

METROPOLITAN ARTS COUNCIL
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

METROPOLITAN ARTS COUNCIL

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Independent Auditor's Report

To Management and the Board of Directors
Metropolitan Arts Council
Greenville, South Carolina

We have audited the accompanying financial statements of Metropolitan Arts Council (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Metropolitan Arts Council as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McKinley, Cooper & Co., LLC

Greenville, South Carolina
May 9, 2018



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METROPOLITAN ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	376,113
Contributions receivable - current		189,770
Grants receivable		179,422
Other current assets		362

Total current assets		745,667
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NON-CURRENT ASSETS

Contributions receivable - long-term		120,100
Investments - held for long-term purposes		1,343,189
Fixed assets, net of accumulated depreciation of \$72,810		39,615

Total non-current assets		1,502,904
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Total assets	\$	2,248,571
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	4,057
Grants payable		150,000

Total current liabilities		154,057
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Total liabilities		154,057
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NET ASSETS

Unrestricted		
Board designated		315,253
Undesignated		449,633
Total unrestricted		764,886
Temporarily restricted		301,692
Permanently restricted		1,027,936

Total net assets		2,094,514
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Total liabilities and net assets	\$	2,248,571
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The accompanying notes are an integral part of these financial statements.

METROPOLITAN ARTS COUNCIL

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions	\$ 413,293	\$ 324,713	\$ 169,781	\$ 907,787
Foundation contributions	231,400	-	-	231,400
Government grants	504,387	-	-	504,387
Events revenue	97,499	-	-	97,499
In-kind contributions	52,700	-	-	52,700
Investment income, net	204,101	-	-	204,101
Other revenue	75,299	-	-	75,299
Net assets released from restriction	264,101	(264,101)	-	-
Total revenue, gains, and other support	<u>1,842,780</u>	<u>60,612</u>	<u>169,781</u>	<u>2,073,173</u>
EXPENSES				
Program services				
Art events and promotions	632,035	-	-	632,035
Grant-making	369,082	-	-	369,082
Arts education	125,300	-	-	125,300
Total program services	<u>1,126,417</u>	<u>-</u>	<u>-</u>	<u>1,126,417</u>
Support services				
Management and general	330,635	-	-	330,635
Fundraising	72,827	-	-	72,827
Total support services	<u>403,462</u>	<u>-</u>	<u>-</u>	<u>403,462</u>
Total expenses	<u>1,529,879</u>	<u>-</u>	<u>-</u>	<u>1,529,879</u>
Change in net assets	312,901	60,612	169,781	543,294
NET ASSETS, beginning of year	<u>451,985</u>	<u>241,080</u>	<u>858,155</u>	<u>1,551,220</u>
NET ASSETS, end of year	<u>\$ 764,886</u>	<u>\$ 301,692</u>	<u>\$ 1,027,936</u>	<u>\$ 2,094,514</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN ARTS COUNCIL

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services				Support Services		Total
	Art Events and Promotion	Grant-making	Arts Education	Total Program	Management and General	Fundraising	
Personnel and related expenses	\$ 167,479	\$ 23,029	\$ 18,842	\$ 209,350	\$ 128,196	\$ -	\$ 128,196
Marketing	192,051	-	-	192,051	524	9,965	10,489
Grants made	-	344,979	-	344,979	-	-	-
Telephone and utilities	-	-	-	-	9,475	-	9,475
Printing and postage	31,188	-	60	31,248	26,037	31,823	57,860
Insurance	5,746	767	669	7,182	4,788	-	4,788
Hospitality	40,389	307	15	40,711	45,364	30,242	75,606
Rent	-	-	-	-	44,392	-	44,392
Depreciation	-	-	-	-	4,429	-	4,429
Office supplies and expense	629	-	9,851	10,480	12,424	384	12,808
Artist and other fees	185,544	-	95,584	281,128	34,746	-	34,746
Other	9,009	-	279	9,288	20,260	413	20,673
Total	\$ 632,035	\$ 369,082	\$ 125,300	\$ 1,126,417	\$ 330,635	\$ 72,827	\$ 403,462
							\$ 1,529,879

The accompanying notes are an integral part of these financial statements.

