

FLAGSTAFF ARTS COUNCIL, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

**TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT**

FLAGSTAFF ARTS COUNCIL, INC.
FINANCIAL STATEMENTS
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TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Flagstaff Arts Council, Inc.

I have audited the accompanying financial statements of Flagstaff Arts Council, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

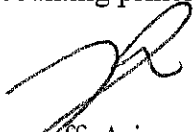
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

To the Board of Directors of
Flagstaff Arts Council, Inc.
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Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flagstaff Arts Council, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to be a stylized 'R' or similar character, positioned above the date and location text.

Flagstaff, Arizona
October 18, 2017

Flagstaff Arts Council, Inc.
Statement of Financial Position
June 30, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 6/30/2017
ASSETS				
Current Assets				
Cash & Cash Equivalents	\$ 78,581			\$ 78,581
Accounts Receivable	2,082			2,082
Investments - Current	13,455			13,455
Art Collection	10,000			10,000
Prepaid Expenses	2,652	\$ 180,000		182,652
Total Current Assets	106,770	180,000	-	286,770
Property & Equipment				
Furniture and Equipment	41,673			41,673
Leasehold Improvements	15,804			15,804
Less: Accumulated Depreciation	(49,462)			(49,462)
Net Property and Equipment	8,015	-	-	8,015
Other Assets				
Prepaid In-Kind Lease	-	540,000		540,000
Investments	-		\$ 20,000	20,000
Total Other Assets	-	540,000	20,000	560,000
TOTAL ASSETS	\$ 114,785	\$ 720,000	\$ 20,000	\$ 854,785
LIABILITIES				
Current Liabilities				
Accounts Payable & Accrued Expenses	\$ 6,538			\$ 6,538
Payroll & Related Liabilities	33,371			33,371
Deferred Revenue	16,667			16,667
TOTAL LIABILITIES	56,576	-	-	56,576
NET ASSETS	58,209	\$ 720,000	\$ 20,000	798,209
TOTAL LIABILITIES & NET ASSETS	\$ 114,785	\$ 720,000	\$ 20,000	\$ 854,785

See accompanying notes and independent auditor's report.

Flagstaff Arts Council, Inc.
Statement of Activities and Changes in Net Assets
For Year Ended June 30, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL 6/30/2017</u>
CHANGES IN NET ASSETS:				
Support & Revenue				
Contract Services:				
Government	\$ 450,056			\$ 450,056
Other	15,815			15,815
In-Kind Facility Donation		\$ 900,000		900,000
Activities and Events	96,463			96,463
Special Events	92,719			92,719
Sponsorships	55,620			55,620
Grant Revenue	48,000			48,000
Commissions	37,868			37,868
Memberships	33,146			33,146
Donations	11,317	21,550		32,867
Partnerships	12,781			12,781
Facility Rentals	10,388			10,388
Other Operating Revenues	52			52
TOTAL SUPPORT & REVENUE	864,225	921,550	-	1,785,775
NET ASSETS RELEASED FROM RESTRICTIONS				
Net Assets Released	203,100	(203,100)	-	-
TOTAL NET ASSETS RELEASED	203,100	(203,100)	-	-
TOTAL SUPPORT, REVENUE, & NET ASSETS RELEASED	1,067,325	718,450	-	1,785,775
Expenses				
Programs Services	835,272			835,272
Management & General	118,052			118,052
Fundraising	115,121			115,121
TOTAL EXPENSES	1,068,445	-	-	1,068,445
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE OTHER GAINS & (LOSSES)	(1,120)	718,450	-	717,330
OTHER GAINS & (LOSSES)				
Net Investment Income	24	1,550		1,574
TOTAL OTHER GAINS & (LOSSES)	24	1,550	-	1,574
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES CHANGES IN NET ASSETS	(1,096)	720,000		718,904
NET ASSETS AT BEGINNING OF YEAR	59,305	-	20,000	79,305
NET ASSETS AT END OF YEAR	\$ 58,209	\$ 720,000	\$ 20,000	\$ 798,209

See accompanying notes and independent auditor's report.

