

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

FINANCIAL STATEMENTS

For the years ended
June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

November 27, 2018

To the Board of Directors
West Michigan Center for Arts and Technology
Grand Rapids, Michigan

We have audited the accompanying financial statements of West Michigan Center for Arts and Technology (a nonprofit organization) which comprise the statement of financial position as of June 30, 2018, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 West Michigan Center for Arts and Technology as of June 30, 2018, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018, on our consideration of West Michigan Center for Arts and Technology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Michigan Center for Arts and Technology's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of West Michigan Center for Arts and Technology as of June 30, 2017 were audited by other auditors whose report dated October 24, 2017, expressed an unmodified opinion on those statements.



Certified Public Accountants
Grand Rapids, Michigan

FINANCIAL STATEMENTS

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STATEMENTS OF FINANCIAL POSITION

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

June 30, 2018 and June 30, 2017

ASSETS

	2018	2017
Assets		
Cash and cash equivalents	\$ 590,478	\$ 363,340
Accounts receivable	71,634	91,045
Pledges receivable, net of allowance		
Operations	538,339	806,770
Leave Your Mark Capital Campaign	2,839,256	4,243,756
Inventory	6,454	1,394
Prepaid expenses	64,583	17,377
Art Collection	22,010	22,010
Property and equipment, net of accumulated depreciation	1,725,234	636,134
Investment in Agency Endowment Fund	323,713	304,887
Restricted cash and cash equivalents for Capital Campaign	4,024,737	3,811,115
Total Assets	\$ 10,206,438	\$ 10,297,828

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 317,233	\$ 37,399
Accrued payroll	69,466	70,205
Accrued payroll liabilities	15,357	15,942
Deferred revenue	56,770	3,000
Total Liabilities	458,826	126,546
Net Assets		
Unrestricted:		
Undesignated	2,093,171	873,997
Board designated - technology grant	155,053	154,805
Temporarily restricted	7,289,388	8,932,480
Permanently restricted	210,000	210,000
Total Net Assets	9,747,612	10,171,282
Total Liabilities and Net Assets	\$ 10,206,438	\$ 10,297,828

STATEMENTS OF ACTIVITIES

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Revenue and Support				
Contributions	\$ 568,527	\$ 450,878	\$ -	\$ 1,019,405
In-kind contributions	50,913	14,246	-	65,159
Program revenue	479,896	-	-	479,896
Special events, net of related expenses in the amount of \$40,913	83,618	-	-	83,618
Investment income	215	12,418	-	12,633
Gain (loss) on the sale of assets	1,305	(3,542)	-	(2,237)
Interest income	460	48,311	-	48,771
Net assets released from restrictions	2,165,403	(2,165,403)	-	-
Total Revenue and Support	3,350,337	(1,643,092)	-	1,707,245
Expenses				
Program services	1,806,349	-	-	1,806,349
Management and general	132,367	-	-	132,367
Fundraising	192,199	-	-	192,199
Total Expenses	2,130,915	-	-	2,130,915
Change in Net Assets	1,219,422	(1,643,092)	-	(423,670)
Net Assets - beginning of year	1,028,802	8,932,480	210,000	10,171,282
Net Assets - end of year	\$ 2,248,224	\$ 7,289,388	\$ 210,000	\$ 9,747,612

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Revenue and Support				
Contributions	\$ 471,732	\$ 3,776,252	\$ -	\$ 4,247,984
In-kind contributions	33,320	20,338	-	53,658
Program revenue	471,258	-	-	471,258
Special events, net of related expenses in the amount of \$77,599	87,625	-	-	87,625
Investment income	-	22,228	-	22,228
Gain on the sale of assets	200	-	-	200
Interest income	330	21,123	-	21,453
Net assets released from restrictions	982,942	(982,942)	-	-
Total Revenue and Support	2,047,407	2,856,999	-	4,904,406
Expenses				
Program services	1,820,090	-	-	1,820,090
Management and general	113,290	-	-	113,290
Fundraising	196,339	-	-	196,339
Total Expenses	2,129,719	-	-	2,129,719
Change in Net Assets	(82,312)	2,856,999	-	2,774,687
Net Assets - beginning of year	1,111,114	6,075,481	210,000	7,396,595
Net Assets - end of year	\$ 1,028,802	\$ 8,932,480	\$ 210,000	\$ 10,171,282

