

**METROPOLITAN ARTS COUNCIL**  
**AUDITED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 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 not-for-profit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McKinley, Cooper & Co., LLC*

Greenville, South Carolina  
April 24, 2019



**METROPOLITAN ARTS COUNCIL**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**

**ASSETS**

<b>CURRENT ASSETS</b>	2018	2017
Cash and cash equivalents	\$ 464,126	\$ 376,113
Contributions receivable - current	228,519	189,770
Grants receivable	137,500	179,422
Other current assets	362	362
<b>Total current assets</b>	<b>830,507</b>	<b>745,667</b>
 <b>NON-CURRENT ASSETS</b>		
Contributions receivable - long-term	-	120,100
Investments - held for long-term purposes	1,386,728	1,343,189
Fixed assets, net	31,160	39,615
<b>Total non-current assets</b>	<b>1,417,888</b>	<b>1,502,904</b>
<b>Total assets</b>	<b>\$ 2,248,395</b>	<b>\$ 2,248,571</b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 27,953	\$ 4,057
Grants payable	157,500	150,000
Deferred revenue	6,131	-
<b>Total current liabilities</b>	<b>191,584</b>	<b>154,057</b>
<b>Total liabilities</b>	<b>191,584</b>	<b>154,057</b>
 <b>NET ASSETS</b>		
Net assets without donor restrictions	608,817	764,886
Net assets with donor restrictions	1,447,994	1,329,628
<b>Total net assets</b>	<b>2,056,811</b>	<b>2,094,514</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,248,395</b>	<b>\$ 2,248,571</b>

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

**METROPOLITAN ARTS COUNCIL**

**STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018**

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>			
Contributions	\$ 569,981	\$ 118,366	\$ 688,347
Foundation contributions	346,000	-	346,000
Government grants	524,382	-	524,382
Events revenue	98,668	-	98,668
In-kind contributions	586,036	-	586,036
Investment income (loss)	(73,877)	-	(73,877)
Other revenue	101,884	-	101,884
<b>Total revenue, gains, and other support</b>	<u>2,153,074</u>	<u>118,366</u>	<u>2,271,440</u>
<b>EXPENSES</b>			
Program services			
Art events and promotions	1,292,785	-	1,292,785
Grant-making	420,378	-	420,378
Arts education	156,751	-	156,751
<b>Total program services</b>	<u>1,869,914</u>	<u>-</u>	<u>1,869,914</u>
Support services			
Management and general	364,112	-	364,112
Fundraising	75,117	-	75,117
<b>Total support services</b>	<u>439,229</u>	<u>-</u>	<u>439,229</u>
<b>Total expenses</b>	<u>2,309,143</u>	<u>-</u>	<u>2,309,143</u>
Change in net assets	(156,069)	118,366	(37,703)
<b>NET ASSETS, beginning of year</b>	<u>764,886</u>	<u>1,329,628</u>	<u>2,094,514</u>
<b>NET ASSETS, end of year</b>	<u>\$ 608,817</u>	<u>\$ 1,447,994</u>	<u>\$ 2,056,811</u>

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

**METROPOLITAN ARTS COUNCIL**

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

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>			
Contributions	\$ 413,293	\$ 494,494	\$ 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	204,101	-	204,101
Other revenue	75,299	-	75,299
Net assets released from restriction	264,101	(264,101)	-
<b>Total revenue, gains, and other support</b>	<u>1,842,780</u>	<u>230,393</u>	<u>2,073,173</u>
<b>EXPENSES</b>			
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>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>403,462</u>
<b>Total expenses</b>	<u>1,529,879</u>	<u>-</u>	<u>1,529,879</u>
Change in net assets	312,901	230,393	543,294
<b>NET ASSETS, beginning of year</b>	<u>451,985</u>	<u>1,099,235</u>	<u>1,551,220</u>
<b>NET ASSETS, end of year</b>	<u>\$ 764,886</u>	<u>\$ 1,329,628</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, 2018

