

THE ARTS COUNCIL, INC.

Financial Statements

September 30, 2020 and 2019

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

INDEPENDENT AUDITORS' REPORT

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, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arts Council, 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 U.S. generally accepted accounting principles.

Butler & Burke LLP

Winston-Salem, North Carolina
June 14, 2021

THE ARTS COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------------------|---------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,138,885 | \$ 949,512 |
| Promises to give, net | 722,827 | 1,171,879 |
| Receivables, net | 65,789 | 86,823 |
| Prepaid expenses | 17,890 | 24,744 |
| Inventories | 113,500 | 113,500 |
| Cash surrender value of life insurance, net | 315,214 | 682,022 |
| Property and equipment, net | 11,966,771 | 12,541,156 |
| Endowment | | |
| Restricted cash | 1,021 | 1,021 |
| Promises to give, net | 171,998 | 176,832 |
| Beneficial interest in assets held by others | <u>877,283</u> | <u>1,310,113</u> |
| <u>TOTAL ASSETS</u> | <u>\$ 15,391,178</u> | <u>\$ 17,057,602</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Line of credit | \$ - | \$ 150,000 |
| Loans payable | 351,600 | - |
| Accounts payable and accrued expenses | 136,266 | 1,403,342 |
| Deferred revenue | 3,220 | 12,796 |
| Bonds payable, net | <u>3,791,177</u> | <u>4,156,325</u> |
| <u>Total Liabilities</u> | <u>4,282,263</u> | <u>5,722,463</u> |
| Net Assets | | |
| Without donor restrictions | 7,859,276 | 7,775,686 |
| With donor restrictions | <u>3,249,639</u> | <u>3,559,453</u> |
| <u>Total Net Assets</u> | <u>11,108,915</u> | <u>11,335,139</u> |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u>\$ 15,391,178</u> | <u>\$ 17,057,602</u> |

THE ARTS COUNCIL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|----------------------|
| PUBLIC SUPPORT AND REVENUE | | | |
| United Arts Fund Drive | | | |
| Current year campaign | \$ - | \$ 1,880,635 | \$ 1,880,635 |
| Change in present value discount | - | (1,074) | (1,074) |
| Noncash support – current year campaign | - | 7,120 | 7,120 |
| Future campaign | - | <u>50,000</u> | <u>50,000</u> |
| Total United Arts Fund Drive | <u>-</u> | <u>1,936,681</u> | <u>1,936,681</u> |
| Other | | | |
| Other gifts and grants | - | 413,750 | 413,750 |
| Facilities rental | 391,234 | - | 391,234 |
| Interest income | 2,360 | - | 2,360 |
| Change in value of beneficial interest | - | 95,724 | 95,724 |
| Change in cash surrender value of life insurance | (52,609) | - | (52,609) |
| Other | <u>2,329</u> | <u>-</u> | <u>2,329</u> |
| Total Other | <u>343,314</u> | <u>509,474</u> | <u>852,788</u> |
| Net Assets Released from Restrictions | | | |
| Satisfaction of purpose/timing restrictions | <u>2,755,969</u> | <u>(2,755,969)</u> | <u>-</u> |
| Total Net Assets Released from Restrictions | <u>2,755,969</u> | <u>(2,755,969)</u> | <u>-</u> |
| Total Public Support and Revenue | <u>3,099,283</u> | <u>(309,814)</u> | <u>2,789,469</u> |
| EXPENSES | | | |
| Facility costs | 1,408,760 | - | 1,408,760 |
| Program costs | 714,249 | - | 714,249 |
| General and administrative | 405,111 | - | 405,111 |
| Fundraising | <u>487,573</u> | <u>-</u> | <u>487,573</u> |
| Total Expenses | <u>3,015,693</u> | <u>-</u> | <u>3,015,693</u> |
| CHANGE IN NET ASSETS | 83,590 | (309,814) | (226,224) |
| Net Assets, Beginning of Year | <u>7,775,686</u> | <u>3,559,453</u> | <u>11,335,139</u> |
| Net Assets, End of Year | <u>\$ 7,859,276</u> | <u>\$ 3,249,639</u> | <u>\$ 11,108,915</u> |

