

THE ART CENTER
FINANCIAL STATEMENTS
Year Ended September 30, 2023

THE ART CENTER

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of The Art Center

Opinion

We have audited the accompanying financial statements of The Art Center (a nonprofit organization), which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Art Center as of September 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Art Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Art Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Art Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Art Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Macomb, Michigan
March 19, 2024

THE ART CENTER

STATEMENT OF FINANCIAL POSITION

September 30, 2023

ASSETS

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 210,327	\$ 15,338	\$ 225,665
Grants and Contributions Receivable	2,500	-	2,500
Prepaid Expenses	4,681	-	4,681
Inventory	2,440	-	2,440
	<hr/>	<hr/>	<hr/>
Total Current Assets	219,948	15,338	235,286
Property and Equipment:			
Furniture and Fixtures	89,393	-	89,393
Equipment	55,072	-	55,072
Capital Improvements	1,515,791	-	1,515,791
	<hr/>	<hr/>	<hr/>
Total Property and Equipment at Cost	1,660,256	-	1,660,256
Less: Accumulated Depreciation	(788,538)	-	(788,538)
	<hr/>	<hr/>	<hr/>
Total Property and Equipment - Net	871,718	-	871,718
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 1,091,666</u>	<u>\$ 15,338</u>	<u>\$ 1,107,004</u>

LIABILITIES

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Current Liabilities:			
Accounts Payable	\$ 12,650	\$ -	\$ 12,650
Accrued Expenses	2,458	-	2,458
Sales Tax Payable	1,098	-	1,098
Deferred Revenues	<u>14,795</u>	<u>-</u>	<u>14,795</u>
Total Current Liabilities	<u>31,001</u>	<u>-</u>	<u>31,001</u>
Total Liabilities	31,001	-	31,001

NET ASSETS

Net Assets	<u>1,060,665</u>	<u>15,338</u>	<u>1,076,003</u>
Total Liabilities and Net Assets	<u><u>\$ 1,091,666</u></u>	<u><u>\$ 15,338</u></u>	<u><u>\$ 1,107,004</u></u>

See Independent Auditors' Report and Accompanying Notes.

THE ART CENTER

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
Contributions	\$ 134,179	\$ -	\$ 134,179
Grants	89,600	-	89,600
Program Services	272,419	-	272,419
Donated Space	30,000	-	30,000
Net Assets Released From Restrictions	13,879	(13,879)	-
 Total Revenues	 540,077	 (13,879)	 526,198
 Functional Expenses:			
Program Services	293,492	-	293,492
Management and General	221,009	-	221,009
Fundraising	59,983	-	59,983
 Total Functional Expenses	 574,484	 -	 574,484
 Increase (Decrease) in Net Assets Before Other Income (Expense)	 (34,407)	 (13,879)	 (48,286)
 Other Income (Expense):			
Interest Income	14,819	-	14,819
 Total Other Income (Expense)	 14,819	 -	 14,819
 Change in Net Assets	 (19,588)	 (13,879)	 (33,467)
 Net Assets - Beginning of Year	 1,084,650	 29,217	 1,113,867
 Prior Period Adjustment	 (4,397)	 -	 (4,397)
 Net Assets - End of Year	 \$ 1,060,665	 \$ 15,338	 \$ 1,076,003

See Independent Auditors' Report and Accompanying Notes.

THE ART CENTER

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2023

	Supporting Activities			Total Supporting Activities	Total Functional Expenses
	Program Services	Management and General	Fundraising		
Functional Expenses:					
Salaries, PR Taxes and Benefits	\$ 94,939	\$ 62,840	\$ 18,690	\$ 81,530	\$ 176,469
Artist Commissions and Inventory Costs	99,030	16	238	254	99,284
Class Instructors and Performing Artists	44,779	-	2,197	2,197	46,976
Marketing and Program Printing	8,450	20,315	6,588	26,903	35,353
Program Supplies	8,526	2,810	4,034	6,844	15,370
Subscriptions and Software	5,610	-	-	-	5,610
Awards and Fees	4,275	-	2,840	2,840	7,115
Contractual Services	1,406	870	17,571	18,441	19,847
Credit Card Fees	6,012	600	150	750	6,762
Depreciation	20,465	14,496	7,675	22,171	42,636
Building Rent	-	30,000	-	30,000	30,000
Building Maintenance and Supplies	-	19,569	-	19,569	19,569
Utilities, Internet and Telephone	-	16,968	-	16,968	16,968
Business Promotion	-	3,463	-	3,463	3,463
Audit and Professional Services	-	17,811	-	17,811	17,811
Subscriptions and Licenses	-	9,802	-	9,802	9,802
Office Supplies and Equipment	-	13,966	-	13,966	13,966
Business Insurance	-	4,408	-	4,408	4,408
Parking	-	1,092	-	1,092	1,092
Professional Memberships and Development	-	1,736	-	1,736	1,736
Other	-	247	-	247	247
	<u>\$ 293,492</u>	<u>\$ 221,009</u>	<u>\$ 59,983</u>	<u>\$ 280,992</u>	<u>\$ 574,484</u>
Total Functional Expenses	<u>\$ 293,492</u>	<u>\$ 221,009</u>	<u>\$ 59,983</u>	<u>\$ 280,992</u>	<u>\$ 574,484</u>

See Independent Auditors' Report and Accompanying Notes.