	Program Services				Support Services			Total
	Art Events and Promotion	Grant- making	Arts Education	Total Program	Management and General	Fundraising	Total Support	
Personnel and related expenses	\$ 183,318	\$ 26,188	\$ 22,447	\$ 231,953	\$ 142,166	\$ -	\$ 142,166	\$ 374,119
Marketing	193,947	-	-	193,947	615	10,240	10,855	204,802
Marketing - in-kind	586,036	-	-	586,036	-	-	-	586,036
Grants made	-	393,171	-	393,171	-	-	-	393,171
Telephone and utilities	-	-	-	-	11,028	-	11,028	11,028
Printing and postage	38,044	-	109	38,153	31,613	39,243	70,856	109,009
Insurance	5,507	734	642	6,883	4,589	-	4,589	11,472
Hospitality	32,939	285	9	33,233	37,014	24,681	61,695	94,928
Rent	-	-	-	-	41,376	-	41,376	41,376
Depreciation	-	-	-	-	8,455	-	8,455	8,455
Office supplies and expense	804	-	11,258	12,062	14,206	536	14,742	26,804
Artist and other fees	239,676	-	121,869	361,545	44,685	-	44,685	406,230
Other	12,514	-	417	12,931	28,365	417	28,782	41,713
<b>Total</b>	<b>\$ 1,292,785</b>	<b>\$ 420,378</b>	<b>\$ 156,751</b>	<b>\$ 1,869,914</b>	<b>\$ 364,112</b>	<b>\$ 75,117</b>	<b>\$ 439,229</b>	<b>\$ 2,309,143</b>

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	Total Support	
Personnel and related expenses	\$ 167,479	\$ 23,029	\$ 18,842	\$ 209,350	\$ 128,196	\$ -	\$ 128,196	\$ 337,546
Marketing	139,351	-	-	139,351	524	9,965	10,489	149,840
Marketing - in-kind	52,700	-	-	52,700	-	-	-	52,700
Grants made	-	344,979	-	344,979	-	-	-	344,979
Telephone and utilities	-	-	-	-	9,475	-	9,475	9,475
Printing and postage	31,188	-	60	31,248	26,037	31,823	57,860	89,108
Insurance	5,746	767	669	7,182	4,788	-	4,788	11,970
Hospitality	40,389	307	15	40,711	45,364	30,242	75,606	116,317
Rent	-	-	-	-	44,392	-	44,392	44,392
Depreciation	-	-	-	-	4,429	-	4,429	4,429
Office supplies and expense	629	-	9,851	10,480	12,424	384	12,808	23,288
Artist and other fees	185,544	-	95,584	281,128	34,746	-	34,746	315,874
Other	9,009	-	279	9,288	20,260	413	20,673	29,961
<b>Total</b>	<u>\$ 632,035</u>	<u>\$ 369,082</u>	<u>\$ 125,300</u>	<u>\$ 1,126,417</u>	<u>\$ 330,635</u>	<u>\$ 72,827</u>	<u>\$ 403,462</u>	<u>\$ 1,529,879</u>

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



**METROPOLITAN ARTS COUNCIL**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	2018	2017
Increase (decrease) in net assets	\$ (37,703)	\$ 543,294
Adjustments to reconcile decrease in net assets to net cash provided by operating activities		
Depreciation	8,455	4,429
(Increase) decrease in current assets		
Pledges receivable, net	81,351	(223,301)
Grants receivable, net	41,922	(78,733)
Increase (decrease) in current liabilities		
Deferred revenue	6,131	-
Grants payable	7,500	-
Accounts payable	23,896	2,457
<b>Net cash provided by operating activities</b>	<b>131,552</b>	<b>248,146</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	-	(17,903)
Change in investments, net	(43,539)	(285,776)
<b>Net cash (used) by investing activities</b>	<b>(43,539)</b>	<b>(303,679)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	88,013	(55,533)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	376,113	431,646
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 464,126	\$ 376,113
Reconciliation of cash and cash equivalents to the Statement of Financial Position:		
<b>CASH AND CASH EQUIVALENTS, without donor restrictions</b>	\$ 104,117	\$ 134,471
<b>CASH AND CASH EQUIVALENTS, with donor restrictions</b>	360,009	241,642
	\$ 464,126	\$ 376,113

