



CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

Arts Council of Greater Lansing, Inc.

Financial Statements

September 30, 2020 and 2019

With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Arts Council of Greater Lansing, Inc. (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2020 and 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' 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, 2020 and 2019, 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.

Correction of Error

As described in Note 13 to the financial statements, a correction of accounting error to previously issued financial statements related to grant contributions was made during the year. The restatement resulted in an increase of \$20,000 to the prior year grants receivable and grant revenue. Our opinion is not modified with respect to this matter.

Clark, Schafer, Hackett & Co.

East Lansing, Michigan

March 19, 2021

ARTS COUNCIL OF GREATER LANSING, INC.
 STATEMENTS OF FINANCIAL POSITION
 SEPTEMBER 30, 2020 AND 2019

Assets	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and savings accounts	\$ 192,829	100,482
Grants receivable	47,707	114,622
Long-term investments appropriated for current use	26,000	26,000
Prepaid expenses	<u>20,789</u>	<u>14,339</u>
Total current assets	287,325	255,443
Other Assets		
Property and equipment, net	37,711	39,160
Long-term investments, net of current appropriation	559,868	557,548
Interest in assets held by foundation	<u>1,060,123</u>	<u>1,036,073</u>
Total other assets	<u>1,657,702</u>	<u>1,632,781</u>
Total assets	<u>\$ 1,945,027</u>	<u>1,888,224</u>
 Liabilities and Net Assets		
Current Liabilities		
Payroll taxes	\$ 6,535	3,868
Accrued wages and related expenses	2,042	591
Accounts payable	3,611	3,324
Accrued paid time off	6,676	4,911
Grants payable	172,687	145,470
Other accrued expenses	1,890	30,672
Refundable advance	62,492	-
Deferred revenue	<u>3,383</u>	<u>2,500</u>
Total current liabilities	259,316	191,336
Net Assets		
Without donor restrictions	1,679,356	1,696,888
With donor restrictions	<u>6,355</u>	<u>-</u>
Total net assets	<u>1,685,711</u>	<u>1,696,888</u>
Total liabilities and net assets	<u>\$ 1,945,027</u>	<u>1,888,224</u>

See notes to the financial statements.

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
Changes in net assets without donor restrictions		
Revenues, gains, and other support:		
Government grants	\$ 403,151	253,483
All other grants and contracts	20,533	125,249
Change in beneficial interest in assets held by foundation	67,573	11,801
Investment returns, net	28,320	24,332
Contributions	18,953	22,642
Membership dues	7,767	12,143
Program service fees	25,750	108,860
Fundraising events	15,410	26,108
Contributed services	42,668	57,221
Contributed materials	5,000	5,000
Interest income	62	106
	635,187	646,945
Total revenues, gains, and other support without donor restrictions		
Expenses:		
Program services	529,496	568,616
Supporting services:		
Management and general	77,273	109,388
Fundraising	45,950	47,621
	652,719	725,625
Total Expenses		
Change in net assets without donor restrictions	(17,532)	(78,680)
Changes in net assets with donor restrictions		
Grants with donor restrictions	6,355	-
Change in net assets with donor restrictions	6,355	-
Change in total net assets	(11,177)	(78,680)
Net assets at beginning of year	1,696,888	1,775,568
Net assets at end of year	\$ 1,685,711	1,696,888

See notes to the financial statements.

