

Crooked Tree Arts Council, Inc.

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

March 31, 2016 and 2015

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Crooked Tree Arts Council, Inc.

We have audited the accompanying financial statements of the *Crooked Tree Arts Council, Inc.* (the "Council"), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Council'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 Council'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 the Crooked Tree Arts Council, Inc. as of March 31, 2016 and 2015, 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.

Other Matter - Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules on pages 22 - 23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dennis, Gartland & Niergarth

July 26, 2016

Crooked Tree Arts Council, Inc.

STATEMENTS OF FINANCIAL POSITION

March 31,

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 59,274	\$ 76,473
Accounts receivable	103,491	94,570
Grants receivable	1,770	1,340
Inventory	5,038	680
Prepaid expenses	25,137	25,939
Total current assets	194,710	199,002
PROPERTY AND EQUIPMENT, net (Note C)	3,079,817	3,083,007
OTHER ASSETS		
Endowment investments (Note B)	4,655,674	4,968,739
Permanent art collection	70,376	70,376
Total assets	\$ 8,000,577	\$ 8,321,124
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 60,797	\$ 59,693
Unearned revenue	158,381	254,270
Line of credit (Note G)	-	49,738
Long-term debt due within one year (Note H)	40,865	459,263
Total current liabilities	260,043	822,964
LONG-TERM LIABILITIES		
Notes payable, net of current portion (Note H)	430,038	-
Total liabilities	690,081	822,964
NET ASSETS		
Unrestricted	2,926,777	2,805,862
Temporarily restricted (Note D)	805,964	1,114,543
Permanently restricted for endowment (Note E)	3,577,755	3,577,755
Total net assets	7,310,496	7,498,160
Total liabilities and net assets	\$ 8,000,577	\$ 8,321,124

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

Crooked Tree Arts Council, Inc.

STATEMENT OF ACTIVITIES

For the year ended March 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND GAINS				
Memberships	\$ 166,075	\$ -	\$ -	\$ 166,075
Contributions and fundraising	976,578	-	-	976,578
Grants	122,390	-	-	122,390
Admissions and entry fees	400,737	-	-	400,737
Special fundraising events, net of costs of \$411,766	296,697	-	-	296,697
Merchandise sales, net of \$95,425 cost of sales	64,188	-	-	64,188
Interest and dividend income	5,512	93,179	-	98,691
Net realized and unrealized loss on investments	(9,975)	(169,327)	-	(179,302)
Other revenue	23,687	-	-	23,687
Net assets released from restrictions	<u>232,431</u>	<u>(232,431)</u>	<u>-</u>	<u>-</u>
Total revenues, support and gains	<u>2,278,320</u>	<u>(308,579)</u>	<u>-</u>	<u>1,969,741</u>
EXPENSES				
Program				
Performing Arts	203,065	-	-	203,065
Visual Arts	288,748	-	-	288,748
Education	<u>1,005,300</u>	<u>-</u>	<u>-</u>	<u>1,005,300</u>
Total program	<u>1,497,113</u>	<u>-</u>	<u>-</u>	<u>1,497,113</u>
Supporting services				
Management and general	365,160	-	-	365,160
Fundraising	<u>295,132</u>	<u>-</u>	<u>-</u>	<u>295,132</u>
Total supporting services	<u>660,292</u>	<u>-</u>	<u>-</u>	<u>660,292</u>
Total expenses	<u>2,157,405</u>	<u>-</u>	<u>-</u>	<u>2,157,405</u>
CHANGE IN NET ASSETS	120,915	(308,579)	-	(187,664)
NET ASSETS, beginning of year	<u>2,805,862</u>	<u>1,114,543</u>	<u>3,577,755</u>	<u>7,498,160</u>
NET ASSETS, end of year	<u>\$ 2,926,777</u>	<u>\$ 805,964</u>	<u>\$ 3,577,755</u>	<u>\$ 7,310,496</u>

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

Crooked Tree Arts Council, Inc.