Flagstaff Arts Council, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total 6/30/2017</u>
EXPENSES:				
Grant Expense	\$ 365,250			\$ 365,250
Salaries & Wages	173,663	\$ 44,027	\$ 26,906	244,596
Lease Expense	127,800	32,400	19,800	180,000
Artist Fees	34,913		6,850	41,763
Employee Related	28,449	7,212	4,407	40,068
Other Assistance to Non-profit Organizations	39,003			39,003
Meals & Entertainment	4,928	1,249	20,384	26,561
Postage, Shipping & Printing	15,004	4,212	2,686	21,902
Professional & Outside Services	10,609	997	9,762	21,368
Advertising			19,640	19,640
Travel	4,857	8,793		13,650
Utilities	6,851	1,737	1,061	9,649
Insurance		7,527		7,527
Supplies	4,642	1,308	941	6,891
Facility Repair & Maintenance	4,117	1,044	638	5,799
Bank Charges	1,658	2,624	193	4,475
Equipment Rental & Maintenance	3,329	618	377	4,324
Telephone & Telecommunications	3,041	772	471	4,284
Information Technology	1,884	478	306	2,668
Dues and Subscriptions		1,911		1,911
Licenses & Permits	764			764
Total Expenses Before Depreciation	830,762	116,909	114,422	1,062,093
Depreciation	4,510	1,143	699	6,352
Total Expenses - 6/30/2017	\$ 835,272	\$ 118,052	\$ 115,121	\$ 1,068,445

See accompanying notes and independent auditor's report.

Flagstaff Arts Council, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2017

	<u>6/30/2017</u>
Cash Flow from Operating Activities:	
Change in Net Assets	\$718,904
Adjustments to Reconcile Change in Net Assets to Net Cash Flow from Operating Activities:	
Depreciation	6,353
Change in Accounts Receivable	8,356
Change in Prepaid Expenses	2,837
Change in Prepaid Lease In-Kind	(720,000)
Change in Accounts Payable & Accrued Expenses	(14,527)
Change in Payroll & Related Liabilities	10,040
Change in Deferred Revenue	<u>(9,743)</u>
 Net Cash Flow from Operating Activities	 <u>2,220</u>
Cash Flow from Investing Activities:	
(Purchases) of Investments	(1,551)
(Purchases) of Leasehold Improvements	(5,190)
(Purchases) of Furniture and Equipment	<u>(1,882)</u>
 Net Cash Flow from Investing Activities	 <u>(8,623)</u>
 Net Increase/(Decrease) in Cash & Cash Equivalents	 (6,403)
 Cash & Cash Equivalents - Beginning of Year	 <u>84,984</u>
 Cash & Cash Equivalents - End of the Year	 <u><u>\$ 78,581</u></u>

See accompanying notes and independent auditor's report.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE A – NATURE OF OPERATIONS

Organization

Flagstaff Arts Council, Inc. (the organization) is a nonprofit corporation; formed under the laws of the State of Arizona, and in accordance with the IRS determination letter dated June 12, 1984. The corporation was founded in 1984, and legally changed it's name to Flagstaff Arts Council, Inc. in accordance with the amendment to the articles of incorporation dated July 23, 2009. The organization's mission is to enhance the spectrum and quality of cultural experiences available to residents and visitors to our community.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FASB) *Accounting Standards Codification (ASC), Not-for-Profit Entities – Presentation of Financial Statements (ASC 958-205)*. Under ASC 958-205 the organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

As of June 30, 2017, cash consisted of cash on hand and deposits with financial institutions. The corporation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Receivables

