

**THE ARTS COUNCIL, INC.**

**Financial Statements**

**September 30, 2022 and 2021**

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To the Board of Trustees  
The Arts Council, Inc.  
Winston-Salem, North Carolina

## INDEPENDENT AUDITORS' REPORT

### *Opinion*

We have audited the accompanying financial statements of The Arts Council, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the financial position of The Arts Council, Inc. as of September 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Responsibilities of Management for the Financial Statements*

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Arts Council, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Arts Council, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

*Butler & Burke LLP*

Winston-Salem, North Carolina  
March 16, 2023

**THE ARTS COUNCIL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2022 and 2021**

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	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 522,220	\$ 880,207
Promises to give, net	914,920	887,199
Receivables, net	8,876	78,270
Prepaid expenses	18,165	34,558
Inventories	113,500	113,500
Cash surrender value of life insurance, net	256,789	289,783
Property and equipment, net	10,796,796	11,395,285
Endowment		
Restricted cash	92,379	1,021
Promises to give, net	86,124	165,005
Investments	804,223	-
Beneficial interest in assets held by others	<u>-</u>	<u>1,001,384</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 13,613,992</u></b>	<b><u>\$ 14,846,212</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Loans payable	\$ 158,158	\$ 349,022
Accounts payable and accrued expenses	73,172	117,203
Deferred revenue	678	3,199
Bonds payable, net	<u>3,382,325</u>	<u>3,411,029</u>
<b><u>Total Liabilities</u></b>	<b><u>3,614,333</u></b>	<b><u>3,880,453</u></b>
<b>Net Assets</b>		
Without donor restrictions	6,785,148	7,614,195
With donor restrictions	<u>3,214,511</u>	<u>3,351,564</u>
<b><u>Total Net Assets</u></b>	<b><u>9,999,659</u></b>	<b><u>10,965,759</u></b>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 13,613,992</u></b>	<b><u>\$ 14,846,212</u></b>

**THE ARTS COUNCIL, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
<b>United Arts Fund Drive</b>			
Current year campaign	\$ -	\$ 1,799,102	\$ 1,799,102
Change in present value discount	-	12,477	12,477
Noncash support – current year campaign	-	<u>18,351</u>	<u>18,351</u>
<b><u>Total United Arts Fund Drive</u></b>	<u>-</u>	<u>1,829,930</u>	<u>1,829,930</u>
<b>Other</b>			
Other gifts and grants	-	817,063	817,063
Facilities rental	396,710	-	396,710
Interest income	12	-	12
Change in value of beneficial interest	-	(145,762)	(145,762)
Change in cash surrender value of life insurance	(32,994)	-	(32,994)
Investment income, net	-	4,756	4,756
Realized and unrealized losses on investments	-	(56,155)	(56,155)
Other	1,059	-	1,059
Gain upon debt extinguishment	<u>195,000</u>	<u>-</u>	<u>195,000</u>
<b><u>Total Other</u></b>	<u>559,787</u>	<u>619,902</u>	<u>1,179,689</u>
<b>Net Assets Released from Restrictions</b>			
Satisfaction of purpose and timing restrictions	<u>2,586,885</u>	<u>(2,586,885)</u>	<u>-</u>
<b><u>Total Net Assets Released from Restrictions</u></b>	<u>2,586,885</u>	<u>(2,586,885)</u>	<u>-</u>
<b><u>Total Public Support and Revenue</u></b>	<u>3,146,672</u>	<u>(137,053)</u>	<u>3,009,619</u>
<b>EXPENSES</b>			
Facility costs	1,627,013	-	1,627,013
Program costs	1,569,794	-	1,569,794
General and administrative	390,728	-	390,728
Fundraising	<u>388,184</u>	<u>-</u>	<u>388,184</u>
<b><u>Total Expenses</u></b>	<u>3,975,719</u>	<u>-</u>	<u>3,975,719</u>
<b>CHANGE IN NET ASSETS</b>	<b>(829,047)</b>	<b>(137,053)</b>	<b>(966,100)</b>
Net Assets, Beginning of Year	<u>7,614,195</u>	<u>3,351,564</u>	<u>10,965,759</u>
Net Assets, End of Year	<u>\$ 6,785,148</u>	<u>\$ 3,214,511</u>	<u>\$ 9,999,659</u>