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants - organizations	\$ 244,006	-	-	244,006
Grants - individuals	8,000	-	-	8,000
Community art projects	75,000	-	-	75,000
Salaries and wages	94,285	39,285	23,571	157,141
Pension and retirement	2,960	1,233	740	4,933
Employee benefits	4,196	1,749	1,049	6,994
Payroll taxes	7,250	3,021	1,812	12,083
Management fees	-	-	1,000	1,000
Accounting	4,321	3,143	393	7,857
Consulting	-	1,579	6,100	7,679
Advertising and promotion	4,369	3,932	437	8,738
Office expenses	9,789	5,710	816	16,315
Computer and IT expenses	5,629	3,283	469	9,381
Occupancy costs	12,018	7,011	1,002	20,031
Travel	1,730	1,009	144	2,883
Arts events and conferences	10,351	545	-	10,896
Depreciation	362	1,087	-	1,449
Insurance	562	1,686	-	2,248
Direct fundraising event costs	-	-	8,417	8,417
In-kind expense - services	39,668	3,000	-	42,668
In-kind expense - materials	5,000	-	-	5,000
	<u>529,496</u>	<u>77,273</u>	<u>45,950</u>	<u>652,719</u>
Total	\$ 529,496	77,273	45,950	652,719

See notes to the financial statements.

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER, 30, 2019

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants - organizations	\$ 166,069	-	-	166,069
Grants - individuals	8,000	-	-	8,000
Community art projects	75,007	-	-	75,007
Salaries and wages	101,308	42,215	25,329	168,852
Pension and retirement	2,941	1,226	735	4,902
Employee benefits	5,369	2,237	1,342	8,948
Payroll taxes	8,173	3,406	2,043	13,622
Management fees	3,000	-	-	3,000
Accounting	4,546	3,306	413	8,265
Advertising and promotion	10,733	9,660	1,073	21,466
Office expenses	13,427	7,833	1,119	22,379
Computer and IT expenses	9,091	5,303	758	15,152
Occupancy costs	12,164	7,096	1,014	20,274
Travel	2,770	1,616	231	4,617
Arts events and conferences	103,160	5,429	-	108,589
Depreciation	594	1,782	-	2,376
Insurance	311	933	-	1,244
Direct fundraising event costs	-	-	10,642	10,642
In-kind expense - materials	36,953	17,346	2,922	57,221
In-kind expense - services	5,000	-	-	5,000
	<u>568,616</u>	<u>109,388</u>	<u>47,621</u>	<u>725,625</u>
Total	\$ <u>568,616</u>	<u>109,388</u>	<u>47,621</u>	<u>725,625</u>

See notes to the financial statements.

ARTS COUNCIL OF GREATER LANSING, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Changes in net assets	\$ (11,177)	(78,680)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,449	2,376
Net realized and unrealized (gain) loss - beneficial interest	(67,573)	(11,801)
Net realized and unrealized (gain) loss - investments	(28,320)	(24,332)
Changes in operating assets and liabilities:		
Grant receivable	66,915	(71,181)
Accounts payable	287	(7,230)
Prepaid expenses	(6,450)	9,713
Grants payable	27,217	(12,955)
Payroll taxes	2,667	(2,057)
Accrued wages and related expenses	3,216	(3,221)
Other accrued liabilities	(28,782)	25,172
Refundable advance	62,492	-
Deferred revenue	883	(25,545)
	<u>22,824</u>	<u>(199,741)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Cash received from sale investments	763,598	476,854
Cash paid for purchase of investments	<u>(694,075)</u>	<u>(395,435)</u>
Net cash provided by investing activities	<u>69,523</u>	<u>81,419</u>
Net change in cash accounts	92,347	(118,322)
Cash accounts - beginning of year	<u>100,482</u>	<u>218,804</u>
Cash accounts - end of year	<u>\$ 192,829</u>	<u>100,482</u>

See notes to the financial statements.

1. ORGANIZATION AND ACCOUNTING POLICIES:

Organization

The Arts Council of Greater Lansing, Inc. (Arts Council, Organization) 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 for 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 three major program categories - Education and Professional Development, Arts Programming, and Arts Promotion 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, maintenance of online resources, and individual consultations and technical assistance.

Arts Programming provides art engagement opportunities for groups of all ages through temporary and permanent art installations throughout the region, sponsoring gallery exhibits, artists-in-residence in public schools, and scheduled events aimed at driving economic growth while fostering spontaneous creative experiences.

Arts Promotion and Advocacy spans several media outlets and community events. Endeavors include the 517 Art Search App, distributing print materials with lists of arts and cultural events, social media, website and mobile applications, and special events and fundraisers.