STATEMENT OF ACTIVITIES

For the year ended March 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, SUPPORT AND GAINS				
Memberships	\$ 137,510	\$ -	\$ -	\$ 137,510
Contributions and fundraising	586,812	-	200	587,012
Grants	31,494	-	-	31,494
Admissions and entry fees	376,207	-	-	376,207
Special fundraising events, net of costs of \$426,066	258,269	-	-	258,269
Merchandise sales, net of \$47,643 cost of sales	29,108	-	-	29,108
Interest and dividend income	10,963	95,744	-	106,707
Net realized and unrealized gains on investments	12,081	105,834	-	117,915
Other revenue	19,847	-	-	19,847
Net assets released from restrictions	<u>260,773</u>	<u>(260,773)</u>	<u>-</u>	<u>-</u>
Total revenues, support and gains	<u>1,723,064</u>	<u>(59,195)</u>	<u>200</u>	<u>1,664,069</u>
EXPENSES				
Program				
Performing Arts	253,696	-	-	253,696
Visual Arts	304,696	-	-	304,696
Education	<u>923,887</u>	<u>-</u>	<u>-</u>	<u>923,887</u>
Total program	<u>1,482,279</u>	<u>-</u>	<u>-</u>	<u>1,482,279</u>
Supporting services				
Management and general	313,709	-	-	313,709
Fundraising	<u>243,432</u>	<u>-</u>	<u>-</u>	<u>243,432</u>
Total supporting services	<u>557,141</u>	<u>-</u>	<u>-</u>	<u>557,141</u>
Total expenses	<u>2,039,420</u>	<u>-</u>	<u>-</u>	<u>2,039,420</u>
CHANGE IN NET ASSETS	(316,356)	(59,195)	200	(375,351)
NET ASSETS, beginning of year	<u>3,122,218</u>	<u>1,173,738</u>	<u>3,577,555</u>	<u>7,873,511</u>
NET ASSETS, end of year	<u>\$ 2,805,862</u>	<u>\$ 1,114,543</u>	<u>\$ 3,577,755</u>	<u>\$ 7,498,160</u>

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

Crooked Tree Arts Council, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2016

	Program				Supporting Services			Total Expenses
	Performing Arts	Visual Arts	Education	Total Program	Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 18,948	\$ 83,547	\$ 268,508	\$ 371,003	\$ 96,894	\$ 176,522	\$ 273,416	\$ 644,419
Payroll taxes	1,716	7,057	21,698	30,471	8,340	14,742	23,082	53,553
Employee benefits	-	3,516	33,419	36,935	86,376	2,955	89,331	126,266
Pension	654	3,276	7,699	11,629	3,685	6,921	10,606	22,235
Faculty	-	719	135,575	136,294	-	-	-	136,294
Artist fees	25,075	3,865	670	29,610	-	650	650	30,260
Program support	14,320	32,316	278,828	325,464	11,171	15,136	26,307	351,771
Contracted services	15,322	24,260	45,412	84,994	39,291	5,280	44,571	129,565
Scholarships	-	-	39,972	39,972	-	-	-	39,972
Travel and meetings	-	13,081	26,588	39,669	4,792	5,171	9,963	49,632
Dues and subscriptions	-	83	286	369	2,066	200	2,266	2,635
Community art support	-	-	125	125	1,085	75	1,160	1,285
Promotional and advertising	24,438	22,360	19,183	65,981	3,979	14,287	18,266	84,247
Newsletters	2,732	2,732	2,732	8,196	6,195	1,093	7,288	15,484
Utilities	16,711	17,355	19,923	53,989	22,448	7,695	30,143	84,132
Supplies	20,735	8,802	16,249	45,786	2,824	8,892	11,716	57,502
Postage	3,267	4,496	3,666	11,429	1,868	6,858	8,726	20,155
Repair and maintenance	10,634	14,171	10,987	35,792	5,562	4,804	10,366	46,158
Depreciation	32,761	32,761	32,811	98,333	19,657	13,105	32,762	131,095
Interest	4,095	4,095	4,017	12,207	1,787	1,638	3,425	15,632
Insurance	3,380	3,380	3,380	10,140	2,266	1,956	4,222	14,362
Occupancy	-	-	26,015	26,015	-	-	-	26,015
Miscellaneous	1,538	137	946	2,621	9,494	4,456	13,950	16,571
Credit card fees	6,739	6,739	6,611	20,089	2,941	2,696	5,637	25,726
Investment management fees	-	-	-	-	32,439	-	32,439	32,439
Total	<u>\$ 203,065</u>	<u>\$ 288,748</u>	<u>\$1,005,300</u>	<u>\$ 1,497,113</u>	<u>\$ 365,160</u>	<u>\$ 295,132</u>	<u>\$ 660,292</u>	<u>\$ 2,157,405</u>