METROPOLITAN ARTS COUNCIL

**STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 543,294
Adjustments to reconcile decrease in net assets to net cash provided by operating activities	
Depreciation	4,429
(Increase) decrease in current assets	
Pledges receivable, net	(223,301)
Grants receivable, net	(78,733)
Increase (decrease) in current liabilities	
Accounts payable	2,457
Net cash provided by operating activities	<u>248,146</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(17,903)
Change in investments, net	<u>(285,776)</u>
Net cash (used) by investing activities	<u>(303,679)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(55,533)
CASH AND CASH EQUIVALENTS, beginning of year	<u>431,646</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 376,113</u>

The accompanying notes are an integral part of these financial statements.

METROPOLITAN ARTS COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – NATURE OF ACTIVITIES AND ACCOUNTING POLICIES

Organization and Funding

The Metropolitan Arts Council (the "Council") is a nonprofit organization formed in 1973 for the purpose of providing funding and services to performing and visual arts organizations, and to promote the arts in the Greenville, South Carolina community.

The Council's primary sources of revenue are grants and contributions from government agencies, individuals, corporations, and charitable organizations.

Basis of Accounting

The Council's policy is to prepare its financial statements on the accrual basis of accounting. Consequently, revenues are recognized when earned rather than when cash is received, and expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Financial Statement Presentation

The Council's financial statements are presented in accordance with FASB ASC 958-205 *Not-for-Profit Presentation of Financial Statements*.

In accordance with FASB ASC 958-205, the Metropolitan Arts Council 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. In addition, the Council is required to present a statement of cash flows.

Unrestricted Net Assets

Unrestricted net assets are those currently available for use.

Temporarily Restricted Net Assets

Temporarily restricted net assets are grants and contributions whose use is limited by donor-imposed stipulations either for a specific purpose or that expire by passage of time.

Permanently Restricted Net Assets

Permanently restricted net assets are grants and contributions whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Council's actions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

Contributions and Grants Receivable

Contributions and grants receivable which represent unconditional promises to give are recognized as revenues when the promise is received. Contributions and grants receivable that are expected to be collected in less than one year are reported at net realizable value. Those expected to be collected in more than one year are recorded at fair value at the date of promise. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with the donors and grantors.

Contribution and Grant Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or the nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When the 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.

The Council reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Council reports expirations of donor restriction when the donated or acquired long-lived assets are placed in service.

Contributed advertising and marketing that qualifies as receipt of nonfinancial assets are recognized at fair value. The Council recognized \$52,700 in in-kind contributions for marketing, and a corresponding marketing expense of \$52,700 for the year ended December 31, 2017.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Council. The Council generally does not receive a significant amount of donated services and none met the criteria for recognition in 2017.

Revenue from grants is recognized according to the specific agreement. Generally, revenues from restricted grants are recognized in the period of the grant award while revenues from cost reimbursement contracts are recognized to the extent of project expenses incurred. Grants and contracts are subject to audit by the awarding agency. Based on prior experience, the Council's management believes that costs ultimately disallowed, if any, would not materially affect the financial position of the Council.

Investments

Investments are stated at fair market value. Investments in marketable equity and debt securities are valued at their fair values in the statement of assets, liabilities, and net assets. Fair values are based on published yearend market quotes. Investment income and gains and losses are reported as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Property and Equipment

Property and equipment purchased are recorded at cost. Property and equipment donated to the Council is recorded at fair value at the time of the gift. The Council recognizes the cost of using up future economic benefit of service potential of all assets with an expected life greater than two years and has not adopted a capitalization threshold. Such costs are recorded as depreciation expense in these financial statements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Computer hardware/software	3-5 years
Equipment	5-10 years
Furniture and fixtures	5-10 years
Leasehold improvements	10-39 years

Deferred Revenue

Deferred revenue consists of grant awards that have been received but not yet earned according to the terms of the grant agreement.