THE ART CENTER

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2023

Cash Flows from Operating Activities:	
Change in Net Assets	\$ (33,467)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	42,636
(Increase) Decrease in Assets:	
Grants and Contributions Receivable	2,500
Prepaid Expenses	(1,005)
Inventory	(950)
Increase (Decrease) in Liabilities:	
Accounts Payable	831
Accrued Expenses	1,097
Sales Tax Payable	1,098
Deferred Revenue	<u>14,795</u>
Net Cash Provided by (Used in) Operating Activities	27,535
Cash Flows from Investing Activities:	
Purchases of Property and Equipment	<u>(13,643)</u>
Net Cash Provided by (Used in) Investing Activities	(13,643)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>13,892</u>
Cash and Cash Equivalents - Beginning of Year	<u>211,773</u>
Cash and Cash Equivalents - End of Year	<u>\$ 225,665</u>
Cash and Cash Equivalents, End of Year	\$ 210,327
Cash and Cash Equivalents (Restricted), End of Year	<u>15,338</u>
Cash and Cash Equivalents - End of Year	<u>\$ 225,665</u>
Supplemental Disclosure of Cash Flow Data:	
Interest Paid	<u>\$ -</u>

See Independent Auditors' Report and Accompanying Notes.

THE ART CENTER

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Art Center (the Organization) is a non-profit organization established for the purpose to enrich and inspire the lives of Macomb County residents and visitors of all ages through the infusion of the arts into everyday life. The Art Center is funded by contributions, grants, programs, sales of art work and special events. Consequently, The Art Center's ability to maintain funding is affected by economic fluctuations in the regional economy.

Basis of Accounting

The Organization uses the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for reporting purposes. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates include the allocation of functional expenses, depreciation, and the reserve for uncollectible accounts receivable. Accordingly, actual results could differ from those estimates.

Basis of Financial Statement Presentation

Net assets, revenues, expenses, gains and losses are classified on the existence or absence of donor-imposed restrictions. Accordingly, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

In-Kind Contribution

The Art Center records in-kind support from a contributed facility. Contributed items for the year ended September 30, 2023 amounted to \$30,000, representing facility use contributed to The Art Center.

Inventories – Gift Shop

Inventory amounts are based upon physical determination at year-end and have been stated at the lower of cost or market prices. Cost prices are determined by the first-in, first-out method.

See Independent Auditors' Report.

THE ART CENTER

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

The Organization maintains its cash in checking and money market accounts in commercial banks located in Michigan. The accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. During the year, balances may exceed the FDIC limits.

Cash and Cash Equivalents without donor restrictions at September 30, 2023 were as follows:

Without donor restriction	\$ 202,091
Without donor restriction – Designated (Art in Public Spaces)	<u>8,236</u>
Total	<u>\$ 210,327</u>

Cash and Cash Equivalents – Restricted

Cash and Cash Equivalents with donor restrictions at September 30, 2023 are available for the following purposes or periods:

Lighting Project – Purpose Restriction	\$ 13,630
Historical Preservation – Purpose Restriction	<u>1,708</u>
Total	<u>\$ 15,338</u>

For 2023, all amounts are reported as temporarily restricted as a purpose restriction.

Accounts Receivable and Bad Debt Expense

The Organization uses the direct write-off method to recognize bad debt expense for accounts receivable and advances which may not be collectable. Customer accounts receivable are stated at the amount management expects to collect on balances. Management closely monitors outstanding balances and writes off, as of year-end, all balances past due after a certain period of time and for which all collection efforts have been exhausted. Bad debt expense for year ended September 30, 2023 was \$0. No allowance for uncollectible accounts has been provided since management has determined that the potential for bad debts is not material at the balance sheet date.

See Independent Auditors' Report.

THE ART CENTER**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions—Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions—Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources to be maintained in perpetuity. Unconditional promises to give or cash received for the acquisition or construction of long lived assets are recognized as revenue when pledged or received for the capital campaign (and no other stipulation exists) and released when expended on the related capital project. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Accounting Pronouncements Issued and Adopted

The Financial Accounting Standards Board has issued Accounting Standards Update (ASU) 2016-18, Restricted Cash, to address the diversity in practice of how changes in restricted cash are presented on the statement of cash flows. This ASU is applicable for the Organization's calendar year ending September 30, 2023. The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the statement of financial position and disclose the nature of restrictions.