-7- The accompanying notes are an integral part of these financial statements.

Crooked Tree Arts Council, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended March 31, 2015

	Program				Supporting Services			Total Expenses
	Performing Arts	Visual Arts	Education	Total Program	Management and General	Fundraising	Total Supporting Services	
Wages and salaries	\$ 54,398	\$ 105,521	\$ 247,239	\$ 407,158	\$ 80,207	\$ 154,348	\$ 234,555	\$ 641,713
Payroll taxes	4,109	7,688	22,033	33,830	5,722	11,862	17,584	51,414
Employee benefits	-	5,421	40,707	46,128	63,528	255	63,783	109,911
Pension	1,829	3,462	10,044	15,335	2,275	5,308	7,583	22,918
Faculty	-	-	108,940	108,940	-	-	-	108,940
Artist fees	45,464	7,694	2,325	55,483	-	125	125	55,608
Program support	13,953	34,889	205,375	254,217	13,306	4,238	17,544	271,761
Contracted services	14,997	13,108	66,839	94,944	39,270	3,712	42,982	137,926
Scholarships	-	-	56,050	56,050	-	-	-	56,050
Travel and meetings	-	11,023	40,420	51,443	1,241	6,186	7,427	58,870
Dues and subscriptions	-	25	48	73	2,218	200	2,418	2,491
Community art support	-	-	115	115	3,040	400	3,440	3,555
Promotional and advertising	21,962	22,543	21,957	66,462	631	6,263	6,894	73,356
Newsletters	2,787	2,067	2,427	7,281	1,456	971	2,427	9,708
Utilities	17,223	17,831	21,726	56,780	24,166	7,497	31,663	88,443
Supplies	17,984	4,093	9,198	31,275	1,542	3,364	4,906	36,181
Postage	2,928	3,692	6,962	13,582	1,651	8,111	9,762	23,344
Repair and maintenance	9,673	15,892	12,269	37,834	5,905	4,900	10,805	48,639
Depreciation	32,424	32,424	32,424	97,272	19,455	12,970	32,425	129,697
Interest	5,419	5,469	5,419	16,307	3,619	2,168	5,787	22,094
Insurance	3,605	3,605	3,605	10,815	1,266	2,921	4,187	15,002
Occupancy	-	-	2,500	2,500	-	-	-	2,500
Miscellaneous	921	4,191	1,245	6,357	6,216	6,025	12,241	18,598
Credit card fees	4,020	4,058	4,020	12,098	2,686	1,608	4,294	16,392
Investment management fees	-	-	-	-	34,309	-	34,309	34,309
Total	<u>\$ 253,696</u>	<u>\$ 304,696</u>	<u>\$ 923,887</u>	<u>\$ 1,482,279</u>	<u>\$ 313,709</u>	<u>\$ 243,432</u>	<u>\$ 557,141</u>	<u>\$ 2,039,420</u>

-8- The accompanying notes are an integral part of these financial statements.

Crooked Tree Arts Council, Inc.