STATEMENT OF FUNCTIONAL EXPENSES

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

	Program Services	Management and General	Fundraising	2018 Total
Salaries	\$ 953,446	\$ 66,460	\$ 41,466	\$ 1,061,372
Employee benefits	41,669	2,057	1,664	45,390
Payroll taxes	80,164	5,487	2,970	88,621
Retirement plan contributions	24,407	1,839	1,008	27,254
Professional fees	76,858	882	44,495	122,235
Insurance	11,955	2,866	1,846	16,667
Travel and accommodations expense	13,488	60	9	13,557
Program supplies	137,146	705	826	138,677
Office supplies and printing	11,588	812	15,075	27,475
Telecommunications	3,964	337	337	4,638
Rent and occupancy	141,170	14,411	13,991	169,572
Utilities	17,614	1,761	1,761	21,136
Repairs and maintenance	16,684	1,503	1,489	19,676
Miscellaneous equipment	54,643	164	1,525	56,332
Adult program evaluation	15,000	-	-	15,000
Promotional and marketing	10,262	1,226	28,480	39,968
Events	25,541	5,271	3,311	34,123
Professional development	6,573	7,008	3,254	16,835
Conference and seminars	629	736	1,451	2,816
Depreciation	154,628	15,157	14,620	184,405
Bad debt	-	-	7,130	7,130
Bank and credit card fees	5,685	4,189	5,491	15,365
Miscellaneous	3,235	(564)	-	2,671
Total Expenses	\$ 1,806,349	\$ 132,367	\$ 192,199	\$ 2,130,915

	Program Services	Management and General	Fundraising	2017 Total
Salaries	\$ 995,273	\$ 51,196	\$ 42,771	\$ 1,089,240
Employee benefits	42,020	1,397	1,622	45,039
Payroll taxes	85,496	4,388	3,443	93,327
Retirement plan contributions	13,495	1,132	771	15,398
Professional fees	60,210	1,206	21,966	83,382
Insurance	14,060	3,720	931	18,711
Travel and accommodations expense	36,288	895	52	37,235
Program supplies	164,201	1,653	1,632	167,486
Office supplies and printing	6,481	638	20,041	27,160
Telecommunications	5,117	364	531	6,012
Rent and occupancy	141,920	12,765	12,345	167,030
Utilities	17,934	1,583	1,582	21,099
Repairs and maintenance	14,435	1,223	1,202	16,860
Miscellaneous equipment	27,136	1,418	670	29,224
Adult program evaluation	15,000	-	-	15,000
Promotional and marketing	7,888	1,685	51,439	61,012
Events	17,988	1,392	1,952	21,332
Professional development	1,845	8,657	6,076	16,578
Conference and seminars	2,389	2,831	1,561	6,781
Depreciation	142,001	12,133	12,133	166,267
Bad debt	-	-	8,965	8,965
Bank and credit card fees	4,686	3,014	4,654	12,354
Miscellaneous	4,227	-	-	4,227
Total Expenses	\$ 1,820,090	\$ 113,290	\$ 196,339	\$ 2,129,719

STATEMENTS OF CASH FLOWS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Change in net assets	\$ (423,670)	\$ 2,774,687
Adjustments to reconcile the change in net assets to net cash used for operating activities:		
Depreciation	184,405	166,267
(Gain) loss on sale of assets	2,037	(200)
Contributions and investment earnings restricted for capital campaign	(275,807)	(2,867,512)
Changes in assets and liabilities:		
Pledges and accounts receivable	1,692,342	(154,378)
Prepaid expenses	(47,206)	(10,251)
Inventory	(5,060)	(1,394)
Investment in agency endowment	(18,826)	(33,746)
Accounts payable	279,834	(10,270)
Accrued payroll and payroll liabilities	(1,324)	8,101
Deferred revenue	53,770	3,000
Net Cash Provided by (Used for) Operating Activities	1,440,495	(125,696)
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,276,559)	(55,243)
Proceeds from sale of property and equipment	1,017	-
Net Cash Used for Investing Activities	(1,275,542)	(55,243)
Cash Flows from Financing Activities		
Contributions and investment earnings restricted for capital campaign	62,185	77,572
Net Change in Cash and Cash Equivalents	227,138	(103,367)
Cash and Cash Equivalents, beginning of year	363,340	466,707
Cash and Cash Equivalents, end of year	<u>\$ 590,478</u>	<u>\$ 363,340</u>