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

# METROPOLITAN ARTS COUNCIL

## NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

### NOTE 1 – NATURE OF ACTIVITIES AND ACCOUNTING POLICIES

#### **Organization and Funding**

The Metropolitan Arts Council (the “Council”) is a not-for-profit 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.

#### **Basis of Presentation**

The financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, Not-for-Profit Entities, Presentation of Financial Statements. During 2018, the Organization adopted the provisions of Accounting Standards Update (“ASU”) 2016-14: Not-for-Profit Entities (Topic 958) Presentation of Financial Statements for Not-for-Profit Entities. The primary objective of the new ASU is to improve the current net asset classification and the related information presented in the financial statements and notes about the Organization’s liquidity, financial performance, and cash flows, in order to provide more useful information to users of the financial statements.

In accordance with ASU 2016-14, the Metropolitan Arts Council is required to report information regarding its financial position and activities depending on the existence of any donor restrictions. The classifications are as follows:

- Net assets without donor restrictions, and
- Net assets with donor restrictions.

#### **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 support without donor restrictions, or with donor restrictions, depending on the existence and/or the nature of any donor restrictions. Support that is restricted by the donor is originally reported as restricted. When the restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, 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 support without donor restrictions 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 in-kind contributions for marketing, and a corresponding marketing expense as follows:

Year ended December 31, 2018	<u>\$ 586,036</u>
Year ended December 31, 2017	<u>\$ 52,700</u>

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 for the years ended 2018 and 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 net assets without donor restrictions unless a donor or law 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.

The Council evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, and review of its regular tax filings. No uncertain tax positions were identified by the Council as of December 31, 2018.

## 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.

## Recently Issued Accounting Standards

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958). Presentation of Financial Statements for Not-for-Profit Entities, which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU 2016-14 also requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date.

Summary of the net assets reclassification in accordance with ASU 2016-14 is as follows:

### As originally stated

#### Net Assets, January 1, 2017

Unrestricted	\$	451,985
Temporarily restricted		241,080
Permanently restricted		858,155
<b>Total Net Assets, January 1, 2017</b>	<b>\$</b>	<b>1,551,220</b>

**Net Assets, December 31, 2017**

Unrestricted	\$ 764,886
Temporarily restricted	301,692
Permanently restricted	1,027,936
<b>Total Net Assets, December 31, 2017</b>	<b>\$ 2,094,514</b>

**As restated**

**Net Assets, January 1, 2017**

Net assets without donor restrictions	\$ 451,985
Net assets with donor restrictions	1,099,235
<b>Total Net Assets, January 1, 2017</b>	<b>\$ 1,551,220</b>

**Net Assets, December 31, 2017**

Net assets without donor restrictions	\$ 764,886
Net assets with donor restrictions	1,329,628
<b>Total Net Assets, December 31, 2017</b>	<b>\$ 2,094,514</b>

**NOTE 2 – LIQUIDITY AND AVAILABILITY OF FUNDS**

The Council's financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows:

Cash and cash equivalents	\$ 104,117
Grants receivable	137,500
Contributions receivable	108,419
	<u>\$ 350,036</u>

As part of the Council's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 3 – 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, 2018:

	Total at December 31, 2018	Level 1	Level 2	Level 3
Mutual Funds				
Equities	\$ 1,089,660	\$ 1,089,660	\$ -	\$ -
Money Market	297,068	297,068	-	-
Total at Fair Value	<u>\$ 1,386,728</u>	<u>\$ 1,386,728</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2018 and 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 4 – 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 2020. 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 5 – INVESTMENTS**

