

# WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

## FINANCIAL STATEMENTS

For the years ended  
June 30, 2019 and 2018

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## **INDEPENDENT AUDITOR'S REPORT**

February 25, 2020

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 statements of financial position as of June 30, 2019 and 2018; 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 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, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Note A, West Michigan Center for Arts and Technology adopted ASU 2016-14 (*Presentation of Financial Statements of Not-for-Profit Entities*). Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020, 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, 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.



Certified Public Accountants  
Grand Rapids, Michigan

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## **FINANCIAL STATEMENTS**

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## STATEMENTS OF FINANCIAL POSITION

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

June 30, 2019 and 2018

#### ASSETS

	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 539,791	\$ 590,478
Accounts receivable	89,976	71,634
Pledges receivable, net of allowance:		
Operations	500,111	538,339
Leave Your Mark Capital Campaign	1,322,047	2,839,256
Inventory	5,280	6,454
Prepaid expenses	31,229	64,583
Property and equipment, net of accumulated depreciation	5,743,787	1,725,234
Art Collection	22,010	22,010
Beneficial interest in agency endowment	330,736	323,713
Restricted cash and cash equivalents for Capital Campaign	238,095	4,024,737
<b>Total Assets</b>	<b>\$ 8,823,062</b>	<b>\$ 10,206,438</b>

#### LIABILITIES AND NET ASSETS

##### Liabilities

Accounts payable	\$ 21,999	\$ 317,233
Accrued payroll	73,429	69,466
Accrued payroll liabilities	13,712	15,357
Deferred revenue	43,105	56,770

**Total Liabilities** 152,245 458,826

##### Net Assets

Net assets without donor restrictions:		
Undesignated	1,712,719	2,093,171
Board designated - technology grant	155,538	155,053
Net assets with donor restrictions:		
Time-restricted for future periods	6,592,560	7,289,388
Perpetual in nature	210,000	210,000

**Total Net Assets** 8,670,817 9,747,612

**Total Liabilities and Net Assets** \$ 8,823,062 \$ 10,206,438

## STATEMENTS OF ACTIVITIES

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
Contributions	\$ 701,067	\$ 687,899	\$ 1,388,966
In-kind contributions	110,538	33,986	144,524
Program revenue	733,223	-	733,223
Special events, net of related expenses in the amount of \$67,532	94,971	-	94,971
Investment income	3,446	689	4,135
Interest income	907	10,465	11,372
Net assets released from restrictions	1,429,867	(1,429,867)	-
<b>Total Revenue and Support</b>	<b>3,074,019</b>	<b>(696,828)</b>	<b>2,377,191</b>
<b>Expenses</b>			
Program services	2,897,074	-	2,897,074
Management and general	216,454	-	216,454
Fundraising	340,458	-	340,458
<b>Total Expenses</b>	<b>3,453,986</b>	<b>-</b>	<b>3,453,986</b>
<b>Change in Net Assets</b>	<b>(379,967)</b>	<b>(696,828)</b>	<b>(1,076,795)</b>
<b>Net Assets - beginning of year</b>	<b>2,248,224</b>	<b>7,499,388</b>	<b>9,747,612</b>
<b>Net Assets - end of year</b>	<b>\$ 1,868,257</b>	<b>\$ 6,802,560</b>	<b>\$ 8,670,817</b>

## STATEMENTS OF ACTIVITIES (Continued)

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Support</b>			
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
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)	-
<b>Total Revenue and Support</b>	<b>3,350,337</b>	<b>(1,643,092)</b>	<b>1,707,245</b>
<b>Expenses</b>			
Program services	1,806,349	-	1,806,349
Management and general	132,367	-	132,367
Fundraising	192,199	-	192,199
<b>Total Expenses</b>	<b>2,130,915</b>	<b>-</b>	<b>2,130,915</b>
<b>Change in Net Assets</b>	<b>1,219,422</b>	<b>(1,643,092)</b>	<b>(423,670)</b>
<b>Net Assets - beginning of year</b>	<b>1,028,802</b>	<b>9,142,480</b>	<b>10,171,282</b>
<b>Net Assets - end of year</b>	<b>\$ 2,248,224</b>	<b>\$ 7,499,388</b>	<b>\$ 9,747,612</b>

## STATEMENTS OF FUNCTIONAL EXPENSES

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the year ended June 30, 2019