Receivables are stated at the amount that management expects to collect on balances outstanding at year end. Management considers accounts receivable at June 30, 2017 to be fully collectible and no allowance for doubtful accounts is considered necessary.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The corporation qualifies as tax-exempt under Section 501 (c)(3) of the Internal Revenue Code and therefore, has no provision for federal income taxes. Flagstaff Arts Council, Inc.'s Form 990, Return of Organization Exempt from Income Tax, for the years ending June 30, 2016, 2015, and 2014 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Revenue Recognition

Contributions are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets depending on the nature of donor restrictions, if any. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met or expires in the reporting period in which the contributions are recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Functional Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Property and Equipment

Property and equipment are stated at historical cost. Depreciation is provided using the straight-line method over the estimated useful life of the related asset. Vehicles are depreciated over 5 years. Furnishings and equipment are depreciated over an estimated useful life of 7 years. Expenditures for maintenance and repair are charged to operating expense. Renewals and betterments that materially extend the life of the assets and have an original cost in excess of \$1,000 are capitalized.

Advertising

Advertising costs are expensed in the period incurred. Advertising expense for the year ended June 30, 2017 was \$19,640.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable consists primarily of amounts due from customers for services. Management considers accounts receivable at June 30, 2017 to be fully collectible and no allowance for doubtful accounts is considered necessary. The balance of accounts receivable at June 30, 2017 was \$2,082.

NOTE D – ART COLLECTION

The Flagstaff Arts Council, Inc. owns a private collection of visual art, all of which was donated to the organization. For the year ended June 30, 2017, the unrestricted art collection is stated at appraised value of \$10,000.

NOTE E – INVESTMENTS

As of June 30, 2017, the Organization held \$33,455 in a privately managed money market mutual fund. The investment is carried at current fair value at year end. Detail of net investment income (loss) from all sources for the year ended June 30, 2017 is as follows:

	<u>2017</u>
Interest & Dividend Income	\$ 24
Unrealized Gains/(Losses)	<u>1,550</u>
Net Investment (Loss)/Income	<u><u>\$ 1,574</u></u>

NOTE F – PROPERTY & EQUIPMENT

Detail of property and equipment at June 30, 2017, is as follows:

	<u>6/30/2017</u>
Furniture and Equipment	\$ 41,673
Leasehold Improvements	15,804
Less: Accumulated Depreciation	<u>(49,462)</u>
Net: Property & Equipment	<u><u>\$ 8,015</u></u>

Depreciation expense for the year ended June 30, 2017 was \$6,352.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE G – PREPAID IN-KIND LEASE

The organization receives a donation of facilities in-kind from Coconino County, under a five year lease commencing July 1, 2016 and ending June 30, 2021. The estimated fair rental value of the facility is \$180,000 per annum, or \$900,000 over the 60 month period of the lease. Donated rent expense, in-kind was \$900,000 for the year ended June 30, 2017. Prepaid lease expense under the agreement was \$720,000 as of June 30, 2017, of which \$180,000 was a current asset and \$540,000 was long-term. The asset is considered temporarily restricted for purpose. Scheduled maturities of prepaid lease expense as of June 30, 2017, are as follows:

Year Ending June 30	
2018	\$ 180,000
2019	180,000
2020	180,000
2021	<u>180,000</u>
Total	<u>\$ 720,000</u>

Detail of in-kind donations for the year ended June 30, 2017 is as follows:

	<u>6/30/2017</u>
Facilities	<u>\$ 900,000</u>
Total	<u>\$ 900,000</u>

NOTE H – DEFERRED REVENUE

Deferred revenue consists of revenue received in advance of services provided. Deferred revenue at June 30, 2017 was \$16,667.