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Council.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of content for assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Metropolitan Arts Council is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Council has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(ii). The Council's information returns are subject to examination by the Internal Revenue Service for three subsequent years.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, receivables, and payables approximate fair value because of the terms and relative short maturity of these financial instruments. The carrying values, which are the fair value of investments, are based on values provided by an external investment manager or comparison to quoted market values.

NOTE 2 – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, establishes a consistent framework for measuring fair value in accordance with GAAP, and expands disclosure requirements about fair value measurements. The pronouncement defines fair value and establishes a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset or liability based on market data obtained from sources independent of the Council as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Inputs refer broadly to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The Council is required by the pronouncement to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). The Council considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Council's perceived risk of that instrument.

The following table sets forth by level, within the fair value hierarchy, the Council's investments at fair value as of December 31, 2017:

	Total at December 31, 2017	Level 1	Level 2	Level 3
Mutual Funds				
Equities	\$ 1,225,441	\$ 1,225,441	\$ -	\$ -
Money Market	117,748	117,748	-	-
Total at Fair Value	<u>\$ 1,343,189</u>	<u>\$ 1,343,189</u>	<u>\$ -</u>	<u>\$ -</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, is classified as Level 1. The money market mutual fund consists primarily of domestic commercial paper and other cash management instruments, such as repurchase agreements and master notes, U.S. government and corporate obligations and other securities of foreign issuers. The fund seeks to maintain a stable net asset value ("NAV") of \$1.

Equity Investments - Investments in equity vehicles are comprised of corporate stocks and daily traded mutual funds. Securities held in corporate stocks and daily traded mutual funds are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets for identical assets, and are accordingly categorized as Level 1, with no valuation adjustments applied. Corporate stocks that are traded in inactive markets are categorized as Level 2.

While the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

The current portion of the contributions receivable represents the amount of unconditional promises to give expected to be collected during the next fiscal year. The non-current portion of contributions receivable represents pledges expected to be collected in 2019. In accordance with FASB ASC 958-605, the promises have been discounted to present value. Management has used a 2% discount rate for present value determination. The long-term pledge amount of \$125,000 has been recognized at a present value of \$120,100 at December 31, 2017.

NOTE 4 – INVESTMENTS

Investments, which are held in endowments at December 31, 2017, are comprised of:

Money Market Funds	\$	117,748
Mutual Funds		
Equity		1,225,441
Pooled Endowment	\$	<u>1,343,189</u>

Investment income for the year ended December 31, 2017, is comprised of:

Interest, dividends, and other investment income	\$	51,226
Unrealized (loss) on investments		81,962
Realized gain on sale of investments		81,107
Investment fees		(10,194)
	\$	<u>204,101</u>

NOTE 5 – FIXED ASSETS

Fixed assets consisted of the following at December 31, 2017:

Furniture and fixtures	\$	4,137
Computer hardware/software		40,457
Equipment		38,294
Leasehold improvements		29,537
		<u>112,425</u>
Less: accumulated depreciation		(72,810)
	\$	<u>39,615</u>

Depreciation expense of \$4,429 has been recorded in the financial statements for the year ended December 31, 2017.

NOTE 6 – ENDOWMENT ASSETS

See Note 2 for discussions of the methodologies and assumptions used to determine the fair value of the Council's investments.

Establishment and Purpose

The Council has an endowment established from both restricted and unrestricted sources which is being managed collectively for investment purposes (collectively, "the Fund"). As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2010, the Council established an endowment fund from its unrestricted net assets to be used for the purpose of making grants to local art organizations and individuals. The amounts added to the endowment from unrestricted funds and any investment earnings thereon that have not been appropriated for expenditure are reported as a component of unrestricted net assets in the accompanying financial statements.

The Council has also received contributions designated by donors for the purpose of having a permanent fund to be invested and used for the same purpose as described above. The principal and income on these contributions are classified according to donor stipulations. Investment income on donor-restricted endowment contributions is available for the re-granting program.