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 985,675	\$ 92,053	\$ 97,321	\$ 1,175,049
Employee benefits	54,880	5,808	21,926	82,614
Payroll taxes	82,720	7,262	7,731	97,713
Retirement plan contributions	23,544	2,750	1,942	28,236
Professional fees	191,366	18,661	20,339	230,366
Insurance	25,504	2,762	-	28,266
Travel and accommodations expense	22,836	286	792	23,914
Program supplies	150,944	1,191	2,305	154,440
Office supplies and printing	13,652	391	26,498	40,541
Telecommunications	54,393	-	59,710	114,103
Rent and occupancy	185,010	420	-	185,430
Utilities	57,764	-	-	57,764
Repairs and maintenance	78,491	2,424	809	81,724
Minor equipment	608,365	42,652	47,755	698,772
Program evaluation	16,500	-	-	16,500
Promotional and marketing	42,168	1,487	15,227	58,882
Events	6,444	2,564	171	9,179
Professional development	15,398	4,346	6,337	26,081
Conference and seminars	885	716	1,879	3,480
Depreciation	266,956	24,621	24,621	316,198
Bad debt	-	-	2,367	2,367
Bank and credit card fees	7,516	4,321	2,573	14,410
Property taxes	6,063	1,739	155	7,957
<b>Total Expenses</b>	<b>\$ 2,897,074</b>	<b>\$ 216,454</b>	<b>\$ 340,458</b>	<b>\$ 3,453,986</b>

## STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the year ended June 30, 2018

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
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
Minor equipment	54,643	164	1,525	56,332
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
Property taxes	3,235	(564)	-	2,671
<b>Total Expenses</b>	<b>\$ 1,806,349</b>	<b>\$ 132,367</b>	<b>\$ 192,199</b>	<b>\$ 2,130,915</b>

## STATEMENTS OF CASH FLOWS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Change in net assets</b>	\$ (1,076,795)	\$ (423,670)
<b>Adjustments to reconcile the change in net assets to net cash used for operating activities:</b>		
Depreciation	316,198	184,405
Loss on sale of assets	-	2,037
Contributions and investment earnings restricted for capital campaign	3,734,967	(275,807)
Changes in assets and liabilities:		
Pledges and accounts receivable	1,537,095	1,692,342
Prepaid expenses	33,354	(47,206)
Inventory	1,174	(5,060)
Investment in agency endowment	(7,023)	(18,826)
Accounts payable	(295,234)	279,834
Accrued payroll and payroll liabilities	2,318	(1,324)
Deferred revenue	(13,665)	53,770
<b>Net Cash Provided by Operating Activities</b>	4,232,389	1,440,495
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(4,334,751)	(1,276,559)
Proceeds from sale of property and equipment	-	1,017
<b>Net Cash Used for Investing Activities</b>	(4,334,751)	(1,275,542)
<b>Cash Flows from Financing Activities</b>		
Contributions and investment earnings restricted for capital campaign	51,675	62,185
<b>Net Change in Cash and Cash Equivalents</b>	(50,687)	227,138
<b>Cash and Cash Equivalents, beginning of year</b>	590,478	363,340
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 539,791</u>	<u>\$ 590,478</u>

## NOTES TO FINANCIAL STATEMENTS

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### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### ***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.

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

##### **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.

##### **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's cash 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 account in excess of the federally insured limit.

## NOTES TO FINANCIAL STATEMENTS

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### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

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

##### **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 probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. As of June 31, 2019 and 2018, the Organization believes all accounts receivable are collectible.

##### **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, 2019 and 2018, respectively.

##### **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.

##### **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. The Organization follows a capitalization policy of \$2,500 in determining assets to be depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 39 years according to the schedule below:

	<u>Estimated Life</u>
Buildings	39 years
Building and leasehold improvements	5-39 years
Furniture and equipment	5-7 years
Computers	3-5 years
Software	3 years
Vehicle	5 years

## NOTES TO FINANCIAL STATEMENTS

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### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### *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. 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.

##### **Net Assets**

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), which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

##### **Revenue Recognition**

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a 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. Contributions with donor-imposed restrictions that are met in the same year as received or earned are reported as unrestricted income.

## NOTES TO FINANCIAL STATEMENTS

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### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

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

##### **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 \$144,524 and \$65,159 for the years ended June 30, 2019 and 2018, respectively. A portion of these in-kind contributions are included in the special event expenses reported on the Statements of Activities.

##### **Fair Value Measurement**

Fair value (as it relates to investments) 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**

Directly identifiable expenses are charged to programs and support services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

##### **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.

## NOTES TO FINANCIAL STATEMENTS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

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

##### **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 February 25, 2020, which is the date the financial statements were available to be issued.

##### **New Accounting Pronouncement**

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been retrospectively applied to all periods presented.

##### **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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Receivable in less than one year	\$ 987,935	\$ 1,760,790
Receivable in one to five years	773,723	1,395,280
Receivable in more than five years	100,000	300,025
Total unconditional promises to give	1,861,658	3,456,095
Less discounts to net present value at 2%	(34,500)	(73,500)
Less allowance for uncollectible pledges	(5,000)	(5,000)
	<u>\$ 1,822,158</u>	<u>\$ 3,377,595</u>

## NOTES TO FINANCIAL STATEMENTS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### **Note C – Property and Equipment**

Property and equipment at June 30, 2019 and 2018 consisted of:

	<b>2019</b>	<b>2018</b>
Buildings	\$ 3,682,150	\$ -
Building and leasehold improvements	2,680,939	1,026,584
Furniture and equipment	1,152,298	865,472
Computers	152,834	152,834
Software	51,142	51,142
Vehicle	22,394	22,394
Construction in progress	-	1,288,580
	<hr/>	<hr/>
	7,741,757	3,407,006
Accumulated depreciation	(1,997,970)	(1,681,772)
	<hr/>	<hr/>
Property and equipment, net	<u>\$ 5,743,787</u>	<u>\$ 1,725,234</u>

#### **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 \$330,736 and \$323,713 at June 30, 2019 and 2018, 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.