THE ARTS COUNCIL, INC.
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|----------------------|
| PUBLIC SUPPORT AND REVENUE | | | |
| United Arts Fund Drive | | | |
| Current year campaign | \$ - | \$ 1,832,277 | \$ 1,832,277 |
| Change in present value discount | - | 6,907 | 6,907 |
| Noncash support – current year campaign | - | <u>55,236</u> | <u>55,236</u> |
| <u>Total United Arts Fund Drive</u> | <u>-</u> | <u>1,894,420</u> | <u>1,894,420</u> |
| Other | | | |
| Other gifts and grants | - | 606,800 | 606,800 |
| Facilities rental | 527,088 | - | 527,088 |
| Interest income | 19,212 | - | 19,212 |
| Change in value of beneficial interest | - | 30,851 | 30,851 |
| Loss on value of art | (21,465) | - | (21,465) |
| Other | <u>24,868</u> | <u>-</u> | <u>24,868</u> |
| <u>Total Other</u> | <u>549,703</u> | <u>637,651</u> | <u>1,187,354</u> |
| Net Assets Released from Restrictions | | | |
| Satisfaction of purpose/timing restrictions | <u>3,538,296</u> | <u>(3,538,296)</u> | <u>-</u> |
| <u>Total Net Assets Released from Restrictions</u> | <u>3,538,296</u> | <u>(3,538,296)</u> | <u>-</u> |
| <u>Total Public Support and Revenue</u> | <u>4,087,999</u> | <u>(1,006,225)</u> | <u>3,081,774</u> |
| EXPENSES | | | |
| Facility costs | 1,445,633 | - | 1,445,633 |
| Program costs | 1,464,549 | - | 1,464,549 |
| General and administrative | 494,658 | - | 494,658 |
| Fundraising | <u>586,601</u> | <u>-</u> | <u>586,601</u> |
| <u>Total Expenses</u> | <u>3,991,441</u> | <u>-</u> | <u>3,991,441</u> |
| CHANGE IN NET ASSETS | 96,558 | (1,006,225) | (909,667) |
| Net Assets, Beginning of Year | <u>7,679,128</u> | <u>4,565,678</u> | <u>12,244,806</u> |
| Net Assets, End of Year | <u>\$ 7,775,686</u> | <u>\$ 3,559,453</u> | <u>\$ 11,335,139</u> |

THE ARTS COUNCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2020

| | Facility Costs | Program Costs | General and Administrative | Fundraising | Total |
|---|---------------------|-------------------|-------------------------------|-------------------|---------------------|
| Salaries | \$ 276,691 | \$ 96,061 | \$ 155,383 | \$ 330,129 | \$ 858,264 |
| Payroll taxes | 18,260 | 6,426 | 24,828 | 16,256 | 65,770 |
| Employee benefits | 35,239 | 14,259 | 37,593 | 31,512 | 118,603 |
| <u>Total Salaries Related</u> | <u>330,190</u> | <u>116,746</u> | <u>217,804</u> | <u>377,897</u> | <u>1,042,637</u> |
| Grants to others | - | 593,353 | - | - | 593,353 |
| Occupancy | 247,547 | - | 10,284 | - | 257,831 |
| Events and project expenses | - | - | - | 8,648 | 8,648 |
| Gallery expenses | 2,458 | - | - | - | 2,458 |
| Taxes | 4,403 | - | - | - | 4,403 |
| Advertising and promotion | 918 | - | 1,100 | 15,617 | 17,635 |
| Supplies | 29,299 | - | - | - | 29,299 |
| Professional services | - | 3,258 | 35,757 | 24,832 | 63,847 |
| Other personnel costs | - | - | 3,794 | 10 | 3,804 |
| Office expenses | - | - | 3,081 | 2,262 | 5,343 |
| Repairs and maintenance | 32,352 | - | - | - | 32,352 |
| Equipment rental | - | - | 4,250 | - | 4,250 |
| Postage | - | - | 687 | 13,013 | 13,700 |
| Licenses and permits | 2,045 | - | - | - | 2,045 |
| Computer expense | 4,701 | - | 59,945 | - | 64,646 |
| Dues, memberships and publications | 539 | - | 6,283 | 23,082 | 29,904 |
| Conferences and training | - | - | 2,040 | - | 2,040 |
| Production costs | 3,245 | - | - | - | 3,245 |
| Printing and copying | - | - | - | 12,301 | 12,301 |
| Insurance | 38,627 | - | 4,481 | - | 43,108 |
| Bank fees | 8,043 | 5 | 13,620 | 3,131 | 24,799 |
| Board and volunteer expense | - | 887 | 914 | 1,044 | 2,845 |
| Interest expense | 100,714 | - | 28,678 | - | 129,392 |
| Bad debt expense | - | - | 3,647 | - | 3,647 |
| Other | 2,719 | - | 185 | 5,736 | 8,640 |
| <u>Total Expenses Before Depreciation</u> | <u>807,800</u> | <u>714,249</u> | <u>396,550</u> | <u>487,573</u> | <u>2,406,172</u> |
| Depreciation | 600,960 | - | 8,561 | - | 609,521 |
| <u>Total Expenses</u> | <u>\$ 1,408,760</u> | <u>\$ 714,249</u> | <u>\$ 405,111</u> | <u>\$ 487,573</u> | <u>\$ 3,015,693</u> |