**THE ARTS COUNCIL, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2021**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
<b>United Arts Fund Drive</b>			
Current year campaign	\$ -	\$ 1,736,230	\$ 1,736,230
Change in present value discount	-	(6,233)	(6,233)
Noncash support – current year campaign	-	8,000	8,000
<u>Total United Arts Fund Drive</u>	<u>-</u>	<u>1,737,997</u>	<u>1,737,997</u>
<b>Other</b>			
Other gifts and grants	-	792,592	792,592
Facilities rental	323,814	-	323,814
Interest income	46	-	46
Change in value of beneficial interest	-	124,101	124,101
Change in cash surrender value of life insurance	(25,431)	-	(25,431)
Other	29,036	-	29,036
Gain upon debt extinguishment	201,700	-	201,700
<u>Total Other</u>	<u>529,165</u>	<u>916,693</u>	<u>1,445,858</u>
<b>Net Assets Released from Restrictions</b>			
Satisfaction of purpose and timing restrictions	2,552,765	(2,552,765)	-
<u>Total Net Assets Released from Restrictions</u>	<u>2,552,765</u>	<u>(2,552,765)</u>	<u>-</u>
<u>Total Public Support and Revenue</u>	<u>3,081,930</u>	<u>101,925</u>	<u>3,183,855</u>
<b>EXPENSES</b>			
Facility costs	1,333,401	-	1,333,401
Program costs	1,284,242	-	1,284,242
General and administrative	302,100	-	302,100
Fundraising	407,268	-	407,268
<u>Total Expenses</u>	<u>3,327,011</u>	<u>-</u>	<u>3,327,011</u>
<b>CHANGE IN NET ASSETS</b>	<b>(245,081)</b>	<b>101,925</b>	<b>(143,156)</b>
Net Assets, Beginning of Year	7,859,276	3,249,639	11,108,915
Net Assets, End of Year	<u>\$ 7,614,195</u>	<u>\$ 3,351,564</u>	<u>\$ 10,965,759</u>

**THE ARTS COUNCIL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended September 30, 2022**

	Facility Costs	Program Costs	General and Administrative	Fundraising	Total
Salaries	\$ 429,170	\$ 57,341	\$ 98,367	\$ 270,339	\$ 855,217
Payroll taxes	33,607	4,586	17,698	13,418	69,309
Employee benefits	24,332	11,728	35,932	7,182	79,174
<u>Total Salaries Related</u>	<u>487,109</u>	<u>73,655</u>	<u>151,997</u>	<u>290,939</u>	<u>1,003,700</u>
Grants to others	-	1,491,791	-	-	1,491,791
Occupancy	236,951	-	25,923	-	262,874
Events and project expenses	-	2,236	-	2,525	4,761
Gallery expenses	3,745	-	-	-	3,745
Taxes	1,940	-	-	-	1,940
Advertising and promotion	-	152	-	28,017	28,169
Supplies	32,214	-	-	-	32,214
Professional services	4,072	75	84,185	-	88,332
Other personnel costs	-	-	17,559	-	17,559
Office expenses	-	-	6,876	808	7,684
Repairs and maintenance	46,890	-	-	-	46,890
Equipment rental	-	-	3,927	-	3,927
Postage	-	-	2,028	7,582	9,610
Licenses and permits	2,550	-	-	-	2,550
Computer expense	433	-	35,103	22,532	58,068
Dues, memberships and publications	-	-	4,543	3,795	8,338
Conferences and training	-	-	16,765	1,000	17,765
Travel	-	1,085	-	-	1,085
Production costs	20,045	-	-	-	20,045
Printing and copying	-	-	1,102	206	1,308
Insurance	37,362	-	10,340	-	47,702
Bank fees	10,642	-	13,629	2,612	26,883
Board and volunteer expense	-	800	1,311	-	2,111
Interest expense	52,844	-	4,236	-	57,080
Bad debt expense	64,362	-	-	28,168	92,530
Other	6,123	-	10,400	-	16,523
<u>Total Expenses Before Depreciation</u>	<u>1,007,282</u>	<u>1,569,794</u>	<u>389,924</u>	<u>388,184</u>	<u>3,355,184</u>
Depreciation	619,731	-	804	-	620,535
<u>Total Expenses</u>	<u>\$ 1,627,013</u>	<u>\$ 1,569,794</u>	<u>\$ 390,728</u>	<u>\$ 388,184</u>	<u>\$ 3,975,719</u>