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies

Nature of Organization

The West Michigan Center for Arts and Technology (the Organization) provides a culture of opportunity for people to make social and economic progress in their lives and community. The Organization operates the following programs:

Teen Arts & Tech Program – This is an after-school program for local high school students. Through professional teaching, these students are involved in studio labs for photography, illustration, fiber arts, video game design, ceramics and audio/visual production.

Adult Career Training – This program is for adults to be prepared for career opportunities. These adults are trained for careers in medical coding, medical billing and pharmaceutical fields.

Social Enterprise – This program consists of two social enterprises: Ambrose and Public Agency. Ambrose at WMCAT is a screen printing business used to teach students about the different aspects of business management. Students work in the areas of customer service, graphic design, quality production and basic accounting. Public Agency is a design-thinking consultancy that engages community leaders, business leaders, and nonprofits to foster collaboration, innovation and action.

Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The net assets, support and revenues, and expenses in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, the net assets of the Organization and changes therein are classified as follows: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent the Organization's resources that are available for operations. Certain unrestricted net assets are further designated by the board of directors and classified within the unrestricted net asset category. Unrestricted net assets are not subject to any donor-imposed stipulations.

Temporarily restricted net assets result from donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain purpose requirements. The funds are reported as temporarily restricted revenues upon receipt and are transferred to unrestricted net assets when the time or purposed restrictions have been met.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Investment income, including gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, institutional money market funds and cash on hand. For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except that such assets held in endowment are generally classified as noncurrent. The Organization maintains cash balances in checking and savings accounts. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, the Organization may have cash in a bank checking or savings account in excess of the federally insured limit.

Inventory

Inventories, which consist primarily of Ambrose printing inventory, is valued at the lower of cost and net realizable value, using the first-in, first-out (FIFO) method. Net realizable value is defined as the estimated selling prices of the inventory in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

Pledges Receivable

Pledges receivable represent unconditional promises to give. The pledges are payable over a donor-specified period and have been discounted to a present value using a risk free interest rate applicable for the periods in which the pledge was received. The Organization evaluates pledges receivable for uncollectible pledges based upon historical loss experience and current economic conditions. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful pledges receivable was \$5,000 at June 30, 2018 and June 30, 2017, respectively.

Accounts Receivable

Accounts receivable represents amounts billed for fee for service revenue, primarily related to the Organization's Social Enterprise products and services. Management provides for probably uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. As of June 30, 2018 and June 30, 2017, the allowance for uncollectible accounts was zero.

Property and Equipment

Property and equipment are stated at cost, or in the case of donated property, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 39 years. The Organization follows a capitalization policy of \$2,500 in determining assets to be depreciated.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Art Collection

The art collection includes paintings which, if purchased, are added to the art collection at cost, and if donated, are capitalized at their appraised or fair value on the date received. It is assumed that the art collection does not lose value.

Restricted Cash and Cash Equivalents

The restricted cash and cash equivalents consist of demand deposits and short term investments which were collected from the Leave Your Mark campaign during the fiscal years ended June 30, 2018 and 2017. These funds were used to construct a new facility in Grand Rapids which allows the Organization to increase its programs for the teen and adult students and expand its social enterprise opportunities. The facility was completed in August of 2018.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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. Contributions with donor imposed restrictions that are met in the same year as received or earned are reported as unrestricted income.

In-Kind Contributions

The Organization recognized in-kind contributions that create or enhance nonfinancial assets or require specialized skills and would typically be purchased had they not been provided by donation. These contributions assist the programs and supportive services of the Organization and are recorded at their fair value as contributions and expenses in the statement of activities in the period the service is provided. The total value of in-kind contributions provided was \$69,227 and \$40,181 for the years ended June 30, 2018 and 2017, respectively. A portion of these in-kind contributions are included in the special event expenses reported on the Statements of Activities.

