

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION**

Audited Financial Statements

June 30, 2017

Independent Auditor's Report

To the Board of Directors of
Visual Arts Center of New Jersey, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Visual Arts Center of New Jersey, Inc., A New Jersey Nonprofit Corporation (the "Center"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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.

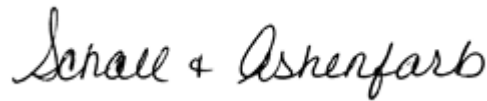
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Visual Arts Center of New Jersey, Inc., A New Jersey Nonprofit Corporation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Center's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 11, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Schall & Ashenfarb
Certified Public Accountants, LLC

January 3, 2018

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2017**

(With comparative totals at June 30, 2016)

	<u>6/30/17</u>	<u>6/30/16</u>
Assets		
Cash and cash equivalents	\$97,628	\$175,442
Government grants receivable	27,085	29,085
Contributions receivable (Note 3)	147,516	147,704
Prepaid expenses and other assets	37,693	27,417
Investments (Note 4)	3,060,498	2,891,315
Fixed assets, net (Note 5)	<u>4,416,664</u>	<u>4,578,304</u>
 Total assets	 <u><u>\$7,787,084</u></u>	 <u><u>\$7,849,267</u></u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$189,851	\$168,708
Deferred tuition	316,600	381,932
Line of credit (Note 6)	60,000	20,000
Mortgage payable (Note 7)	<u>725,296</u>	<u>770,988</u>
Total liabilities	<u>1,291,747</u>	<u>1,341,628</u>
Net assets:		
Unrestricted	3,256,137	3,374,034
Temporarily restricted (Note 8)	752,159	591,156
Permanently restricted (Note 9)	<u>2,487,041</u>	<u>2,542,449</u>
Total net assets	<u>6,495,337</u>	<u>6,507,639</u>
 Total liabilities and net assets	 <u><u>\$7,787,084</u></u>	 <u><u>\$7,849,267</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With comparative totals for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 6/30/17</u>	<u>Total 6/30/16</u>
Public support and revenue:					
Tuition	\$1,535,405			\$1,535,405	\$1,528,723
Contributions	218,548	\$62,223		280,771	440,971
Government grants	135,342			135,342	125,842
Special events (net of expenses with a direct benefit to donor) (Note 10)	155,848			155,848	153,218
Membership dues	56,195			56,195	63,638
Fee for service income	27,000			27,000	31,900
Interest and dividends	74,420	15,951		90,371	102,782
Miscellaneous income	9,579			9,579	12,850
Net assets released from restrictions (Note 8)	189,910	(134,502)	\$ (55,408)	0	0
Total public support and revenue	<u>2,402,247</u>	<u>(56,328)</u>	<u>(55,408)</u>	<u>2,290,511</u>	<u>2,459,924</u>
Expenses:					
Program services:					
Studio School	1,163,996			1,163,996	1,124,704
Education & Outreach	138,903			138,903	156,043
Curatorial	447,066			447,066	467,196
Total program services	<u>1,749,965</u>	<u>0</u>	<u>0</u>	<u>1,749,965</u>	<u>1,747,943</u>
Supporting services:					
Management and general	513,973			513,973	565,239
Fundraising	256,205			256,205	299,256
Total expenses	<u>2,520,144</u>	<u>0</u>	<u>0</u>	<u>2,520,144</u>	<u>2,612,438</u>
Change in net assets from operations	<u>(117,897)</u>	<u>(56,328)</u>	<u>(55,408)</u>	<u>(229,633)</u>	<u>(152,514)</u>
Non-operating activity:					
Gain on sales of investments		25,135		25,135	34,709
Unrealized gain/(loss) on investments		192,196		192,196	(55,273)
Total non-operating activity	<u>0</u>	<u>217,331</u>	<u>0</u>	<u>217,331</u>	<u>(20,564)</u>
Total change in net assets	(117,897)	161,003	(55,408)	(12,302)	(173,078)
Net assets - beginning	3,374,034	591,156	2,542,449	6,507,639	6,680,717 *
Net assets - ending	<u>\$3,256,137</u>	<u>\$752,159</u>	<u>\$2,487,041</u>	<u>\$6,495,337</u>	<u>\$6,507,639</u>

* As restated (Note 13)

The attached notes and auditor's report are an integral part of these financial statements.