Additionally, in February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This update includes a lease accounting model that recognizes two types of leases—finance leases and operating leases. The standard requires that a lessee recognize on the balance sheet assets and liabilities relating to leases with terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. This update is effective for the Organization beginning in October 2022. The Organization has applied this pronouncement and does not have any material leases that apply.

See Independent Auditors' Report.

THE ART CENTER

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring a specific expertise. However, individuals may volunteer their time and perform a variety of tasks that assist the Organization with administrative tasks.

Property and Equipment

Property and equipment are stated at cost or fair value at date of donation. The Organization capitalizes all expenditures for property and equipment in excess of \$500 and a useful life greater than one year. Accordingly, expenditures that do not meet this threshold are expensed when purchased. Depreciation expense for the year ended September 30, 2023 was \$42,636. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Office Furniture and Equipment	5-40 Years
Capital Improvements	7-40 Years

Art Collection

A significant portion of the art work on display at the Center is on consignment. The owned items in the collection, which were acquired through purchases and contributions since the Organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Revenue

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished,) net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

See Independent Auditors' Report.

THE ART CENTER**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2023

Note 1 – Summary of Significant Accounting Policies (continued)Tax Status

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The Organization has not identified any activity as unrelated business income. A provision for income taxes has not been reflected in the Organization's financial statements, accordingly. The Organization's tax returns are generally subject to examination by the Internal Revenue Service for a period of three years from the date they are filed.

Advertising and Marketing

Advertising costs and marketing are expensed as incurred. In-kind advertising contributions are recorded at fair market value. Advertising expense, including in-kind advertising contributions, for the years ended September 30, 2023 were approximately \$3,463.

Functional Allocation of 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.

Endowment Funds

The Art Center Endowment Fund and the Gebran S. and Suzanne P. Anton Foundation Fund have been established as component funds of the Community Foundation for Southeast Michigan from contributions received from third party donors. These funds do not represent assets of The Art Center. The Community Foundation for Southeast Michigan distributes funds to The Art Center as it deems appropriate in accordance with investment policies adopted by the Community Foundation. The total market value of The Art Center Endowment Fund and the Gebran S. and Suzanne P. Anton Foundation Fund of the Community Foundation for Southeast Michigan as of September 30, 2023 was \$258,463.

Funds received from the Community Foundation during the years ended September 30, 2023 were \$12,067.

Note 2 – Leases

The Art Center receives a contribution for its Mount Clemens building from the City of Mount Clemens on a 25 year lease which expires in 2030, and is treated as donated occupancy. Total rental expense including donated occupancy for the year ended September 30, 2023 was \$30,000.

See Independent Auditors' Report.

THE ART CENTER

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

Note 3 – Concentrations of Credit Risk

The Organization maintains cash balances at local financial institutions. At times the balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash.

Note 4 – Compensated Absences

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Organization's policy is to recognize these costs when actually paid.

Note 5 – Retirement Plan

The Organization maintains a SIMPLE IRA retirement plan for all eligible employees with a portion to be matched by the employer. Employer contributions for the year ended September 30, 2023 were \$7,692.

Note 6 – Liquidity and Availability of Financial Assets

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

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and Cash Equivalents	\$	210,327
Grants and Contributions Receivable		2,500
Prepaid Expense		4,681
Inventory		<u>2,440</u>
 Total	 \$	 <u>219,948</u>

See Independent Auditors' Report.

THE ART CENTER**NOTES TO THE FINANCIAL STATEMENTS**

September 30, 2023

Note 7 – Revolving Line of Credit

The Organization has a \$50,000 revolving line of credit, of which \$50,000 was unused at September 30, 2023. The line of credit expires on May 14, 2024, including the outstanding principal and all accrued and unpaid interest on the maturity date. The line of credit carries a variable interest rate. The line of credit is secured by any security agreement, pledge agreement, mortgage or other security document now or hereafter in existence which secures any obligation of the Organization to lender.

Note 8 – Uncertainties, Contingencies, and Risks

The Organization has a potential assessment of penalties totaling \$7,480 from Michigan's Department of Labor and Economic Opportunity for unfiled Michigan unemployment tax returns dating back to December 2021. America's Back Office, the Organization's professional employer organization (PEO) has requested waiver of the penalties. The Organization believes that the penalties will be waived, and has not accrued any liability as of September 30, 2023.

Note 9 – Subsequent Events

The Organization has evaluated subsequent events through March 19, 2024, the date which the financial statements were available to be issued.

See Independent Auditors' Report.