NOTE I – PERMANENTLY RESTRICTED ENDOWMENT FUND

In 2009, an endowment was established for the benefit of the Flagstaff Arts Council, Inc. Under the terms of the endowment, the original principle of the fund is restricted in perpetuity. Income from the investment of endowment assets is available for support of the Viola Awards Program. A permanently restricted net asset of \$20,000 as of June 30, 2017, is reflected in these financial statements for the endowment.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE J – GRANT EXPENSES

For the year ended June 30, 2017, Flagstaff Arts Council, Inc. donated funds in support of Northern Arizona arts and cultural enhancements as follows:

	<u>2017</u>
Arboretum of Flagstaff	\$ 25,000
Arizona Historical Society	25,000
Artists Coalition of Flagstaff	6,500
Ballet Folklorico de Colores	5,000
Canyon Movement Company	9,000
Capoeira Amizade	2,300
Center for Indigenous Music and Culture	4,000
Children’s Chorale of Flagstaff	5,000
Dark Skies Coalition	5,800
Dry Creek Arts Fellowship	2,800
Elden Pueblo	6,400
Flagstaff Alpine Community Theater	1,500
Flagstaff Community Band	2,000
Flagstaff Festival Of Science	11,600
Flagstaff Friends of Traditional Music	25,000
Flagstaff Light Opera	2,800
Flagstaff Mountain Film Festival	5,000
Flagstaff Symphony Orchestra	28,000
Friends of Flagstaff’s Future	2,400
Flagstaff Unified School District	5,000
Grand Canyon Guitar Society	4,200
Grand Canyon Salsa Festival	1,750
Grand Canyon Trust	3,800
Heritage Square Trust	4,200
Hozhoni Foundation	3,000
Human Nature Dance Theatre	4,900
Living Traditions Presentations	2,500
Lowell Observatory	32,000
Master Chorale of Flagstaff	12,700
Museum of Northern Arizona	32,000
NAU – Thin Air Magazine	500
Northern Arizona Book Festival	2,400
Orchestra Northern Arizona	4,600
State of Black	1,000
STEM City	25,000
Theatrikos	28,000
USA Dance	1,600
Willow Bend Environmental Education Center	17,000
Wonder Factory	4,000
Total Payment to Local Not For Profits	<u>\$365,250</u>

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE K – ECONOMIC DEPENDENCY

The organization's primary revenue source is service fees from the City of Flagstaff. Total revenue received from that source was \$452,336, or 42% and of total expenses for the year ended June 30, 2017. The organization is economically dependent on these fees in order to maintain current service levels. However, as 81% of these funds are passed on to local service providers, management does not believe other service levels would be impacted significantly.

NOTE L – GRANT COMPLIANCE

The organization's operations include a contract for services, funded by the City of Flagstaff. The operations of the organization are subject to the administrative directives and rules and regulations of the City contract; such administrative directives, rules and regulations may be subject to change. Changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply. Any disallowed claims, due to audit or adjustment, including amount already collected, may constitute a liability. The amount, if any, of fees that may be disallowed cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

NOTE M – RISK MANAGEMENT

The organization is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the organization carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

NOTE N – DATE OF MANAGEMENT'S REVIEW

Subsequent events have been evaluated by management through October 18, 2017. The date the report was available to be issued was October 18, 2017.

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE O – FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets and liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using dealer and broker quotations, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States of America, certain assets and liabilities are required to be recorded at fair value on a recurring basis. For the Flagstaff Arts Council, Inc., the only assets and liabilities that are adjusted to fair value on a recurring basis are investments in equity and debt securities classified as trading or available-for-sale and derivative instruments. The following tables summarize those assets and liabilities measured on a recurring basis as of June 30, 2017 (in thousands):

	June 30, 2017				
	Level 1	Level 2	Level 3	Netting Adjustment	Fair Value Measurement
Assets					
Investments	\$ 33	-	-	-	\$ 33
Total Assets	\$ 33	-	-	-	\$ 33

FLAGSTAFF ARTS COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

Gross realized and unrealized gains and losses on Level 3 assets and liabilities were not significant for the year ended June 30, 2017.

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a non-recurring basis as required by accounting principles generally accepted in the United States of America. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. There were no assets and liabilities recorded on a nonrecurring basis as of June 30, 2017.