A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With comparative totals for the year ended June 30, 2016)

	Program Services				Supporting Services		Total Expenses 6/30/17	Total Expenses 6/30/16*
	Studio School	Education & Outreach	Curatorial	Total	Management and General	Fundraising		
Salaries	\$716,232	\$88,731	\$148,272	\$953,235	\$267,798	\$166,426	\$1,387,459	\$1,436,668
Payroll taxes and employee benefits	84,534	11,681	36,981	133,196	73,576	22,877	229,649	291,388
Professional fees	1,075	300	17,735	19,110	104,359	1,110	124,579	86,708
Other program expenses	1,556	11,112	24,382	37,050			37,050	54,718
Facilities and grounds	22,615	1,532	13,113	37,260	5,025	942	43,227	42,130
Supplies and materials	75,927	3,553	21,211	100,691	1,334	3,286	105,311	119,945
Office equipment	24,607	2,020	17,303	43,930	6,631	1,243	51,804	45,132
Honoraria		3,184	3,600	6,784			6,784	5,025
Postage and shipping	6,867	252	5,702	12,821	2,199	15,166	30,185	29,194
Utilities	28,718	2,358	20,194	51,270	7,739	1,451	60,460	56,584
Insurance	15,959	1,310	11,222	28,491	4,301	806	33,598	36,008
Marketing/advertising	16,685	900	7,535	25,120	2,888	1,195	29,203	28,685
Bank charges and administrative fees	42,590	803	7,253	50,646	4,816	10,226	65,688	68,322
Travel and entertainment	3,183	197	1,686	5,067	1,059	12,194	18,320	17,196
Printing	12,970		31,785	44,755		6,192	50,947	51,379
Interest expense	15,481	1,271	10,885	27,637	4,172	782	32,591	34,173
Miscellaneous	3,890	2,219	4,144	10,253	3,525	7,707	21,485	20,408
Total expenses before depreciation	1,072,889	131,423	383,003	1,587,315	489,422	251,602	2,328,340	2,423,663
Depreciation	91,107	7,480	64,063	162,650	24,551	4,603	191,804	188,775
Total expenses	\$1,163,996	\$138,903	\$447,066	\$1,749,965	\$513,973	\$256,205	\$2,520,144	\$2,612,438

* Reclassified for comparative purposes

The attached notes and auditor's report are an integral part of these financial statements.

**VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

(With comparative totals for the year ended June 30, 2016)

	<u>6/30/17</u>	<u>6/30/16</u>
Cash flows from operating activities:		
Change in net assets	(\$12,302)	(\$173,078)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	191,804	188,775
Gain on sale of investments	(25,135)	(34,709)
Unrealized (gain)/loss on investments	(192,196)	55,273
Changes in assets and liabilities:		
Government grants receivable	2,000	3,000
Contributions receivable	188	(127,642)
Prepaid expenses and other assets	(10,276)	16,113
Accounts payable and accrued expenses	21,143	23,358
Deferred tuition	(65,332)	(10,601)
Total adjustments	<u>(77,804)</u>	<u>113,567</u>
Net cash flows used for operating activities	<u>(90,106)</u>	<u>(59,511)</u>
Cash flows from investing activities:		
Purchases of investments (including reinvestment of dividends)	(372,770)	(364,032)
Proceeds from sales of investments	420,918	446,820
Purchases of property and equipment	<u>(30,164)</u>	<u>(56,938)</u>
Net cash flows provided by investing activities	<u>17,984</u>	<u>25,850</u>
Cash flows from financing activities:		
Proceeds from loan	45,000	50,000
Repayment of loan	(5,000)	(30,000)
Repayment of mortgage	<u>(45,692)</u>	<u>(43,811)</u>
Net cash flows used for financing activities	<u>(5,692)</u>	<u>(23,811)</u>
Net decrease in cash and cash equivalents	(77,814)	(57,472)
Cash and cash equivalents - beginning of year	<u>175,442</u>	<u>232,914</u>
Cash and cash equivalents - end of year	<u><u>\$97,628</u></u>	<u><u>\$175,442</u></u>
Supplemental disclosure of cash flow information:		
Total interest paid	<u>\$31,553</u>	<u>\$34,173</u>
Total taxes paid	<u>\$0</u>	<u>\$0</u>