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 revenue are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions are net assets that are subject to donor-imposed restrictions either for a specific use, duration, or both. When a time restriction expires or a use restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions would be available for subsequent years' activities.

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.

Adoption of Accounting Standards Updates

During the year ended September 30, 2020, the Organization implemented Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The ASU generally requires retrospective application within the financial statements. The ASU modified and removed certain disclosure requirements relating to financial instruments (investments) which are reflected in these financial statements. No changes were needed to the beginning balance of net assets as a result of the ASU.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*. The ASU, as updated, requires that an entity determine whether support and revenues should be accounted for as exchange transactions or as contribution transactions. If both parties involved in a transaction receive commensurate value, then a transaction is an exchange transaction. If both parties do not receive commensurate value, then a transaction is a contribution transaction. The ASU also requires that the entity determine whether a received contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If both a barrier and a right of return or a right of release is present, that fact indicates that a recipient is not entitled to the assets contributed until the entity has overcome all barriers in the agreement. The Organization adopted the new standard effective October 1, 2019, the first day of the Organization's fiscal year using the modified prospective approach. The adoption of ASU 2018-08 did not result in a change to the accounting for any grants or contributions. Therefore, no cumulative effect adjustment was recorded.

Revenue, contributions, 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 of cash and other assets without donor stipulations concerning the use of such assets are reported as revenues of the net assets without donor restrictions. Contributions of cash or other assets to be used in accordance with donor stipulations are reported as revenues with donor restrictions. Contributions with donor restrictions whose restrictions are met in the same period as the contribution are reported within net assets without donor restrictions (see Note 11).

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires and at that time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization evaluates contributions for classification as conditional or unconditional. Unconditional contributions are reported as revenue and conditional contributions are reported as revenue only when all conditions have been met or the conditions have been explicitly waived by the donor and the right of return or right of release ceases to exist. Conditional contributions are reported as refundable advances on the statement of financial position until the contribution is recognized as revenue. There were no refundable advances as of September 30, 2019. The balance reported as refundable advance as of September 30, 2020 includes funds received related to the paycheck protection program loan (P3 loan) under the Coronavirus Aid, Relief, and Economic Security Act (Cares Act) and an overpayment by a resource provider. Based on all the facts and circumstances, the Organization reasonably expects that the P3 loan proceeds will be forgiven in their entirety, as intended by Congress. Therefore, this amount is treated as a conditional contribution and reported in the financial statements as a refundable advance.

Contributions and grants 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 30, 2020 and 2019, therefore no allowances for uncollectible accounts has been recorded.

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 statements 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 accounting principles generally accepted in the United States of America. The estimated value of these volunteers is \$123,136 and \$127,918 for the years ended September 30, 2020 and 2019, respectively, and includes 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. There was no deferred revenue at September 30, 2020. At September 30, 2019, the majority of these receipts relate to the Creative Placemaking Summit held each October and the Holiday Glitter fundraiser held each December. Revenues and expenses related to these activities are reflected in the statements of activities in the period the event occurs. At September 30, 2020, this balance related to membership dues which are paid annually by members and recognized ratably over twelve months.

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 its 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 (see Note 2).

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, net of direct expenses, all of which are reflected within investment returns, net, in the statements of activities.

Beneficial interest in assets held by foundation

The Arts Council accounts for assets that are contributed by the Arts Council to the Capital Region Community Foundation (CRCF) as an asset of the Arts Council if it has been specified as the beneficiary of those assets. All contributions of this type, and the activity associated with the asset held by CRCF, are reported at fair value as a beneficial interest in assets held by foundation in the statements of financial position, with the related changes in fair value reported in the statements of activities. The increase or decrease in this asset is due to transfers from the Arts Council, earnings or losses on the underlying investments, distributions, and fees during the year.