**THE ARTS COUNCIL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended September 30, 2021**

	Facility Costs	Program Costs	General and Administrative	Fundraising	Total
Salaries	\$ 274,109	\$ 103,624	\$ 90,050	\$ 261,139	\$ 728,922
Payroll taxes	16,300	7,399	18,199	7,547	49,445
Employee benefits	27,387	12,785	25,016	23,396	88,584
<u>Total Salaries Related</u>	<u>317,796</u>	<u>123,808</u>	<u>133,265</u>	<u>292,082</u>	<u>866,951</u>
Grants to others	-	1,159,610	-	-	1,159,610
Occupancy	224,578	-	16,207	-	240,785
Events and project expenses	3,158	-	-	3,439	6,597
Gallery expenses	1,415	-	-	-	1,415
Taxes	1,940	-	-	-	1,940
Advertising and promotion	-	-	-	24,168	24,168
Supplies	22,560	-	194	-	22,754
Professional services	-	-	31,378	32,744	64,122
Other personnel costs	-	-	21,867	-	21,867
Office expenses	713	-	4,953	724	6,390
Repairs and maintenance	37,898	-	-	-	37,898
Equipment rental	57	-	4,775	-	4,832
Postage	17	-	1,658	9,172	10,847
Licenses and permits	300	-	-	-	300
Computer expense	-	-	47,806	17,695	65,501
Dues, memberships and publications	-	-	2,447	2,576	5,023
Conferences and training	-	-	2,876	1,000	3,876
Production costs	10,934	-	-	-	10,934
Printing and copying	-	-	1,136	8,442	9,578
Insurance	35,792	-	6,071	-	41,863
Bank fees	9,577	24	13,437	2,480	25,518
Board and volunteer expense	-	800	1,172	18	1,990
Interest expense	62,706	-	4,122	-	66,828
Bad debt expense	-	-	-	10,978	10,978
Other	3,398	-	317	1,750	5,465
<u>Total Expenses Before Depreciation</u>	<u>732,839</u>	<u>1,284,242</u>	<u>293,681</u>	<u>407,268</u>	<u>2,718,030</u>
Depreciation	600,562	-	8,419	-	608,981
<u>Total Expenses</u>	<u>\$ 1,333,401</u>	<u>\$ 1,284,242</u>	<u>\$ 302,100</u>	<u>\$ 407,268</u>	<u>\$ 3,327,011</u>