The attached notes and auditor's report are an integral part of these financial statements.

VISUAL ARTS CENTER OF NEW JERSEY
A NEW JERSEY NONPROFIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 - Organization

The Visual Arts Center of New Jersey, A New Jersey Nonprofit Corporation (the "Center") nurtures the capacity for personal expression, expands the creative experience and fosters stronger communities by empowering people to see, make and learn about art. Through exhibition, studio school and community programs, the Art Center engenders connection, curiosity and creative risk-taking among its constituents.

The Center has been notified by the Internal Revenue Service that it is tax exempt under Section 501(c)(3) of the Internal Revenue Code. It has not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements of the Center have been prepared using the accrual basis of accounting which is the process of recording revenue, public support, and expenses when earned or incurred rather than when received or paid.

b. Basis of Presentation

The Center reports information regarding its financial position and activities according to the following classes of net assets:

- *Unrestricted* – represents those resources for which there are no restrictions by donors as to their use.
- *Temporarily restricted* – represents those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donors.
- *Permanently restricted* – represents resources restricted by donors that must remain intact in perpetuity.

c. Revenue Recognition

Tuition and fees are recognized as income on the accrual basis in the period the class takes place. There were no outstanding tuition fees at year end.

Contributions are recorded as revenue at the earlier of the receipt of cash or at the time a pledge is considered unconditional. Contributions are considered available for general use unless a donor places a restriction on it, in which case it is recorded in the temporarily or permanently restricted class of net assets, depending on the nature of the restriction. When the restrictions from temporarily restricted

contributions have been met in the year of donation, they are reported as unrestricted.

Contributions expected to be received within one year are recorded at net realizable value. Long-term contributions are recorded at fair value using risk adjusted present value techniques. Conditional contributions are recorded as liabilities and are recognized as income when the conditions have been substantially met.

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and government grant income recognized is reflected as government grants receivable or government grants advances.

Membership dues are recognized in the period to which they apply. There were no outstanding membership dues as of June 30, 2017.

d. Cash and Cash Equivalents

The Center considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents except for cash held with an investment custodian for long-term purposes.

e. Concentration of Credit Risk

Financial instruments which potentially subject the Center to concentration of credit risk consist of cash accounts and investments. These have all been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. Investments are subject to market fluctuations and principal is not guaranteed. The Center has not sustained any losses due to failure of any financial institution.

f. Investments

Investments are reflected at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

g. Allowance for Doubtful Accounts

Management reviews all outstanding receivables at year end for collectability. Based on the age of the receivable, knowledge of the donor/grantor and factoring in historical experience, no allowance was deemed necessary.

h. Fixed Assets

Capital items purchased such as building, improvements, furniture, fixtures and equipment that have a useful life of more than one year and exceed pre-determined amounts, whereby the organization has title to, are capitalized at cost. Routine maintenance and repair costs are charged to expenses.

Depreciation is charged using the straight-line method over the estimated useful life of the asset, as follows:

Building – 40 years
Building improvements – 15 to 40 years
Furniture, fixtures and equipment – 3 to 10 years

i. Accrued Vacation

Based on their tenure, employees are entitled to be paid for unused vacation time if they leave the Center's employment. Accordingly, the financial statements reflect a liability for the amount that would be paid out if employees with unused vacation were to leave. The accrued vacation obligation was \$48,884 and \$42,624 at June 30, 2017 and 2016, respectively.

j. In-kind Contributions

Donated services that create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind, are recognized at fair value.