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, community art projects, 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 statements of financial position date for general expenditure are as follows:

	2020	2019
Cash and savings accounts	\$ 192,829	100,482
Grants receivable	47,707	114,622
Appropriation of endowment fund	26,000	26,000
Total	266,536	241,104
 Restricted by donors with time or purpose restrictions	 6,355	 -
 Financial assets available to meet cash needs for general purposes within one year	 \$ 260,181	 241,104

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 \$585,868 (see Note 3). 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.

Subsequent events

Subsequent events have been evaluated through March 19, 2021, which is the date the financial statements were available to be issued.

During the subsequent events period, the Arts Council applied for and received a round two paycheck protection program loan amounting to \$34,492.

2. PROPERTY AND EQUIPMENT:

The details of property and equipment are presented below:

	2020	2019	Estimated Life
Equipment	\$ 27,393	27,393	3-10 Years
Leasehold improvements	50,051	50,051	39 Years
Gross equipment cost	77,444	77,444	
Accumulated depreciation	39,733	38,284	
Property and equipment, net	\$ 37,711	39,160	

3. ENDOWMENTS:

Capital Region Community Foundation

The Arts Council has made two transfers to CRCF naming itself as the beneficiary and represented by an interest in the assets held by CRCF. CRCF maintains these transfers separately 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 transferred \$650,000 to 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 Arts Council transferred another \$100,000 to CRCF.

Merrill Lynch, Pierce, Fenner & Smith

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, 2020 and 2019, respectively.

	2020 Without Donor Restrictions	2019 Without Donor Restrictions
Board-designated endowment funds (MLPFS)	\$ 585,868	583,548
Interest in assets held by foundation (CRCF)	<u>1,060,123</u>	<u>1,036,073</u>
Total Endowment funds	<u>\$ 1,645,991</u>	<u>1,619,621</u>
	2020 Without Donor Restrictions	2019 Without Donor Restrictions
Endowment net assets, beginning of year	\$ 1,619,621	1,664,907
Investment returns, net	95,893	36,133
Appropriation of endowment assets for expenditure	<u>(69,523)</u>	<u>(81,419)</u>
Endowment net assets, end of year	<u>\$ 1,645,991</u>	<u>1,619,621</u>

4. INVESTMENTS AND FAIR VALUE:

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Arts Council’s own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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 Directors for long-term investment (quasi-endowment). Earnings thereon may be appropriated for current use. Long-term investment activity is reflected in the following table.

	2020	2019
Beginning of year	\$ 583,548	598,216
Investment return, net	28,320	24,332
Amounts appropriated for current operations	(26,000)	(39,000)
End of year	\$ 585,868	583,548

CRCF

The beneficial interest in assets held at CRCF have been valued at the fair value of the Arts Council’s reciprocal share of the underlying investments held by CRCF as of September 30, 2020 and 2019, respectively, as reported by CRCF. These are categorized as level 3 measurement assets. 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, 2019 (the most recently audited financial statements available), CRCF’s investments are composed approximately of 74 percent equity mutual funds, 24 percent fixed income mutual funds, and 2 percent money market and certificates of deposit (recorded at cost). At December 31, 2018, CRCF’s investments are composed approximately of 73 percent equity mutual funds, 25 percent fixed income mutual funds, and 2 percent money market and certificates of deposit (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 following are the major categories of assets measured at fair value on a recurring basis for the years ended September 30, 2020 and 2019.

Description	2020 Total	Level 1	Level 2	Level 3
Common stocks	\$ 96,025	96,025	-	-
Mutual funds	468,644	468,644	-	-
Total securities at fair value	564,669	564,669	-	-
Cash in brokerage accounts	21,199			
Long-term investments	585,868			
Interest in assets held by foundation	1,060,123	-	-	1,060,123
Assets at fair value	<u>\$ 1,645,991</u>	<u>564,669</u>	<u>-</u>	<u>1,060,123</u>

Description	2019 Total	Level 1	Level 2	Level 3
Common stocks	\$ 83,533	83,533	-	-
Mutual funds	490,766	490,766	-	-
Total securities at fair value	574,299	574,299	-	-
Cash in brokerage accounts	9,249			
Long-term investments	583,548			
Interest in assets held by foundation	1,036,073	-	-	1,036,073
Assets at fair value	<u>\$ 1,619,621</u>	<u>574,299</u>	<u>-</u>	<u>1,036,073</u>

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the years ended September 30, 2020 and 2019.