Contributions

Contributions received and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted revenue depending on the existence of donor restrictions and the nature of such restrictions, if they exist. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Fair Value Measurement

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements). For a further discussion on Fair Value Measurement, refer to Note E of the financial statements.

Functional Allocation of Expenses

The costs of providing various programs and other 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.

Income Taxes

The Organization is a not-for-profit Organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from similar state and local taxes. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

The Organization evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with generally accepted accounting principles which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Organization has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. The Organization's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through November 27, 2018 which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform with the current period's presentation.

Note B – Pledges Receivable

The Organization had the following unconditional promises to give at June 30, 2018 and June 30, 2017:

	2018	2017
Receivable in less than one year	\$ 1,760,790	\$ 2,592,755
Receivable in one to five years	1,395,280	2,220,746
Receivable in more than five years	300,025	300,025
Total unconditional promises to give	3,456,095	5,113,526
Less discounts to net present value at 3%	(73,500)	(58,000)
Less allowance for uncollectible pledges	(5,000)	(5,000)
	<u>\$ 3,377,595</u>	<u>\$ 5,050,526</u>

Note C – Property and Equipment

Property and equipment at June 30, 2018 and June 30, 2017 consisted of:

	2018	2017
Leasehold improvements	\$ 1,026,584	\$ 1,026,584
Furniture and equipment	865,472	898,951
Computers	152,834	153,079
Software	51,142	39,142
Vehicle	22,394	22,394
Construction in progress	1,288,580	25,000
	3,407,006	2,165,150
Accumulated depreciation	(1,681,772)	(1,529,016)
Property and equipment, net	<u>\$ 1,725,234</u>	<u>\$ 636,134</u>

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note D – Beneficial Interest in Agency Endowment

In June 2006, the Organization transferred \$50,000 into an Agency Fund at the Grand Rapids Community Foundation (the Foundation). In September 2007, the Organization transferred an additional \$160,000 into the Agency Fund at the Grand Rapids Community Foundation. The Organization is the income beneficiary of the fund which had a fair value of \$323,713 and \$304,887 at June 30, 2018 and June 30, 2017, respectively.

The value of the beneficial interest is based upon the fair value of the assets held in the Agency Fund. Annual distributions from the fund are recorded as a reduction in the carrying value of the fund. Annual earnings are recorded as investment income. Adjustments in the value of the beneficial interest are recorded as a change in beneficial interest in agency endowment.

The Fund agreements, which grant variance power to the Foundation, allows the Organization a 30-day period during which it may advise the Foundation of its views regarding the proposed exercise of the power and take such other action as it deems appropriate. The Foundation agrees that if its Board of Trustees proposes to exercise the variance power, the exercise of such power shall not be effective earlier than at least 30 days after the written notice to the Organization.

Note E – Fair Value Measurements

Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices in markets that are not considered active or financial instruments for which significant inputs include quoted prices for similar assets or liabilities, interest rates, credit risk, etc.

Level 3 – Significant unobservable inputs, which may include the Organization's own assumption in determining fair value.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note E – Fair Value Measurements (Continued)

Beneficial interest in assets held by foundation: Fair value measurements of the underlying investments held by the Foundation are based on quoted prices. The underlying assets held by the Foundation cannot be liquidated or redeemed by the Organization. As such, no quoted prices or active market prices are available however, the carrying value of this asset is equal to the allocated portion of the total fair value of the underlying investments held by the foundation.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization's management evaluated the significance of transfers between levels based on the nature of the financial instrument and size of the transfer relative to total net assets. For the years ended June 30, 2018 and 2017, there were no significant transfers into or out of levels 1, 2 or 3.