STATEMENTS OF CASH FLOWS

For the years ended March 31,

	2016	2015
CASH FLOWS FROM BY OPERATING ACTIVITIES		
Change in net assets	\$ (187,664)	\$ (375,351)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	131,095	129,697
Contributions received for endowments	-	(200)
Net realized (gain) loss on sale of investments	(41,170)	(23,189)
Net unrealized (gain) loss on investments	220,471	(94,726)
Permanent art collection donations	-	(5,650)
Changes in operating assets and liabilities which affect cash		
Accounts, pledges and grants receivable	(9,351)	(73,156)
Prepaid expenses	802	(1,022)
Accounts payable	1,104	(17,124)
Inventory	(4,358)	(680)
Unearned revenue	(95,889)	212,102
Net cash flows (used) provided by operating activities	15,040	(249,299)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(127,905)	(13,256)
Purchase of investments	232,431	(106,673)
Proceeds from sale of investments	(98,667)	434,073
Net cash flows provided by investing activities	5,859	314,144
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	20,250
Repayment of commercial loan debt	(38,098)	(34,081)
Repayment of line of credit	-	(475)
Endowment contribution	-	200
Net cash flows used by investing activities	(38,098)	(14,106)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,199)	50,739
CASH AND EQUIVALENTS, beginning of year	76,473	25,734
CASH AND EQUIVALENTS, end of year	\$ 59,274	\$ 76,473
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 15,632	\$ 22,094
Non-cash permanent art collection donations	\$ -	\$ 5,650

During the year ended March 31, 2016, the line of credit balance of \$49,738 and mortgage of \$434,044 were refinanced into a long-term mortgage note payable.

During the year ended March 31, 2016, fully depreciated fixed assets of \$8,484 were disposed of.

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

Crooked Tree Arts Council, Inc.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Crooked Tree Arts Council, Inc. (the "Council") is organized as a Michigan non-profit corporation to sponsor and encourage the appreciation of visual and performing arts in the Northwest Michigan Region. This objective is achieved through art displays, by presenting theatrical and musical presentations, and by educational classes sponsored by the Council. The Council operates the Crooked Tree Arts Centers in Petoskey and Traverse City, Michigan. The Council is supported primarily by donations from area residents and visitors, investment income, admissions charged to its various cultural events, and grants.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions and restrictions imposed by specific fund agreements. Accordingly, net assets of the Council and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations are generally available for support of Council operations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Council and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets consist of pledges receivable in the future, unspent restricted donations and unappropriated endowment income.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations require that they be maintained permanently by the Council. Permanently restricted net assets consist of donor restricted endowment investments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in checking and savings bank accounts. All accounts are FDIC insured.

Investments

Investments in securities are stated at fair market value. Increases or decreases resulting from changes in market value of investments are included annually in the statements of activities whether or not realized by the sale of investments. Investments are recorded on the trade date of the transaction. Endowment assets contain certain cash equivalents which have been classified as investments because they are part of a larger investment portfolio.

Property and Equipment

Land, building and equipment are recorded at cost for purchased items and estimated fair value at date of donation for donated assets. The building and equipment are being depreciated over their estimated useful lives using the straight-line method.

Revenue Recognition

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted contributions.

Contributions of noncash assets are recorded at their fair values in the period received. The Council recorded donated materials of approximately \$210,719 within special fundraising events, for the year ended March 31, 2016. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation, are recorded at their estimated value.

The Council receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, special events and office assistance. No amounts have been recognized in the statement of activities for such volunteer services.

Revenue from grants earned on a cost-reimbursement basis and program fees are recognized as revenue in the period in which the service is provided. Funds received in advance are deferred and recognized when the related costs are incurred.

Pledges

Pledges are recognized as revenue when the donor makes a promise to give to the Council that is, in substance, unconditional and collection is reasonably assured. Pledges are reported at the present value of the future payments based on an implied discount rate. Pledges are periodically written off when management has deemed collection unlikely.

Inventory

Inventory consists of items available for sale in the gallery. Inventory is valued at cost on a first-in, first-out basis. Consigned inventory from local artists has not been valued. When consigned items are sold, the Council simultaneously records sales revenue and cost of sales equal to its obligation to the artist.

Permanent Art Collection

The permanent art collection is recorded at cost or at estimated fair value when donated to the Council. The collection is not being depreciated.