Board members volunteer their time and perform a variety of tasks for the Center. These services do not meet the criteria for recognition and have not been recognized in the financial statements.

k. Advertising

Advertising costs are expensed as incurred.

l. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

m. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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 Center.

n. Accounting for Uncertainty of Income Taxes

The Center does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2014 and later are subject to examination by applicable taxing authorities.

o. New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 fiscal year, with early implementation permitted, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 year, focuses on a principle based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

FASB also issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2021 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding “right to use asset” on the statement of financial position.

The Center has not yet evaluated the impact these standards will have on future financial statements.

p. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through January 3, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 3 - Contributions Receivable

Contributions receivable are due as follows:

Year ending:	June 30, 2018	\$100,516
	June 30, 2019	<u>50,000</u>
		150,516
Discount (1%)		<u>(3,000)</u>
Total		<u>\$147,516</u>

Note 4 - Investments

Accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. That would include data obtained from sources independent of the Center.

The fair value hierarchy is categorized into three levels based on these inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following summarizes the composition of investments:

	<u>June 30, 2017</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Government Securities – US Treasury	\$145,817	\$0	\$145,817
Municipal Bonds	265,073	0	265,073
Corporate Bonds	70,506	0	70,506
Equities – U.S.	2,035,584	2,035,584	0
Equities – Multimarket income trust	3,974	3,974	0
Mutual Funds:			
Stock Fund – 500 index	41,729	41,729	0
Stock Fund – Extended market	38,073	38,073	0
Stock Fund – Emerging market	39,915	39,915	0
Stock Fund – Global market	42,214	42,214	0
Bond Fund – Treasury/U.S. bonds	232,627	232,627	0
Exchange Traded Funds	<u>40,732</u>	<u>40,732</u>	<u>0</u>
	2,956,244	2,474,848	481,396
Money funds	<u>104,254</u>	<u>0</u>	<u>104,254</u>
Total	<u>\$3,060,498</u>	<u>\$2,474,848</u>	<u>\$585,650</u>

	<u>June 30, 2016</u>		
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Government Securities – US Treasury	\$146,509	\$0	\$146,509
Municipal Bonds	204,642	0	204,642
Corporate Bonds	69,426	0	69,426
Equities – U.S.	1,891,232	1,891,232	0
Mutual Funds:			
Stock Fund – International index	1,018	1,018	0
Stock Fund – 500 index	45,571	45,571	0
Stock Fund – Extended market	33,138	33,138	0
Stock Fund – Emerging market	31,976	31,976	0
Stock Fund – Global market	43,869	43,869	0
Bond Fund – Treasury/U.S. bonds	342,994	342,994	0
Exchange Traded Funds	<u>39,030</u>	<u>39,030</u>	<u>0</u>
	2,849,405	2,428,828	420,577
Money funds	<u>41,910</u>	<u>0</u>	<u>41,910</u>
Total	<u>\$2,891,315</u>	<u>\$2,428,828</u>	<u>\$462,487</u>

Note 5 - Fixed Assets

Fixed assets consist of the following at:

	<u>6/30/17</u>	<u>6/30/16</u>
Land	\$280,336	\$280,336
Building improvements	6,306,496	6,293,036
Furniture, fixtures and equipment	<u>1,090,826</u>	<u>1,074,122</u>
	7,677,658	7,647,494
Less: accumulated depreciation	<u>(3,260,994)</u>	<u>(3,069,190)</u>
Total fixed assets – net	<u>\$4,416,664</u>	<u>\$4,578,304</u>

Note 6 - Line of Credit

The Center maintains a revolving line of credit agreement with a financial institution whereby it is permitted to borrow a maximum of \$100,000 with an interest rate of U.S. Prime, which was 4.25% at June 30, 2016. The line is due on demand. Net draws for the years ended June 30, 2017 and June 30, 2016 were \$60,000 and \$20,000, respectively.