Assets measured at fair value on a recurring basis comprise the following for the years ended June 30, 2018 and 2017:

Description	Fair Value	Level 1	Level 3
	June 30, 2018	Quoted Prices in Active Markets	Significant Unobservable Inputs
Beneficial interest in agency endowment	\$ 323,713	\$ -	\$ 323,713

Description	Fair Value	Level 1	Level 3
	June 30, 2017	Quoted Prices in Active Markets	Significant Unobservable Inputs
Beneficial interest in agency endowment	\$ 304,887	\$ -	\$ 304,887

As stated in Note D, the Organization is the beneficiary under an agency endowment administered by the Grand Rapids Community Foundation. The beneficial interest in assets of the Grand Rapids Community Foundation are considered Level 3 because the interest is part of a pool that is made up of assets of various fair value inputs, as determined by the Foundation. A reconciliation of the changes in the fair value of Foundation assets for years ended June 30, 2018 and 2017, is presented in Note H.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note F – Leases

The Organization leases its office and classroom space under an operating lease that expires on September 30, 2019. The lease agreement requires monthly payments of \$13,514. Annual lease payments (including operating expenses) during 2018 and 2017 were \$168,732 and \$167,030, respectively. Future minimum lease obligations as of June 30, 2018 are as follows:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2019	\$ 171,250
June 30, 2020	43,023

Note G – Restricted Net Assets

Temporarily restricted net assets represent amounts received by the Organization as contributions designated for a specific purpose by the donor. The balances at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Operations	\$ 544,333	\$ 885,927
Leave Your Mark Capital Campaign	6,670,055	8,046,553
Social Enterprise	75,000	-
Total	\$ 7,289,388	\$ 8,932,480

Permanently restricted net assets consist solely of the beneficial interest in agency endowment.

Note H – Endowment Net Assets

The Organization has adopted the accounting and disclosure guidance provided by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Michigan's version of UPMIFA became effective on September 10, 2009. As such, the Organization has adopted the required provisions of the Act.

Endowment net assets consist of the following at June 30, 2018 and June 30, 2017:

	<u>2018</u>	<u>2017</u>
Endowment assets - Beneficial Interest in Agency Endowment, the principal of which is restricted to be held in perpetuity with earnings used for the continuing interest in the Center	\$ 323,713	\$ 304,887

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note H – Endowment Net Assets (Continued)

The management of the Organization has interpreted current law 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 Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in the manner consistent with the policies of the endowment fund.

Changes in endowment net assets for the year ended June 30, 2018 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds July 1, 2016	\$ -	\$ 61,141	\$ 210,000	\$ 271,141
Investment income, net of expense	-	1,854	-	1,854
Unrealized/realized gain	-	31,892	-	31,892
June 30, 2017	-	94,887	210,000	304,887
Investment income, net of expense	-	2,708	-	2,708
Unrealized/realized gain	-	16,118	-	16,118
Endowment Funds June 30, 2018	<u>\$ -</u>	<u>\$ 113,713</u>	<u>\$ 210,000</u>	<u>\$ 323,713</u>

From time to time, the fair value of the assets associated with the endowment funds fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations that occur occasionally. There was no deficiency as of June 30, 2018 and June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2018 and 2017

Note I – Line of Credit

During 2018, the Organization renewed their line of credit agreement with Fifth Third Bank which provides for borrowing up to \$100,000. The line of credit has an interest rate stated at the prime rate (5% at June 30, 2018) with a floor of 4%. The line of credit is secured by the assets of the Organization and matures on May 8, 2019. There were no borrowings on the line of credit at June 30, 2018 and 2017, respectively.

Note J – Employee Retirement Plan

The Organization adopted a Simple IRA retirement plan for all eligible employees effective January 1, 2017. The Organization's retirement plan requires a match of up to 3% of an eligible employees' salary. Total retirement plan expense was \$27,254 and \$15,398 for June 30, 2018 and 2017, respectively.

Note K – Subsequent Events

The Organization entered into a buy/sell agreement with Rockford Construction on December 13, 2016 for the purchase of a condominium (entire top floor) to be built on the west side of Grand Rapids. An initial \$25,000 in earnest money was paid towards the purchase price upon signing the agreement. During August 2018, the Organization paid \$3.6M upon closing of the building. The construction in progress balance as of June 30, 2018 represents the buildout of the building. All of the construction in progress assets related to this buildout as of June 30, 2018 were placed into service as of August 2018.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 27, 2018

To the Board of Directors
West Michigan Center for Arts and Technology
Grand Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Michigan Center for Arts and Technology (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the West Michigan Center for Arts and Technology's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Michigan Center for Arts and Technology's internal control. Accordingly, we do not express an opinion on the effectiveness of West Michigan Center for Arts and Technology'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Michigan Center for Arts and Technology's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Grand Rapids, Michigan