**THE ARTS COUNCIL, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (966,100)	\$ (143,156)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	620,535	608,981
Noncash interest expense	13,988	13,974
Change in value of beneficial interest	145,762	(124,101)
Realized and unrealized losses on investments	56,155	-
Bad debt expense	92,530	10,978
Gain upon debt extinguishment	(195,000)	(201,700)
Change in discount on promises to give	(12,477)	6,233
Change in cash surrender value of life insurance	32,994	25,431
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,031	(12,481)
Promises to give	35,470	(174,590)
Prepaid expenses	16,393	(16,668)
Increase (decrease) in:		
Accounts payable and accrued expenses	(44,031)	(19,063)
Deferred revenue	(2,521)	(21)
<u>Net Cash Used in Operating Activities</u>	<u>(201,271)</u>	<u>(26,183)</u>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(22,046)	(37,495)
Beneficial interest distributions	855,622	-
Purchases of investments	(860,378)	-
<u>Net Cash Used in Investing Activities</u>	<u>(26,802)</u>	<u>(37,495)</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments on bonds	(38,556)	(390,000)
Proceeds from loans	-	195,000
<u>Net Cash Used in Financing Activities</u>	<u>(38,556)</u>	<u>(195,000)</u>
Change in Cash, Cash Equivalents, and Restricted Cash	(266,629)	(258,678)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>881,228</u>	<u>1,139,906</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 614,599</u>	<u>\$ 881,228</u>
<b><u>SUPPLEMENTAL DISCLOSURE:</u></b>		
Interest paid	<u>\$ 52,844</u>	<u>\$ 62,706</u>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A: ORGANIZATION AND NATURE OF ACTIVITIES**

The Arts Council, Inc. (the "Council") is a nonprofit organization established under the laws of the State of North Carolina which serves the citizens of Winston-Salem by acting as a catalyst in the community to preserve the local cultural heritage and to develop, advance, enhance and sustain the cultural life of the greater Winston-Salem area. The Council's activities include an annual fund raising campaign, direct program sponsorship, and the maintenance of facilities for use by community organizations.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of the Council have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). The Council reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

*Net assets without donor restrictions* - net assets that are not restricted by donors or for which donor-imposed restrictions have expired. If the board specifies a purpose where none has been stated, such funds are classified as board designated assets without donor restrictions.

*Net assets with donor restrictions* - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e. donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Cash, Cash Equivalents, and Restricted Cash**

For purposes of the statements of cash flows, cash equivalents include all cash on hand and in banks. These accounts at times may exceed federally insured limits. The Council has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk. Restricted cash consists of donor-restricted contributions received for placement in an endowment fund.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash, Cash Equivalents, and Restricted Cash (Continued)**

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same amounts shown in the statements of cash flows as of September 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 522,220	\$ 880,207
Restricted cash	<u>92,379</u>	<u>1,021</u>
<b>Total cash, cash equivalents, and restricted cash shown in the statements of cash flows</b>	<b><u>\$ 614,599</u></b>	<b><u>\$ 881,228</u></b>

**Promises to Give**

Contributions and grants (promises to give) are recognized as revenues in the period the commitment is made. The Council records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contributions and grants revenue in the statements of activities. The Council determines an allowance for uncollectible promises to give based on historical experience, an assessment of the economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. The Council has determined that an allowance of \$40,139 and \$38,151 was necessary at September 30, 2022 and 2021, respectively. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met.

**Receivables**

Receivables are stated at unpaid balances. The Council provides for losses using the allowance method. It is the Council's policy to write off uncollectible receivables when management determines the receivable will not be collected. The Council determined that an allowance of \$24,105 was necessary at September 30, 2021. No allowance was considered necessary at September 30, 2022.

**Investments**

The Council carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Interest and dividend income is reflected as investment income in the accompanying statements of activities net of external and direct internal investment expenses.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventories**

Inventories of artwork are stated at cost, which is based on independently appraised values for individual pieces. The value of the inventories held by the Council at September 30, 2022 and 2021 was \$113,500, respectively.

**Cash Surrender Value of Life Insurance**

For the years ended September 30, 2022 and 2021, the Council was the owner and beneficiary of a life insurance policy for a donor. The cash surrender value relative to the policy in place at September 30, 2022 and 2021 was \$256,789 and \$289,783, respectively.

**Property and Equipment**

Amounts invested in property and equipment are stated at cost unless donated. Donated property is stated at fair market value at the date of gift. Additions exceeding \$1,000 are capitalized. Depreciation is provided on the straight-line basis over estimated useful lives of the assets, generally 40 years for buildings and leasehold improvements and 5 to 10 years for equipment and furnishings.