THE ARTS COUNCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2019

| | Facility Costs | Program Costs | General and Administrative | Fundraising | Total |
|---|---------------------|---------------------|-------------------------------|-------------------|---------------------|
| Salaries | \$ 316,939 | \$ 103,676 | \$ 155,286 | \$ 367,444 | \$ 943,345 |
| Payroll taxes | 18,315 | 4,472 | 31,599 | 20,919 | 75,305 |
| Employee benefits | 19,701 | 9,752 | 49,282 | 25,845 | 104,580 |
| <u>Total Salaries Related</u> | <u>354,955</u> | <u>117,900</u> | <u>236,167</u> | <u>414,208</u> | <u>1,123,230</u> |
| Grants to others | - | 1,342,596 | - | - | 1,342,596 |
| Occupancy | 274,565 | - | 17,700 | - | 292,265 |
| Events and project expenses | 4,896 | - | - | 42,446 | 47,342 |
| Taxes | 17,643 | - | - | - | 17,643 |
| Advertising and promotion | 509 | - | 7,025 | 19,369 | 26,903 |
| Supplies | 34,790 | - | 20 | - | 34,810 |
| Professional services | - | 3,444 | 37,051 | 21,225 | 61,720 |
| Other personnel costs | - | - | 4,696 | - | 4,696 |
| Office expenses | 100 | - | 11,466 | 361 | 11,927 |
| Repairs and maintenance | 36,802 | - | - | - | 36,802 |
| Equipment rental | - | - | 6,331 | - | 6,331 |
| Postage | 16 | - | 5,061 | 3,310 | 8,387 |
| Licenses and permits | 1,600 | - | - | - | 1,600 |
| Computer expense | - | - | 32,350 | 25,281 | 57,631 |
| Dues, memberships and publications | 114 | - | 1,560 | 32,461 | 34,135 |
| Travel | - | - | 548 | 767 | 1,315 |
| Conferences and training | - | - | 580 | 750 | 1,330 |
| Production costs | 20,143 | - | - | - | 20,143 |
| Printing and copying | - | - | - | 14,278 | 14,278 |
| Insurance | 33,572 | - | 8,927 | - | 42,499 |
| Bank fees | 8,341 | 609 | 14,236 | 4,141 | 27,327 |
| Board and volunteer expense | - | - | 2,200 | 376 | 2,576 |
| Interest expense | 157,751 | - | 864 | - | 158,615 |
| Bad debt expense | - | - | 81,163 | - | 81,163 |
| Other | 3,762 | - | 5,845 | 7,628 | 17,235 |
| <u>Total Expenses Before Depreciation</u> | <u>949,559</u> | <u>1,464,549</u> | <u>473,790</u> | <u>586,601</u> | <u>3,474,499</u> |
| Depreciation | 496,074 | - | 20,868 | - | 516,942 |
| <u>Total Expenses</u> | <u>\$ 1,445,633</u> | <u>\$ 1,464,549</u> | <u>\$ 494,658</u> | <u>\$ 586,601</u> | <u>\$ 3,991,441</u> |