Endowment Investment and Spending Policies

The spending policy of the unrestricted portions of the endowment states that the Fund should distribute annually up to 3.5% of a trailing one-year average (January 1 – December 31 of the prior calendar year) of the Fund's total asset value, with the understanding that this spending rate, plus inflation, shall not exceed the total return of the assets and, in fact, will permit appreciation of the Fund. The appropriations are to be made for the purpose of grant-making to local art organizations.

In 2012, the Council adopted an investment policy stating the Council's objective of the fund is to maximize the growth of principal while generating current income and at the same time preserve capital. The endowment assets are structured to provide real growth from capital gains and income, while maintaining sufficient liquidity to meet endowment obligations in dispersing its assets. The return objectives are to achieve, over longer (more than three years) time periods, investment returns consistent with the endowment's spending policy (3.5%) plus inflation. The funds are managed on a total return basis. Risk objectives are to obtain adequate diversification through allocation of the Fund's assets across multiple asset classes, chosen in part for their complementary correlation qualities and distribution of investments within each asset type across many individual holdings, thus further reducing volatility. The targets and ranges for the allowable asset classes are fixed income (25% - 40%) and equities (60% - 70%).

Interpretation of Relevant Law

The Board of Directors of the Council has interpreted South Carolina's enacted Uniform Prudent Management of Institutional Funds Act ("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 permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment as made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated 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 fund.
2. The purposes of the Council and the donor-restricted endowment fund.
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.
7. The investment policies of the Council.

Endowment net assets consist of the following at December 31, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ -	\$ 905,386
Board-designated endowment funds	437,803	-
	<u>\$ 437,803</u>	<u>\$ 905,386</u>

Change in endowment net assets for the year ending December 31, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Beginning balance, January 1	\$ 209,258	\$ -	\$ 858,155
Investment income	51,226	-	-
Appreciation	149,944	-	-
Additions	37,569	-	47,231
Investment fees	(10,194)	-	-
Ending balance, December 31	<u>\$ 437,803</u>	<u>\$ -</u>	<u>\$ 905,386</u>

NOTE 7 – NET ASSET RESTRICTIONS

Temporarily restricted net assets consist of the following amount and purpose at December 31, 2017:

Contributions receivable - long-term	\$ 60,050
Smart Arts Education	<u>241,642</u>
	<u>\$ 301,692</u>

Permanently restricted net assets consist of the following amounts and purposes at December 31, 2017:

Permanently restricted endowment gifts to be retained either by explicit donor stipulations or by UPMIFA	
General endowment	\$ 905,386
Pledges receivable	<u>122,550</u>
	<u>\$ 1,027,936</u>

NOTE 8 – COMMITMENTS

The Council awards project support grants to individual artists, art organizations, and art education programs throughout Greenville County. The grants are paid out to the awardee as work on the project progresses. The commitment outstanding in connection with these projects is \$99,000 at December 31, 2017.

In 2017, the Council entered into a 5 year operating lease agreement for rental of office space through June 30, 2022. The lease grants the Council the right to renew the lease for an additional 5 year lease term at the market rate.

Annual minimum lease payments under this commitment are as follows:

2018	\$ 40,393
2019	40,393
2020	40,393
2021	40,393
2022	20,197

Rent expense reported in the financial statements totaled \$44,392 for the year ended December 31, 2017.

NOTE 9 – RELATED PARTY TRANSACTIONS

A Council board member serves on the accommodations tax grant committee with the City of Greenville from which the Council was awarded a cost-reimbursement grant in the City's fiscal years ended December 31, 2017 and 2016. A total of \$425,000 from this grant was recognized in revenue in 2017 and \$112,500 was receivable under this grant at December 31, 2017.

NOTE 10 – CONCENTRATIONS OF RISK

The Council maintains cash in banks, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year, the Council's cash deposits may exceed federally insured limits. The Council has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its cash and cash equivalents.

The Council conducts operations solely in northwestern South Carolina and, therefore, is subject to risks from changes in local economic conditions.