**Beneficial Interest in Assets Held by Others**

The Council had a trust arrangement with the Arts Council Endowment Fund, Inc. (the "Endowment Fund"), the purpose of which was to provide a permanent endowment to support the future needs of the Council. Donor contributions had been transferred to the Endowment Fund, who invested the funds and made periodic earnings distributions, in amounts determined by the Endowment Fund. Neither the Council, nor outside donors had granted the Endowment Fund variance power, the unilateral power to redirect the use of the assets, and has retained a right to the assets by specifying itself as the beneficiary. In accordance with GAAP, this endowment was recognized as a beneficial interest in assets held by others in the accompanying statements of financial position at the current market value of the underlying investments. The market value of the assets held by the Endowment Fund amounted to \$1,001,384 at September 30, 2021. During the year ended September 30, 2022, the Endowment Fund was dissolved, and the endowment funds were placed with a local brokerage firm.

**Deferred Financing Costs**

The Council capitalizes expenses associated with the issuance of bonds at cost. Amortization is computed using the straight line method over the life of the bond, which is 20 years, and is reported as interest expense. Accumulated amortization as of September 30, 2022 and 2021 was \$127,537 and \$117,684, respectively.

**Revenue Recognition**

Revenue is recognized when earned. Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**In-Kind Contributions**

Contributions of assets other than cash are recorded at their estimated fair value. The Council reports revenue for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated.

**Functional Allocation of Expenses**

The costs of providing program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management. The expenses that are allocated included salaries and personnel related expenses, which are allocated on the basis of estimates of time and effort, and office related expenses, which are allocated on a square footage basis.

**Advertising Expenses**

The Council expenses advertising costs as they are incurred. For the years ended September 30, 2022 and 2021, advertising costs were \$28,169 and \$24,168, respectively.

**Tax-Exempt Status**

The Art Council, Inc. is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Council's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that there are no uncertain tax positions that would be subject to change upon examination.

The Council is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Council is also required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000. Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Subsequent Events**

The Council has evaluated its subsequent events (events occurring after September 30, 2022) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

**Accounting Pronouncement Adopted in the Current Year**

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021 and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. Management does not expect this ASU to have a significant impact on the Council's financial statements.

**Recently Issued Accounting Pronouncement Not Yet Effective**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This guidance will require the rights and obligations of new and existing lease arrangements to be recognized as assets and liabilities on the statement of financial position. The guidance will also require disclosures to better inform financial statement users of the amount, timing and uncertainty of cash flows arising from leases. The primary impact of this guidance, which will be effective for periods beginning after December 15, 2021, will be to record right-of-use assets and obligations for current operating leases.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE C: LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

	<u>2022</u>	<u>2021</u>
Cash, cash equivalents and restricted cash	\$ 614,599	\$ 881,228
Promises to give, net	1,001,044	1,052,204
Receivables, net	8,876	78,270
Beneficial interest in assets held by others	-	1,001,384
Investments	<u>804,223</u>	<u>-</u>
<b>Total financial assets</b>	<b>2,428,742</b>	<b>3,013,086</b>
<b>Less those unavailable for general expenditure within one year due to:</b>		
Purpose and timing restrictions	(262,077)	(283,551)
Endowment restrictions	<u>(982,726)</u>	<u>(1,167,410)</u>
<b>Financial assets available to meet cash needs for general expenditure within one year</b>	<b><u>\$ 1,183,939</u></b>	<b><u>\$ 1,562,125</u></b>

The Council has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Council also has a consistent cash flow throughout the year.