THE ARTS COUNCIL, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|--------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (226,224) | \$ (909,667) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 609,521 | 516,942 |
| Noncash interest expense | 9,852 | 9,852 |
| Loss on value of art | - | 21,465 |
| Change in value of beneficial interest | (95,724) | (30,851) |
| Forgiveness of capital lease obligation | - | (17,409) |
| Uncollectible promises to give | 3,647 | 81,163 |
| Change in discount on promises to give | 1,074 | (6,907) |
| Change in cash surrender value of life insurance | 52,609 | 6,565 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 21,034 | 22,497 |
| Promises to give | 449,165 | 524,864 |
| Prepaid expenses | 6,854 | 33,729 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (414,262) | 428,414 |
| Deferred revenue | (9,576) | (6,122) |
| <u>Net Cash Provided by Operating Activities</u> | <u>407,970</u> | <u>674,535</u> |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (887,950) | (2,013,553) |
| Beneficial interest distributions | 528,554 | 52,854 |
| <u>Net Cash Used in Investing Activities</u> | <u>(359,396)</u> | <u>(1,960,699)</u> |
| FINANCING ACTIVITIES | | |
| Principal payments on bonds | (375,000) | (365,000) |
| Proceeds from loans | 665,799 | - |
| Change in line of credit | (150,000) | 150,000 |
| <u>Net Cash Provided by (Used in) Financing Activities</u> | <u>140,799</u> | <u>(215,000)</u> |
| Change in Cash, Cash Equivalents, and Restricted Cash | 189,373 | (1,501,164) |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | <u>950,533</u> | <u>2,451,697</u> |
| Cash, Cash Equivalents, and Restricted Cash, End of Year | <u>\$ 1,139,906</u> | <u>\$ 950,533</u> |
| SUPPLEMENTAL DISCLOSURE | | |
| Interest paid | <u>\$ 100,714</u> | <u>\$ 159,037</u> |

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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 U.S. generally accepted accounting principles (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 and 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

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$27,173 and \$40,092 was necessary at September 30, 2020 and 2019, 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. The Council has determined that an allowance of \$38,832 and \$40,250 was necessary at September 30, 2020 and 2019, respectively. It is the Council's policy to write off uncollectible receivables when management determines the receivable will not be collected.

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, 2020 and 2019 was \$113,500, respectively.

Cash Surrender Value of Life Insurance

For the years ended September 30, 2020 and 2019, 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, 2020 and 2019 was \$315,214 and \$682,022, respectively. During the year ended September 30, 2020, a loan of \$314,199 was taken out against the cash value of the policy.

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.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interest in Assets Held by Others

The Council has established a trust arrangement with the Arts Council Endowment Fund, Inc. (the "Endowment Fund"), the purpose of which is to provide a permanent endowment to support the future needs of the Council. Donor contributions have been transferred to the Endowment Fund, who will invest the funds and make periodic earnings distributions, in amounts determined by the Endowment Fund. Neither the Council, nor outside donors have 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 has been 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 \$877,283 and \$1,310,113 at September 30, 2020 and 2019, respectively. Subsequent to year end, the Endowment Fund was dissolved and the funds were distributed to the Council. These funds are to remain restricted.

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, 2020 and 2019 was \$107,831 and \$97,978, 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.

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. During the year ended September 30, 2019, the Council recognized \$39,023 in donated services comprised primarily of in-kind legal and advertising services. There were no donated services received for the year ended September 30, 2020.

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.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expenses

The Council expenses advertising costs as they are incurred. For the years ended September 30, 2020 and 2019, advertising costs were \$17,635 and \$26,903, 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.

Subsequent Events

The Council has evaluated its subsequent events (events occurring after September 30, 2020) 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.

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. An adjustment was made to decrease both property and equipment and accounts payable by \$150,000 at September 30, 2019. There was no effect on the change in net assets at September 30, 2019.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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>2020</u> | <u>2019</u> |
|--|-------------------------|-------------------------|
| Cash, cash equivalents and restricted cash | \$ 1,139,906 | \$ 950,533 |
| Promises to give, net | 894,825 | 1,348,711 |
| Receivables, net | 65,789 | 86,823 |
| Beneficial interest in assets held by others | <u>877,283</u> | <u>1,310,113</u> |
| Total financial assets | 2,977,803 | 3,696,180 |
| Less those unavailable for general expenditure within one year due to: | | |
| Purpose/timing restrictions | (99,170) | (61,697) |
| Endowment | <u>(1,050,302)</u> | <u>(1,487,966)</u> |
| Financial assets available to meet cash needs for general expenditure within one year | <u>\$ 1,828,331</u> | <u>\$ 2,146,517</u> |

The Council has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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.