Investments, which are held in endowments at December 31, 2018 and 2017, are as follows:

	2018	2017
Money Market Funds	\$ 297,068	\$ 117,748
Mutual Funds		
Equity	1,089,660	1,225,441
Pooled Endowment	\$ 1,386,728	\$ 1,343,189

Investment income (loss) for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Interest, dividends, and other investment income	\$ 62,585	\$ 51,226
Unrealized (loss) on investments	(124,100)	81,962
Realized gain on sale of investments	-	81,107
Investment fees	(12,362)	(10,194)
	\$ (73,877)	\$ 204,101

**NOTE 6 – FIXED ASSETS**

Fixed assets consisted of the following at December 31, 2018 and 2017:

	2018	2017
Furniture and fixtures	\$ 4,137	\$ 4,137
Computer hardware/software	40,457	40,457
Equipment	38,294	38,294
Leasehold improvements	29,537	29,537
	<u>112,425</u>	<u>112,425</u>
Less: accumulated depreciation	(81,265)	(72,810)
	<u>\$ 31,160</u>	<u>\$ 39,615</u>

Depreciation expense of \$8,455 and \$4,429 has been recorded in the financial statements for the years ended December 31, 2018 and 2017, respectively.

#### **NOTE 7 – ENDOWMENT ASSETS**

See Note 3 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, 2018 and 2017:

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Donor-restricted pledges	\$ -	\$ 60,050	\$ -	\$ 122,550
Donor-restricted endowment funds	-	967,886	-	905,386
Board-designated endowment funds	418,842	-	437,803	-
	<u>\$ 418,842</u>	<u>\$ 1,027,936</u>	<u>\$ 437,803</u>	<u>\$ 1,027,936</u>

Changes in endowment net assets for the years ending December 31, 2018 and 2017 are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions
Beginning balance, January 1, 2017	\$ 209,258	\$ 848,155
Investment income	51,226	-
Unrealized gain (loss)	149,944	-
Contributions - cash	37,569	57,231
Contributions - pledges	-	122,550
Investment fees	(10,194)	-
Ending balance, December 31, 2017	437,803	1,027,936
Investment income	62,360	-
Unrealized gain (loss)	(143,065)	-
Contributions - cash	74,106	-
Investment fees	(12,362)	-
Ending balance, December 31, 2018	<u>\$ 418,842</u>	<u>\$ 1,027,936</u>

**NOTE 8 – NET ASSET WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following amounts and purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specific purpose		
Smart Arts Education	\$ 360,008	\$ 241,642
Subject to passage of time		
Future year operations	60,050	60,050
Endowment		
Subject to endowment spending policy and appropriation		
General Endowment	967,886	905,386
Endowment pledges receivable	60,050	122,550
	<u>\$ 1,447,994</u>	<u>\$ 1,329,628</u>

**NOTE 9 – 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 \$38,519 and \$99,000 at December 31, 2018 and 2017, respectively.

In 2013, the Council entered into an operating lease agreement for rental of office space through June 2018. The lease agreement has been renewed through June 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:

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

Rent expense reported in the financial statements totaled \$41,376 and \$44,392 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 10 – 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, 2018 and 2017. A total of \$450,000 and \$425,000 from this grant was recognized in revenue in 2018 and 2017, respectively, and \$137,500 and \$112,500 was receivable under this grant at December 31, 2018 and 2017, respectively.

#### **NOTE 11 – 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 \$137,500 and \$112,500, or 100% and 65% of grant receivables, was due from the City of Greenville under the accommodations tax grant program at December 31, 2018 and 2017, respectively. The City of Greenville accommodations tax grant comprised 27% and 21% of the Council's revenues (exclusive of in-kind contributions) in 2018 and 2017, respectively. 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 12 – 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.