**NOTE D: FAIR VALUE MEASUREMENTS**

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value are categorized depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 3 inputs are unobservable for the asset or liability, including the Council's own assumptions in determining the fair value of assets or liabilities.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE D: FAIR VALUE MEASUREMENTS (CONTINUED)**

Valuation techniques used in the fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Council believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

The following is a description of the valuation methodologies used by the Council for assets measured at fair value:

*Investments:* Valued at the closing price reported on the active markets on which individual securities are traded. (Level 1)

*Beneficial Interest in Assets Held by the Arts Council Endowment Fund, Inc.:* The Council believes the fair value of the future cash flows to be received from its beneficial interest in assets held by the Arts Council Endowment Fund, Inc. (the Endowment Fund) approximates the fair value of the underlying assets held by the Endowment Fund. The assets held by the Endowment Fund are comprised of pooled investment funds held and managed by Wells Fargo consistent with the investment policies of the Endowment Fund. The fund consists primarily of equity and fixed income funds. The Council's beneficial interest is redeemable within 120 days of Board approval. Based on the valuation method and redemption provisions of the assets, the Council considers the measurement of its beneficial interest in assets held by the Endowment Fund to be a Level 2 measurement within the fair value hierarchy.

The following table sets forth by level, within the fair value hierarchy, the Council's assets measured at fair value on a recurring basis as of September 30, 2022 and 2021:

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
<b>Investments</b>								
<b>Money market and short-term</b>								
Reserve funds	\$ 43,194	\$ -	\$ -	\$ 43,194	\$ -	\$ -	\$ -	\$ -
Mutual funds	584,676	-	-	584,676	-	-	-	-
Equity securities	176,353	-	-	176,353	-	-	-	-
<b>Total Investments</b>	<b>804,223</b>	<b>-</b>	<b>-</b>	<b>804,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Beneficial Interest in Assets Held by Others</b>	-	-	-	-	-	1,001,384	-	1,001,384
<b>Total assets at fair value</b>	<b>\$ 804,223</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 804,223</b>	<b>\$ -</b>	<b>\$ 1,001,384</b>	<b>\$ -</b>	<b>\$ 1,001,384</b>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE E: PROMISES TO GIVE**

The Council conducts an annual United Arts Fund Drive campaign to raise funds for the funded partners of the Council and other strategic initiatives. Promises to give as of September 30, 2022 and 2021 are presented in the accompanying financial statements at their net realizable value, as follows:

	<u>2022</u>	<u>2021</u>
Due within one year	\$ 955,059	\$ 925,350
Due in more than five years	<u>126,642</u>	<u>218,000</u>
	1,081,701	1,143,350
Less allowance for uncollectible pledges	(40,139)	(38,151)
Less discount to present value at 4.0%	<u>(40,518)</u>	<u>(52,995)</u>
	<u>\$ 1,001,044</u>	<u>\$ 1,052,204</u>

At September 30, 2022, the Council has \$3,250,000 in conditional promises to give as part of their Comprehensive Campaign. Of the total amount promised, \$3,000,000 is the death benefit of a life insurance policy taken out by a donor of which the Council is the owner and beneficiary, and \$250,000 is conditioned upon the death of a donor and the beneficiaries of the donor.

**NOTE F: PROPERTY AND EQUIPMENT**

A summary of property and equipment is as follows at September 30:

	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 1,173,601	\$ 1,173,601
Buildings and improvements	13,905,174	13,904,409
Leasehold improvements	411,779	411,779
Equipment and furnishings	2,815,448	2,805,326
Construction in progress	<u>28,810</u>	<u>17,650</u>
	18,334,812	18,312,765
Less: accumulated depreciation	<u>(7,538,016)</u>	<u>(6,917,480)</u>
	<u>\$ 10,796,796</u>	<u>\$ 11,395,285</u>

Depreciation expense was \$620,535 and \$608,981 for the years ended September 30, 2022 and 2021, respectively.

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE G: INVESTMENTS**

Investments in marketable securities, stated at fair value, consisted of the following at September 30:

	<u>2022</u>	<u>2021</u>
Money market and short-term reserve funds	\$ 43,194	\$ -
Mutual funds	584,676	-
Equity securities	<u>176,353</u>	<u>-</u>
	<u>\$ 804,223</u>	<u>\$ -</u>

**NOTE H: LOANS PAYABLE**

On April 27, 2020, the Council received loan proceeds in the amount of \$201,700 under round one of the Paycheck Protection Program (“PPP”). On April 2, 2021, the Council received another \$195,000 under round two of the PPP. Established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business’s average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. The Council believes it used PPP loan proceeds for purposes consistent with the PPP and obtained full forgiveness in March 2021 from the Small Business Administration for the round one PPP loan and received full forgiveness for the round two PPP in October 2021.