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:

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, 2020 and 2019:

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------|---------------------|-------------|---------------------|
| 2020 | | | | |
| Beneficial interests in assets held by others | | | | |
| Arts Council Endowment Fund, Inc. | \$ - | \$ 877,283 | \$ - | \$ 877,283 |
| | <u>\$ -</u> | <u>\$ 877,283</u> | <u>\$ -</u> | <u>\$ 877,283</u> |
| 2019 | | | | |
| Beneficial interests in assets held by others | | | | |
| Arts Council Endowment Fund, Inc. | \$ - | \$ 1,310,113 | \$ - | \$ 1,310,113 |
| | <u>\$ -</u> | <u>\$ 1,310,113</u> | <u>\$ -</u> | <u>\$ 1,310,113</u> |

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019 are presented in the accompanying financial statements at their net realizable value, as follows:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|---------------------|
| Due within one year | \$ 730,760 | \$ 1,136,491 |
| Due in one to five years | 20,000 | 80,000 |
| Due in more than five years | <u>218,000</u> | <u>218,000</u> |
| | 968,760 | 1,434,491 |
| Less allowance for uncollectible pledges | (27,173) | (40,092) |
| Less discount to present value at 4.0% at September 30, 2020 and 2019, respectively | <u>(46,762)</u> | <u>(45,688)</u> |
| | <u>\$ 894,825</u> | <u>\$ 1,348,711</u> |

At September 30, 2020, 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>2020</u> | <u>2019</u> |
|--------------------------------|----------------------|----------------------|
| Land and improvements | \$ 1,173,601 | \$ 1,173,601 |
| Buildings and improvements | 13,894,832 | 13,893,074 |
| Leasehold improvements | 411,779 | 399,999 |
| Equipment and furnishings | 2,777,408 | 2,773,461 |
| Construction in progress | <u>17,650</u> | <u>-</u> |
| | 18,275,270 | 18,240,135 |
| Less: accumulated depreciation | <u>(6,308,499)</u> | <u>(5,698,979)</u> |
| | <u>\$ 11,966,771</u> | <u>\$ 12,541,156</u> |

Depreciation expense was \$609,521 and \$516,942 for the years ended September 30, 2020 and 2019, respectively.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE G: LOANS PAYABLE

On April 27, 2020, the Council received loan proceeds in the amount of \$201,700 under the Paycheck Protection Program (“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 forgiveness amount may be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Council believes it used PPP loan proceeds for purposes consistent with the PPP and intends to apply for forgiveness within 10 months of the end of the covered period. The terms of the loan provide for customary events of default, including payment defaults, breach of representation of warranties, and insolvency events.

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 also 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 twenty-four months from the loan date. The loan matures on September 1, 2050. When the loan payments commence, future maturities are approximately \$3,500 per year.

NOTE H: 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. The bonds are scheduled to mature at various intervals through 2030, and bear interest at an adjusted LIBOR rate (68% of the one month LIBOR rate plus 1.3%).

Scheduled maturities of the bonds are as follows at September 30:

| | |
|---|--------------------------------|
| 2021 | 390,000 |
| 2022 | 400,000 |
| 2023 | 415,000 |
| 2024 | 430,000 |
| 2025 | 445,000 |
| Thereafter | <u>1,757,232</u> |
| | 3,837,232 |
| Less: unamortized deferred financing costs | <u>(46,055)</u> |
| | <u>\$ 3,791,177</u> |

The Council’s long-term debt agreement contains certain restrictions and covenants. The Council has complied with or received waivers on all restrictive debt covenants as of September 30, 2020 and 2019.

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I: LINE OF CREDIT

The Council had an unsecured line of credit agreement with its bank for a \$250,000 credit facility, bearing interest on outstanding borrowings at the prime interest rate plus 2.30%, to be paid monthly. At September 30, 2019, there was \$150,000 outstanding on the line of credit. The line of credit matured in March 2020 and was not renewed.

NOTE J: LEASE OBLIGATIONS

The Council leases office equipment and parking spaces under operating lease agreements through April 2024. Future minimum lease payments are as follows at each September 30: \$29,913 in 2021, \$28,001 in 2022, \$7,740 in 2023 and \$761 in 2024. Rent expense under all leases was \$29,913 and \$28,196 for the years ended September 30, 2020 and 2019, respectively.