NOTES TO FINANCIAL STATEMENTS - Continued

Income Taxes

The Council is a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code. Although the Council was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income". There was no unrelated business taxable income during the year. The Council files information returns in the U. S. Federal jurisdiction. Management believes that all positions taken on such returns are supportable. With few exceptions, the Council is no longer subject to U.S. Federal examinations by tax authorities for years before March 31, 2013.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Subsequent Events

The Council has evaluated subsequent events and transactions for potential recognition and disclosure through July 26, 2016, the date the financial statements were available to be issued.

NOTE B - INVESTMENTS

Investment are presented in the statement of financial position as the following at March 31:

	<u>2016</u>	<u>2015</u>
Endowment investments	<u>\$ 4,655,674</u>	<u>\$ 4,968,739</u>

NOTES TO FINANCIAL STATEMENTS - Continued

At March 31, investments consisted of the following:

	<u>2016</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/(losses)</u>
Money market funds	\$ 75,394	\$ 75,394	\$ -
Equity mutual funds	2,730,192	2,765,638	35,446
Bond mutual funds	1,549,818	1,553,149	3,331
Real estate mutual funds	130,027	146,799	16,772
Commodities mutual funds	<u>173,000</u>	<u>114,694</u>	<u>(58,306)</u>
Total investments	<u>\$ 4,658,431</u>	<u>\$ 4,655,674</u>	<u>\$ (2,757)</u>
	<u>2015</u>		
	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/(losses)</u>
Money market funds	\$ 51,986	\$ 51,986	\$ -
Equity mutual funds	2,771,130	3,010,861	239,731
Bond mutual funds	1,494,479	1,499,701	5,222
Corporate bonds	133,838	120,616	(13,222)
Real estate mutual funds	130,027	145,064	15,037
Commodities mutual funds	<u>173,000</u>	<u>140,511</u>	<u>(32,489)</u>
Total investments	<u>\$ 4,754,460</u>	<u>\$ 4,968,739</u>	<u>\$ 214,279</u>

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 35,000	\$ 35,000
Building and improvements	4,313,332	4,221,175
Furniture, fixtures and equipment	<u>548,470</u>	<u>521,206</u>
Total property and equipment	4,896,802	4,777,381
Less accumulated depreciation	<u>(1,816,985)</u>	<u>(1,694,374)</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 3,079,817</u>	<u>\$ 3,083,007</u>

Depreciation expense recorded in program and supporting services was \$131,095 and \$129,697, for the years ended March 31, 2016 and 2015, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are comprised of the following as of March 31:

	<u>2016</u>	<u>2015</u>
Unappropriated endowment income	<u>\$ 805,964</u>	<u>\$ 1,114,543</u>

NOTE E - ENDOWMENT

The Council's endowment consists of donor restricted donations, unrestricted Board designated funds, unappropriated investment income, and realized and unrealized gains and losses. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, and the Council's Endowment Investment and Spending Policy.

Endowment net assets are classified as the following as of March 31:

	<u>2016</u>	<u>2015</u>
Unrestricted Board designated	\$ 271,955	\$ 276,441
Temporarily restricted	805,964	1,114,543
Permanently restricted	<u>3,577,755</u>	<u>3,577,755</u>
	<u>\$ 4,655,674</u>	<u>\$ 4,968,739</u>

Endowment assets consist of:

	<u>2016</u>	<u>2015</u>
Investments	<u>\$ 4,655,674</u>	<u>\$ 4,968,739</u>

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NOTES TO FINANCIAL STATEMENTS - Continued