Note 7 - Mortgage Payable

In June 2004, The New Jersey Economic Development Authority (“EDA”) issued \$3,000,000 in revenue bonds for the benefit of the Center. The Center was to use the proceeds for the costs associated with the improvements made to the building located at 68 Elm Street in Summit, New Jersey. The EDA sold the bond proceeds to a bank and the Center entered into a separate mortgage loan agreement with that bank for the full \$3,000,000.

In February 2013, the mortgage loan was refinanced and a fixed rate of 4.18% was negotiated. Monthly payments of principal and interest are required. Any unpaid principal and interest balance is due in full on July 1, 2029. The loan is secured by the property located at 68 Elm Street.

Future principal payments under the loan are as follows:

Year ending:	June 30, 2018	\$47,657
	June 30, 2019	49,688
	June 30, 2020	51,805
	June 30, 2021	54,013
	June 30, 2022	56,314
	Thereafter	<u>465,819</u>
Total		<u>\$725,296</u>

Note 8 - Temporarily Restricted Net Assets

Net assets were released from restriction due to satisfaction of donor stipulations for the following programs:

	<u>6/30/17</u>	<u>6/30/16</u>
Programs:		
Senior curatorial position	\$50,000	\$0
Power wheels purchase	10,000	0
Other programs	12,902	0
Endowment earnings	<u>61,600</u>	<u>77,162</u>
Total restrictions	<u>\$134,502</u>	<u>\$77,162</u>

Net assets are temporarily restricted by donors for the following purposes:

	<u>6/30/17</u>	<u>6/30/16</u>
Programs:		
Senior curatorial position	\$99,000	\$147,000
Power wheels purchase	0	10,000
Other programs	32,963	35,643
Unappropriated earnings on endowment	<u>570,196</u>	<u>398,513</u>
Total program restrictions	702,159	591,156
Time restrictions	<u>50,000</u>	<u>0</u>
Total restrictions	<u>\$752,159</u>	<u>\$591,156</u>

Note 9 - Permanently Restricted Net Assets/Endowments

The Center's endowment includes six specific donor restricted funds to be held indefinitely. The income from these investments must be used in accordance with the specifications of the donor.

The following is a summary of those endowments:

Outreach Endowment	\$75,000
Exhibition Endowment	1,000,000
Marylou Hillyer Endowment	430,626
Scholarship Endowment	150,000
Development Endowment	300,000
Capital Endowment	<u>531,415</u>
Total	<u>\$2,487,041</u>

Interpretation of Relevant Law

The Center follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Board of Directors of the Center has interpreted UPMIFA as requiring certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, the Center will preserve the fair value of the original gift as of the gift date for all donor-restricted endowment funds. However, under certain circumstances, the Center has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by UPMIFA.

As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, less (d) appropriations in accordance with donor directives.

Absent any specific donor-stipulations, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center.

Spending Policies

The board of directors makes an appropriation annually for each specific endowment to use in operations, and includes it in the annual budget.

In accordance with UPMIFA, the Center considers the following factors in making that determination:

- (1) The duration and preservation of the fund
- (2) The purposes of the Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Center
- (7) The investment policies of the Center
- (8) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Center.

Changes in endowment net assets were as follows:

	<u>June 30, 2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment and reserve fund net assets, beginning of year	(\$49,647)	\$398,513	\$2,542,449	\$2,891,315
Activities 2017:				
Interest and dividends	0	90,106	0	90,106
Realized gain on investments	0	25,135	0	25,135
Unrealized gain on investments	0	192,196	0	192,196
Released from restriction*	55,408	0	(55,408)	0
Transfers	(2,500)	(74,154)	0	(76,654)
Appropriations for expenditure	<u>0</u>	<u>(61,600)</u>	<u>0</u>	<u>(61,600)</u>
Endowment and reserve fund net assets, end of year	<u>\$3,261</u>	<u>\$570,196</u>	<u>\$2,487,041</u>	<u>\$3,060,498</u>

*During 2017, a donor modified the original endowment agreement by creating a new agreement to clarify previous ambiguous clauses.