Grants receivable totaling \$112,500, or 65% of grant receivables, was due from the City of Greenville under the accommodations tax grant program at December 31, 2017. The City of Greenville accommodations tax grant comprised 26% of the Council's revenues in 2017. The City of Greenville funding is not guaranteed each year. Any significant reduction in the level of support from the City of Greenville could negatively impact the Council's ability to fund grants to other local art organizations.

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

REPORT TO THE BOARD OF DIRECTORS
METROPOLITAN ARTS COUNCIL
DECEMBER 31, 2017

METROPOLITAN ARTS COUNCIL

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AUDITOR COMMUNICATIONS

To Management and the Board of Directors
Metropolitan Arts Council
Greenville, South Carolina

We have audited the financial statements of the Metropolitan Arts Council for the year ended December 31, 2017, and have issued our report thereon dated May 9, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our previously issued engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Metropolitan Arts Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The following accounting standard issued by the Financial Accounting Standards Board (FASB) will become effective for the Council for the year ended December 31, 2018:

Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*.

Requirements of this standard that will most noticeably impact the Council's financial statements are the change in net asset classifications and a required disclosure of liquidity information. The net asset classifications are changed from the current three categories of unrestricted, temporarily restricted, and permanently restricted, to two categories – net assets without donor restrictions and net assets with donor restrictions. The disclosure of liquidity information requires adding to the financial statement footnotes a narrative that communicates how the Council manages its cash and other liquid assets available to meet cash needs for general expenses within one year of the statement of financial position date.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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To Management and the Board of Directors
Metropolitan Arts Council
May 9, 2018

The most significant estimates affecting the financial statements are allocation of expenses to functional categories and the fair value of endowment investments. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

There were no such misstatements other than those that were trivial.

Significant Audit Adjustments

The following significant adjustments detected as a result of audit procedures were recorded by management:

<i>Adjust pledge receivable</i>	\$ (36,900)
<i>Adjust accumulated depreciation</i>	(1,385)
<i>Adjust grants receivable</i>	5,347
<i>Adjust accounts payable</i>	3,732
<i>Adjust cash</i>	227
<i>Adjust fixed assets</i>	10,981
<i>Record additional pledge</i>	120,100
<i>Total increase in net assets</i>	<u>\$ 102,102</u>

The adjustments were made to adjust depreciation expense to calculated amount and adjust grants receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 9, 2018.

To Management and the Board of Directors
Metropolitan Arts Council
May 9, 2018

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Metropolitan Arts Council and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Melvinley, Cooper & Co., LLC

Greenville, South Carolina
May 9, 2018

To Management and the Board of Directors
Metropolitan Arts Council
Greenville, South Carolina

Thank you for the cooperation given during our engagement with the Metropolitan Arts Council.

For the year ended December 31, 2017, we present the following observations and recommendations relating to the accounting operations of the Metropolitan Arts Council.

Review of Financial Statements

Our report for the 2017 audit expresses an **unmodified opinion** on the fair presentation of the financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Concentration of Credit Risk

The Council currently has balances at banking institutions in excess of amounts insured by the FDIC. We recommend that the Council consider requiring these financial institutions to hold collateral in the Council's name for amounts exceeding insured limits or to use accounts at different institutions not exceeding insured limits to minimize concentration of credit risk.

Organizational Structure

In planning and performing our audit of the financial statements of the Metropolitan Arts Council in accordance with auditing standards generally accepted in the United States of America, we considered the Metropolitan Arts Council's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The size of the Council's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Council to provide oversight and independent review functions.

Members
American Institute of Certified Public Accountants
S.C. Association of Certified Public Accountants



To Management and the Board of Directors
Metropolitan Arts Council
May 9, 2018

Our comments are based upon conditions noted during our audit and are not intended to be all-inclusive. They are submitted to you as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any employee.

We appreciate the opportunity to present these comments and recommendations for your consideration, and are prepared to discuss them further at your convenience and provide any implementation assistance for changes or improvements you may require.

Respectfully submitted,

McKinley, Cooper & Co., LLC

Greenville, South Carolina
May 9, 2018