The net changes in endowment net assets are as follows for March 31,

	2016			
	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 276,441	\$ 1,114,543	\$ 3,577,755	\$ 4,968,739
Donations	-	-	-	-
Investment return				
Investment income	5,489	93,179	-	98,668
Net appreciation (realized and unrealized)	(9,975)	(169,327)	-	(179,302)
Total investment return	(4,486)	(76,148)	-	(80,634)
Appropriation and expenditure of endowment assets	-	(232,431)	-	(232,431)
	<u>\$ 271,955</u>	<u>\$ 805,964</u>	<u>\$ 3,577,755</u>	<u>\$ 4,655,674</u>
	2015			
	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 542,175	\$ 1,172,038	\$ 3,577,555	\$ 5,291,768
Donations	-	-	200	200
Investment return				
Investment income	10,929	95,743	-	106,672
Net appreciation (realized and unrealized)	12,081	105,834	-	117,915
Total investment return	23,010	201,577	-	224,587
Appropriation and expenditure of endowment assets	(175,201)	(259,072)	-	(434,273)
Forgiveness of operating fund borrowing from prior years	(113,543)	-	-	(113,543)
	<u>\$ 276,441</u>	<u>\$ 1,114,543</u>	<u>\$ 3,577,755</u>	<u>\$ 4,968,739</u>

Interpretation of Relevant Law

The Council has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift at the date of the donor-restricted endowment gift absent explicit donor stipulations to the contrary. As a result of this interpretation the Council classifies as permanently restricted net assets: (a) the original value of 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. The remaining spendable portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by UPMIFA.

Return Objectives and Risk Parameters

The Council has adopted investment and spending policies for endowment assets that attempt to maintain the historical value of the fund and grow net assets over the long-term while providing a source of income for the Council operations and limiting risk and expenses to reasonable prudent levels. Endowment assets include donor-restricted assets that the Council must hold in perpetuity and unrestricted Board - designated assets.

Strategies Employed for Achieving Objectives

The Council's investment objective is to achieve a minimum long-term absolute growth rate of 4% per year. Council board approved non-operational expenditures or expenditures to reduce debt will not be counted against this goal. Assets may be invested only in common shares, preferred shares, bonds or notes of publicly traded domestic or foreign registered companies, and U.S. Treasury bonds, bills or notes as well as debt issued by foreign governments. Investments may be held in customized portfolios, open-end mutual funds or exchange traded funds that are not leveraged. Asset holdings will be so diversified that no single share, bond or note held in any account will exceed 1.00% of the net asset value of the total Fund.

Operating Support provided by the Endowment to the operating budget shall be limited to 4% of the Endowments' asset value over the previous calendar year. This withdrawal will be exclusive of additional Board approved expenditures.

Each calendar year the Investment and Finance Committees will calculate the new baseline average, evaluate current market and economic conditions, and make the appropriate recommendations to the Council Board for budget approval.

Upon approval, the annual expenditure will be paid in twelve equal parts with each part transferred from the Endowment Fund to the Operating Fund each month during the Council fiscal year of April 1 to March 31.

Endowment Borrowings

The operating fund owed the endowment fund \$0 at March 31, 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - INTERESTS IN NET ASSETS OF COMMUNITY FOUNDATION

The Council has established agency endowment funds with Charlevoix County Community Foundation and Petoskey-Harbor Springs Community Foundation. Through its fundraising projects, the Council accepts donations directly or encourages donors to contribute to the agency endowment funds. These funds provide income to the Council in perpetuity. The market value of these agency endowment funds held by the foundations was \$61,317 and \$66,884 at March 31, 2016 and 2015, respectively. Distributions to the Council from the agency endowment funds are limited by the respective community foundation spending policies and reported in the statement of activities as grants and contributions. These assets are reported exclusively on the books of the community foundations.

NOTE G - LINE OF CREDIT

The Council has a \$50,000 revolving line of credit with a financial institution. The interest rate charged on the line of credit is at a variable rate equal to the sum of the prime interest rate in effect plus 1.45% at March 31, 2016 and 2015. Outstanding balances on the line of credit were \$0 and \$49,738 at March 31, 2016 and 2015. Real estate is pledged as collateral.

