CRCF)	1,066,691	1,039,908
Total Endowment funds	<u>\$ 1,664,907</u>	<u>\$ 1,701,728</u>
	2018	2017
	Without Donor Restrictions	Without Donor Restrictions
Endowment net assets, beginning of year	\$ 1,701,728	\$ 1,609,532
Investment returns (losses), net	93,357	159,452
Appropriation of endowment assets for expenditure	<u>(130,178)</u>	<u>(67,256)</u>
Endowment net assets, end of year	<u>\$ 1,664,907</u>	<u>\$ 1,701,728</u>

**ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 4 – Investments and Fair Value

MLPFS – The Arts Council maintains an investment policy, the objective of which is to seek total returns that exceed inflation by at least 5 percent over a long-term basis and outperforms a balanced index over moving 5-year average. Actual results may vary from year to year. Consistent with its risk parameters, the Arts Council also sets guidelines for diversification of investments among various equities and fixed income investments. From the investments, the Arts Council intends to use approximately \$26,000 annually to fund the Chris Clark Fellowship grants.

These investments are designated by the board of trustees for long-term investment (quasi-endowment). Earnings thereon may be appropriated for current use. Long-term investment activity is reflected in the following table.

	2018	2017
Beginning of year	\$ 661,820	\$ 645,892
Investment return, net	25,396	41,928
Amounts appropriated for current operations	(89,000)	(26,000)
End of year	\$ 598,216	\$ 661,820

CRCF

The beneficial interest in assets held at CRCF have been valued, as a practical expedient, at the fair value of the Arts Council's reciprocal share of the CRCF's investment pool as of September 30, 2018 and 2017, respectively, as reported by CRCF. The beneficial interest is not included in the fair value table (see Note 10). CRCF values securities and other financial instruments on a recurring fair value basis of accounting. The estimated fair values of certain investments of CRCF, which includes securities for which prices are not readily available, are determined by the management of CRCF, and may not reflect amounts that could be realized upon immediate sale nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. At December 31, 2017 (the most recently audited financial statements available), CRCF's investments are composed approximately of 64 percent equities, 29 percent corporate bonds, 4 percent alternative investments, and 3 percent money market and certificates (recorded at cost). The beneficial interest in assets held at the Foundation is not redeemable by the Arts Council unless approved the board of CRCF as described in Note 3.

The Council follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-320 (formerly Statement of Financial Accounting Standards No. 124) *Not-for-Profit Entities Investments – Debt and Equity Securities*. Under FASB ASB 958-320, investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets, as are reinvested dividends and interest.

**ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 4 – Investments and Fair Value (continued)

The Financial Accounting Standards Board Codification (FASB ASC) 820-10, *Fair Value Measurements and Disclosures*, (formerly SFAS No. 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The following are the major categories of assets measured at fair value on a recurring basis for the years ended September 30, 2018 and 2017.

	2018	
Description	Total	Level 1
Common stocks	\$ 114,651	\$ 114,651
Mutual funds	470,703	470,703
Total assets at fair value	585,354	<u>\$ 585,354</u>
Cash in brokerage accounts	12,862	
Long-term investments	<u>\$ 598,216</u>	
	2017	
	2017	
Description	Total	Level 1
Common stocks	\$ 113,741	\$ 113,741
Mutual funds	540,908	540,908
Total assets at fair value	654,649	<u>\$ 654,649</u>
Cash in brokerage accounts	7,171	
Long-term investments	<u>\$ 661,820</u>	

Included in net gains from investments are unrealized holding gains of \$44,263.

Note 5 – Retirement Plan

The Arts Council maintains a 403(b) defined contribution retirement plan to which employees may contribute an annual maximum amount established by the Internal Revenue Service. The Arts Council will match up to 5% of the employee's gross compensation. Employer contributions for 2018 and 2017 were \$3,564 and \$5,219, respectively.

Note 6 – Subsequent Events

Subsequent events have been reviewed through March 22, 2019, which is the date the financial statements were available for issuance.

ARTS COUNCIL OF GREATER LANSING, INC.
NOTES TO FINANCIAL STATEMENTS

Note 7 – Leases

In July 2014, the Arts Council signed a building lease that expires in July 2019, with provisions for early termination and extension beyond 2019. The lease calls for rent to be \$1,100 per month, for a total of \$66,000 over the 5-year life of the lease. The lease provides for a discount if the rent is prepaid. The Arts Council has prepaid rents at years ended September 30, 2018 and 2017. The following table is a schedule of future minimum lease payments under the lease.

2019	\$	6,402
Thereafter		<u>-</u>
Total	\$	<u><u>6,402</u></u>

Lease expenses were \$12,804 for each of the years ending September 30, 2018 and 2017, respectively.

Note 8 – Income Taxes

In the opinion of its management, the Arts Council has not taken any unreasonable tax position and, therefore, no liability has been recorded. The Arts Council has never undergone an audit by the Internal Revenue Service, and three years of tax returns are open to possible examination.

Note 9 – Concentrations

Investments held at Merrill Lynch consist of stocks, mutual funds, and cash amounting to \$598,216 and \$661,820 at September 30, 2018 and 2017, respectively. The investments are not guaranteed nor insured. Cash held in these accounts is insured by the FDIC and is included with the investments since it is expected to be invested or available for long-term investment.

Concentrations exist with respect to grantors and related receivables. The loss of a significant grantor may adversely impact the Organization in the near term.

Note 10 – Reclassifications

Certain reclassifications have been made in the financial statements for comparative purposes. No change to net assets or the net change in net assets was needed as a result of the reclassifications.

Note 11 – Net Assets with Donor Restrictions

Net assets of \$31,000 were restricted for the Cultural Economic Development Plan at September 30, 2017. All such restrictions were satisfied during the year ending September 30, 2018.