## NOTES TO FINANCIAL STATEMENTS

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### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### **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, 2019 and 2018.

*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, 2019 and 2018, there were no significant transfers into or out of levels 1, 2, or 3.

## NOTES TO FINANCIAL STATEMENTS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### Note E – Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis comprise the following for the years ended June 30, 2019 and 2018:

Description	Fair Value June 30, 2019	Level 1 Quoted Prices in Active Markets	Level 3 Significant Unobservable Inputs
Beneficial interest in agency endowment	\$ 330,736	\$ -	\$ 330,736

  

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

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, 2019 and 2018, is presented in Note H.

#### Note F – Leases

The Organization leased program space under an operating lease that expired on September 30, 2019. The lease agreement required monthly payments of \$13,514. Annual lease payments (including operating expenses) during 2019 and 2018 were \$171,250 and \$168,732, respectively. Future minimum lease obligations as of June 30, 2019 were \$43,023.

#### Note G – Net Assets With Donor Restrictions

Net assets with donor restrictions are either donor restricted for specific purposes, or for use in a specified period of time. The balances at June 30, 2019 and 2018 consist of the following:

	2019	2018
Operations	\$ 557,687	\$ 544,333
Leave Your Mark capital campaign	5,997,373	6,670,055
Social enterprise	37,500	75,000
Perpetual endowment funds	210,000	210,000
<b>Total</b>	<b>\$ 6,802,560</b>	<b>\$ 7,499,388</b>

## NOTES TO FINANCIAL STATEMENTS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### 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, 2019 and 2018:

	<u>2019</u>	<u>2018</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	\$ 330,736	\$ 323,713

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 net assets with donor restrictions (a) the original value of gifts to the perpetual endowment and (b) the original value of subsequent gifts to the perpetual endowment.

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 net assets without donor restrictions. These deficiencies result from unfavorable market fluctuations that occur occasionally. There was no deficiency as of June 30, 2019 and 2018.

Changes in endowment net assets for the year ended June 30, 2019 and 2018 were as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Endowment Funds</b>			
<b>July 1, 2017</b>	\$ -	\$ 304,887	\$ 304,887
Investment income, net of expense	-	2,708	2,708
Unrealized/realized gain	-	16,118	16,118
<b>June 30, 2018</b>	-	323,713	323,713
Investment income, net of expense	-	6,334	6,334
Unrealized/realized gain	-	4,194	4,194
Investment expenses	-	(3,505)	(3,505)
<b>Endowment Funds</b>			
<b>June 30, 2019</b>	<u>\$ -</u>	<u>\$ 330,736</u>	<u>\$ 330,736</u>

## NOTES TO FINANCIAL STATEMENTS

### WEST MICHIGAN CENTER FOR ARTS AND TECHNOLOGY

For the years ended June 30, 2019 and 2018

#### **Note I – Line of Credit**

During 2019, 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 (5.5% at June 30, 2019) with a floor of 4%. The line of credit is secured by the assets of the Organization and matures on May 8, 2020. There were no borrowings on the line of credit at June 30, 2019 and 2018, 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 \$28,236 and \$27,254 for June 30, 2019 and 2018, respectively.

#### **Note K – Liquidity and Availability**

The Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Organization's sources of liquidity at its disposal include cash and accounts receivable.

For the purpose of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As of June 30, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<b>2019</b>	<b>2018</b>
Financial assets:		
Cash and cash equivalents	\$ 539,791	\$ 590,478
Accounts receivable	89,976	71,634
Pledges receivable, net of allowance:		
Operations	500,111	538,339
Leave Your Mark Capital Campaign	1,322,047	2,839,256
Investment in Agency Endowment Fund	330,736	323,713
Restricted cash and cash equivalents for Capital Campaign	238,095	4,024,737
Total financial assets	<u>3,020,756</u>	<u>8,388,157</u>
Less amounts not available to be used within one year:		
Restricted cash and cash equivalents for Capital Campaign	238,095	4,024,737
Pledges receivable due after one year, net	834,223	1,616,805
Investment in Agency Endowment Fund	330,736	323,713
Total restricted financial assets	<u>1,403,054</u>	<u>5,965,255</u>
Financial assets available to meet general expenditures of the next twelve months	<u>\$ 1,617,702</u>	<u>\$ 2,422,902</u>

**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**

February 25, 2020

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, 2019, 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 February 25, 2020.

**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