NOTE K: NET ASSETS WITH DONOR RESTRICTIONS

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Subject to expenditure for specified purposes and/or passage of time: | | |
| Grant awards and operations | \$ 1,879,561 | \$ 1,839,184 |
| Future campaign | 50,000 | - |
| Comprehensive campaign initiatives - operations | 170,606 | 170,606 |
| Other comprehensive campaign initiatives | 8,334 | 8,334 |
| Other programs | <u>90,836</u> | <u>53,363</u> |
| | <u>2,199,337</u> | <u>2,071,487</u> |
| Endowment: | | |
| Restricted cash | 1,021 | 1,021 |
| Promises to give, net | 171,998 | 176,832 |
| Subject to endowment spending policy and appropriation | | |
| Original gifts (corpus) for: Programs | 1,294,232 | 1,294,232 |
| Accumulated earnings (deficit) | <u>(416,949)</u> | <u>15,881</u> |
| | <u>1,050,302</u> | <u>1,487,966</u> |
| | <u>\$ 3,249,639</u> | <u>\$ 3,559,453</u> |

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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 at the Arts Council Endowment Fund, Inc (Endowment Fund). 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.

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 funds, (2) the purpose 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, 2020 and 2019 is as follows:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| <u>2020</u> | | | |
| Donor-restricted endowment funds | | | |
| Arts Council Endowment Fund, Inc. | \$ - | \$ 877,283 | \$ 877,283 |
| Promises to give, net | - | 171,998 | 171,998 |
| Restricted Cash | - | 1,021 | 1,021 |
| | <u>\$ -</u> | <u>\$ 1,050,302</u> | <u>\$ 1,050,302</u> |
| <u>2019</u> | | | |
| Donor-restricted endowment funds | | | |
| Arts Council Endowment Fund, Inc. | \$ - | \$ 1,310,113 | \$ 1,310,113 |
| Promises to give, net | - | 176,832 | 176,832 |
| Restricted Cash | - | 1,021 | 1,021 |
| | <u>\$ -</u> | <u>\$ 1,487,966</u> | <u>\$ 1,487,966</u> |

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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 \$416,949 at September 30, 2020. This deficiency resulted from a permitted invasion of principal of \$500,00 of the funds held by the Endowment Fund. There were no endowment fund deficiencies at September 30, 2019.

Investment Return Objectives, Risk Parameters, and Strategies. Based on the nature of the endowment, the investment of the funds are determined by the Endowment Fund rather than the Council. 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 Endowment Fund.

Spending Policy. The Endowment Fund 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 by the Endowment Fund 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, 2020 and 2019 are as follows:

| | <u>Without Donor</u> <u>Restrictions</u> | <u>With Donor</u> <u>Restrictions</u> | <u>Total</u> |
|---|---|--|---------------------|
| <u>2020</u> | | | |
| Endowment net assets, beginning of year | \$ - | \$ 1,487,966 | \$ 1,487,966 |
| Change in value of beneficial interest | - | 95,724 | 95,724 |
| Change in discount on promises to give | - | (4,834) | (4,834) |
| Amounts appropriated for expenditure | - | (528,554) | (528,554) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 1,050,302</u> | <u>\$ 1,050,302</u> |
| <u>2019</u> | | | |
| Endowment net assets, beginning of year | \$ - | \$ 1,561,722 | \$ 1,561,722 |
| Change in value of beneficial interest | - | 30,851 | 30,851 |
| Change in discount on promises to give | - | (1,753) | (1,753) |
| Uncollectible promises to give | - | (50,000) | (50,000) |
| Amounts appropriated for expenditure | - | (52,854) | (52,854) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ 1,487,966</u> | <u>\$ 1,487,966</u> |

THE ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS

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 makes a contribution in accordance with an annually determined percentage of the employee's salary. Contributions to this plan were \$11,681 and \$12,081 for the years ended September 30, 2020 and 2019, respectively.

NOTE N: RELATED PARTY TRANSACTIONS

Facilities rental income includes rents received from funded partners. For the years ended September 30, 2020 and 2019, rents received from funded partners were \$216,497 and \$239,058, respectively. At September 30, 2020 and 2019, net receivables include \$60,755 and \$74,520, respectively, of rents due from funded partners.

The Arts Council Endowment Fund, Inc. is a related entity of the Council through the Council's economic interest in the related entity. However, the Council does not have a majority voting interest in the related entity and, therefore, was not consolidated into these financial statements.