Additionally, on September 1, 2020, the Council received an Economic Injury Disaster Loan (“EIDL”) from the U.S. Small Business Administration in the amount of \$150,000. This loan was established under the CARES Act. The loan is not forgivable and is to be repaid in installment payments, including principal and interest of \$641 per month at an interest rate of 2.75%. Payments are deferred for thirty months from the loan date and are scheduled to commence in February 2023. The loan matures on September 1, 2050.

Future maturities at each September 30 are as follows:

2023	\$ 5,128
2024	7,692
2025	7,692
2026	7,692
2027	7,692
Thereafter	<u>122,262</u>
	<u>\$ 158,158</u>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE I: BONDS PAYABLE**

Costs of constructing a performing arts center were financed through the issuance of a \$7,500,000 Special Purpose Project Bond in May 2010. The bonds were issued by the Forsyth County Industrial Facilities and Pollution Control Financing Authority to fund the construction. In March 2022, the bond agreement was restructured. The restructured agreement includes changes to previously scheduled bond maturities and interest accruals as well as certain asset liquidation. The revised bond maturities include approximately \$720,000 due in March 2023 with the remaining balance due in March 2027, provided that the balance may be forgiven if no Events of Default have occurred as of the maturity. As part of the agreement, there are no restrictive debt covenants.

Bonds payable are as follows at September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross bonds payable	\$ 3,408,676	\$ 3,447,232
Unamortized debt financing costs	<u>(26,351)</u>	<u>(36,203)</u>
	<u>\$ 3,382,325</u>	<u>\$ 3,411,029</u>

**NOTE J: LEASE OBLIGATIONS**

The Council leases office equipment and parking spaces under operating lease agreements expiring through April 2024. Future minimum lease payments are as follows at each September 30: \$7,740 in 2023 and \$761 in 2024. Rent expense under all leases was \$29,913 for the years ended September 30, 2022 and 2021, respectively.

**NOTE K: NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are comprised of the following as of September 30:

	<u>2022</u>	<u>2021</u>
<b>Subject to expenditure for specified purposes and/or passage of time:</b>		
Grant awards and operations	\$ 1,799,102	\$ 1,729,997
Comprehensive campaign initiatives - operations	170,606	170,606
Other comprehensive campaign initiatives	8,334	8,334
Other programs	<u>253,743</u>	<u>275,217</u>
	<u>2,231,785</u>	<u>2,184,154</u>
<b>Endowment:</b>		
Subject to endowment spending policy and appropriation		
Original gifts (corpus) for: Programs	1,472,735	1,460,258
Accumulated deficit	<u>(490,009)</u>	<u>(292,848)</u>
	<u>982,726</u>	<u>1,167,410</u>
	<u>\$ 3,214,511</u>	<u>\$ 3,351,564</u>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE L: ENDOWMENT FUNDS**

The Council's endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) consists of donor-restricted funds which are invested with a local financial institution. The funds were previously held by the Arts Council Endowment Fund, Inc. As required by GAAP, net assets associated with donor-restricted endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Council has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Council in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Council considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Council, and (7) the Council's investment policies.