	2020	2019
Balance at beginning of year	\$ 1,036,073	1,066,691
Change in value of beneficial interest	67,573	11,801
Distributions	<u>(43,523)</u>	<u>(42,419)</u>
Balance at end of year	<u>\$ 1,060,123</u>	<u>1,036,073</u>

Included in net gains from investments are unrealized holding gains of \$5,774 and \$2,674 for the years ended September 30, 2020 and 2019, respectively.

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 2020 and 2019 were \$4,933 and \$4,902, respectively.

6. COVID-19:

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus a pandemic, now known as COVID-19. In response to the COVID-19 pandemic, governments have taken preventative or protective actions, such as temporary closures of non-essential businesses and “shelter-at-home” guidelines for individuals. As a result, the global economy has been negatively affected, and the Arts Council's operations were also impacted. Due to the “shelter-at-home” guidelines during April and May 2020, the Arts Council cancelled remaining in person events. The cancelled events resulted in a decline in revenue, with a corresponding decline in expenses. In response, the Arts Council has applied for and received a Paycheck Protection Program (P3) loan made available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act in order to retain all employees, applied for and received other grants from the State of Michigan and other not for profit entities, successfully transitioned some programming to remote delivery, and increased the focus on additional fundraising and grant writing. Though many in-person events for fiscal year 2021 have also been cancelled, the Arts Council continues to explore ways to provide programming remotely. The severity of the continued impact due to COVID-19 on the Art Council’s financial condition, results of operations or cash flows will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Arts Council’s community, all of which are uncertain and cannot be predicted.

7. LEASES:

In 2019, the Arts Council signed a building lease that expires in July 2024. The lease calls for rent of \$1,350 per month and provides a discount if the rent is prepaid. The Arts Council prepaid rent for the years ended September 30, 2020 and 2019. The following table is a schedule of future minimum lease payments under the lease reflecting the prepayment discount.

2021	\$	15,714
2022		15,714
2023		15,714
2024		<u>13,095</u>
Total	\$	<u><u>60,237</u></u>

Lease expenses were \$15,714 and \$13,532 for the years ending September 30, 2020 and 2019, respectively.

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.

9. CONCENTRATIONS:

Investments held at Merrill Lynch consist of stocks, mutual funds, and cash amounting to \$585,868 and \$583,548 at September 30, 2020 and 2019, respectively. The investments are not guaranteed nor insured. Cash held in these accounts is insured by the FDIC or SIPC and is included with the investments since it is expected to be invested or available for long-term investment.

Approximately 63% and 52% of the Organization's support came from three sources for the years ended September 30, 2020 and 2019, respectively. The loss of a significant grantor may adversely impact the Organization in the near term.

10. RECLASSIFICATIONS:

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

11. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets of \$6,355 at September 30, 2020 were restricted for the express purpose of making grants to organizations within Ingham County.

12. RELATED PARTY TRANSACTIONS:

The Arts Council engaged a firm owned by a Board member to assist with event planning and management for the Creative Placemaking Summit during the year ended September 30, 2019, which amounted to \$7,500. The payment due was reduced by \$3,500 in consideration for the firm's sponsorship of the Holiday Glitter fundraiser, which are considered noncash transactions. Of the total fees, \$4,000 is included in accrued expenses at September 30, 2019.

13. CORRECTION OF ERROR:

The Arts Council discovered that previously issued financial statements reflected an error related to grants. The error in accounting resulted in differences in previously issued financial statements sufficient to require restatement of the prior period. The cumulative effect increased the prior year grant revenue and grants receivable without donor restrictions by \$20,000. The effect was the same on ending net assets for that period.