	<u>June 30, 2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment and reserve fund net assets, beginning of year	\$0	\$1,903,224	\$1,091,443	\$2,994,667
Activities 2016:				
Interest and dividends	0	101,836	0	101,836
Realized gain on investments	0	34,709	0	34,709
Unrealized loss on investments	0	(55,273)	0	(55,273)
Appropriations for expenditure	0	(165,420)	0	(165,420)
Prior period adjustment	(22,984)	(1,428,022)	1,451,006	0
Reinstate temporarily restricted net assets	(26,663)	26,663	0	0
Net transfers	<u>0</u>	<u>(19,204)</u>	<u>0</u>	<u>(19,204)</u>
Endowment and reserve fund net assets, end of year	<u>(\$49,647)</u>	<u>\$398,513</u>	<u>\$2,542,449</u>	<u>\$2,891,315</u>

Endowment Investment Policies

The Center has adopted an investment policy for endowment assets that relies on the accumulation of interest, dividends and other market value gains for future appropriation.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2017.

Note 10 - Special Events

The Center hosts multiple fundraising events throughout the year. The special event proceeds are summarized as follows:

	<u>June 30, 2017</u>		
	<u>Spring Gala</u>	<u>Other</u>	<u>Total</u>
Gross revenue	\$173,447	\$7,810	\$181,257
Less: expenses with a direct benefit to donor	<u>(23,039)</u>	<u>(2,370)</u>	<u>(25,409)</u>
	150,408	5,440	155,848
Less: other event expenses	<u>(23,736)</u>	<u>(4,496)</u>	<u>(28,232)</u>
Total	<u>\$126,672</u>	<u>\$944</u>	<u>\$127,616</u>

June 30, 2016

	Night Under the Stars	Feast for the Arts	Other	Total
Gross revenue	\$99,572	\$32,300	\$62,135	\$194,007
Less: expenses with a direct benefit to donor	<u>(28,150)</u>	<u>(10,639)</u>	<u>(2,000)</u>	<u>(40,789)</u>
	71,422	21,661	60,135	153,218
Less: other event expenses	<u>(18,154)</u>	<u>(10,429)</u>	<u>(18,835)</u>	<u>(47,418)</u>
Total	<u>\$53,268</u>	<u>\$11,232</u>	<u>\$41,300</u>	<u>\$105,800</u>

Note 11 - Retirement Plan

The Center maintains a tax deferred 403(b)(7) retirement plan on behalf of participating employees. All employees with three months of service may participate by designating a percentage of their salaries, subject to regulatory limits, to the plan on a pre-tax basis. The Center provides up to a 2.5% match on employee deferrals. During the year ended June 30, 2017, and 2016 the Center made contributions to the plan that totaled \$12,463 and \$12,687, respectively.

Note 12 - Contingencies

Government grants are subject to audit by various governmental agencies. Management is of the opinion that expense adjustments, if any, resulting from governmental agency audits, will not be material. Disallowances and adjustments, if any, resulting from such audits will be reflected in the financial statements in the year of settlement. As such, no reserves have been recorded.

Note 13 - Prior Period Adjustment

Prior period adjustments were made that has the effect of decreasing net assets at July 2015 by \$73,633. Accumulated depreciation increased by \$31,009 and accrued vacation increased by \$42,624 to correct errors that were noted in fiscal year 2016.

Based on a review of historical documentation, it was determined that \$1,451,006 and \$147,977 of net assets that were recorded as temporarily restricted in prior years should have been recorded as permanently restricted and unrestricted, respectively. Reclassifications were made in 2016 to correct these errors.