Endowment net assets composition by type as September 30, 2022 and 2021 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b><u>2022</u></b>			
<b>Donor-restricted endowment funds</b>			
Investments	\$ -	\$ 804,223	\$ 804,223
Promises to give, net	-	86,124	\$ 86,124
Restricted cash	-	92,379	92,379
	<u>\$ -</u>	<u>\$ 982,726</u>	<u>\$ 982,726</u>
<b><u>2021</u></b>			
<b>Donor-restricted endowment funds</b>			
Arts Council Endowment Fund, Inc.	\$ -	\$ 1,001,384	\$ 1,001,384
Promises to give, net	-	165,005	\$ 165,005
Restricted cash	-	1,021	1,021
	<u>\$ -</u>	<u>\$ 1,167,410</u>	<u>\$ 1,167,410</u>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE L: ENDOWMENT FUNDS (CONTINUED)**

*Funds with Deficiencies.* From time to time, the fair value of the assets associated with the donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Council to retain as a fund of perpetual duration (underwater endowments). The Council has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The donor-restricted endowment fund had a deficiency of \$490,009 and \$292,848 at September 30, 2022 and 2021, respectively. This deficiency resulted from unfavorable market fluctuations on the underlying investments held as well as a permitted invasion of principal of \$500,000 during the year ended September 30, 2020.

*Investment Return Objectives, Risk Parameters, and Strategies.* Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent rate of return that has sufficient liquidity to provide the Council income while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed by the financial institution.

*Spending Policy.* The spending policy is to distribute 4.5% of the average total value of the Fund for the preceding 12 quarters. The decision to take the distributions within the endowment is determined by the Council’s management consistent with the previously discussed standards of prudence prescribed by UPMIFA. Amounts distributed can be used by the Council for operating purposes, however, consistent with UPMIFA and GAAP, the Council reflects all changes in value of donor restricted funds within net assets with donor restrictions until appropriated for expenditure by the Board of Directors.

Changes in endowment net assets during the years ended September 30, 2022 and 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b><u>2022</u></b>			
Endowment net assets, beginning of year	\$ -	\$ 1,167,410	\$ 1,167,410
Change in value of beneficial interest	-	(145,762)	(145,762)
Investment income, net	-	4,756	4,756
Realized and unrealized losses on investments	-	(56,155)	(56,155)
Change in discount on promises to give	-	12,477	12,477
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 982,726</u>	<u>\$ 982,726</u>
<b><u>2021</u></b>			
Endowment net assets, beginning of year	\$ -	\$ 1,050,302	\$ 1,050,302
Change in value of beneficial interest	-	124,101	124,101
Change in discount on promises to give	-	(6,993)	(6,993)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,167,410</u>	<u>\$ 1,167,410</u>

**THE ARTS COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE M: RETIREMENT PLAN**

The Council's employees may participate in a tax deferred annuity plan qualified under Internal Revenue Code Section 403(b). The plan covers all full-time employees with at least ninety days of service. After one year of service, the Council contributes in accordance with an annually determined percentage of the employee's salary. Contributions to this plan were \$8,724 and \$8,758 for the years ended September 30, 2022 and 2021, respectively.

**NOTE N: RELATED PARTY TRANSACTIONS**

Facilities rental income includes rents received from funded partners. For the years ended September 30, 2022 and 2021, rents received from funded partners were \$133,738 and \$198,833, respectively. At September 30, 2021, net receivables include \$60,755 of rents due from funded partners. No amounts are due from funded partners for rents at September 30, 2022.

**NOTE O: IN-KIND CONTRIBUTIONS**

The Council received the following noncash support for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Advertising and marketing	\$ 13,550	\$ 8,000
Beverages	2,700	-
Professional fees	1,500	-
Other	<u>601</u>	<u>-</u>
	<u>\$ 18,351</u>	<u>\$ 8,000</u>

The Council's policy related to gifts-in-kind is to utilize the assets given to carry out the mission of the Council.

The Council requires various advertising and marketing services and materials for its programs and theatrical performances at their theatres. The Council was provided advertising and marketing services and materials at no cost during the years ended September 30, 2022 and 2021. Based on current market rates for these services and materials, the Council would have paid \$13,550 and \$8,000, respectively.

The Council was provided beverages for its programs and theatrical performances at no cost for the year ended September 30, 2022. Based on current market costs for these beverages, the Council would have paid approximately \$2,700.

The Council was also provided general professional fees for theatrical services at no cost during the year ended September 30, 2022. Based on current market rates for these services, the Council would have paid approximately \$1,500.