NOTE H - LONG-TERM DEBT

Long-term debt consisted of the following at March 31,

	<u>2016</u>	<u>2015</u>
Note payable to a bank with monthly installments of \$4,919, including interest at 4.02% through November 2025. Real estate is pledged as collateral. A previous note payable required monthly installments of \$4,456, including interest at 4% through October 2015. This note was refinanced in November 2015.	\$ 470,903	\$ 459,263
Less current maturities	<u>(40,865)</u>	<u>(459,263)</u>
Total long-term debt	<u>\$ 430,038</u>	<u>\$ -</u>

Maturities of notes payable to a bank are as follows:

Years Ending <u>March 31,</u>	
2017	\$ 40,865
2018	42,538
2019	44,280
2020	46,093
2021	47,981
Thereafter	<u>249,146</u>
Total	<u>\$ 470,903</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Interest charged to expense was \$15,632 and \$22,094, for the years ended March 31, 2016 and 2015, respectively.

NOTE I - PENSION PLAN

The Council established a defined contribution plan as described under Section 403(b), that covers substantially all of its employees. The costs for the period were determined as a percent of each covered employee's wages, up to 4% for the period, and totaled \$22,235 and \$22,918 at March 31, 2016 and 2015, respectively.

NOTE J - CONCENTRATIONS

Financial instruments which potentially subject the Council to credit risk consist primarily of cash, investments, and accounts receivable. The Council holds stock and bond funds that are subject to market fluctuation. By policy, these investments are kept within limits designed to prevent risk caused by concentrations. Substantially all accounts receivable are due from residents located in or near the counties of Emmet, Charlevoix and Grand Traverse in Michigan.

NOTE K - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board Accounting Standards Codification 820 (FASB ASC 820), *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides 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 prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS - Continued

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 assets measured at fair value. There have been no changes in the methodologies used at March 31, 2016.

Money market funds and mutual funds: Valued at the net asset value ("NAV") of shares held by the Council at year-end.

Corporate bonds: Valued at fair value based on quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables sets forth by level, within the fair value hierarchy, the Council's assets at fair value:

<u>Assets at Fair Value as of March 31, 2016</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 75,394	\$ -	\$ -	\$ 75,394
Equity mutual funds				
Growth funds	2,765,638	-	-	2,765,638
Bond mutual funds				
Fixed income	1,553,149	-	-	1,553,149
Real estate mutual funds	146,799	-	-	146,799
Commodities mutual funds	<u>114,694</u>	<u>-</u>	<u>-</u>	<u>114,694</u>
	<u>\$ 4,655,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,655,674</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Assets at Fair Value as of March 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 51,986	\$ -	\$ -	\$ 51,986
Equity mutual funds				
Growth funds	3,010,861	-	-	3,010,861
Bond mutual funds				
Fixed income	1,499,701	-	-	1,499,701
Corporate bonds	120,616	-	-	120,616
Real estate mutual funds	145,064	-	-	145,064
Commodities mutual funds	<u>140,511</u>	<u>-</u>	<u>-</u>	<u>140,511</u>
	<u>\$ 4,968,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,968,739</u>

SUPPLEMENTAL INFORMATION

Crooked Tree Arts Council, Inc.

COMBINING STATEMENT OF FINANCIAL POSITION

March 31, 2016

(With Comparative Totals for March 31, 2015)

	Operating Fund	Endowment Fund	Total	2015
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 59,274	\$ -	\$ 59,274	\$ 76,473
Accounts receivable	103,491	-	103,491	94,570
Grants receivable	1,770	-	1,770	1,340
Inventory	5,038	-	5,038	680
Prepaid expenses	25,137	-	25,137	25,939
Total current assets	194,710	-	194,710	199,002
PROPERTY AND EQUIPMENT, net	3,079,817	-	3,079,817	3,083,007
OTHER ASSETS				
Endowment investments	-	4,655,674	4,655,674	4,968,739
Permanent art collection	70,376	-	70,376	70,376
Total assets	\$ 3,344,903	\$ 4,655,674	\$ 8,000,577	\$ 8,321,124
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 60,797	\$ -	\$ 60,797	\$ 59,693
Unearned revenue	158,381	-	158,381	254,270
Line of credit	-	-	-	49,738
Long-term debt due within one year	40,865	-	40,865	459,263
Total current liabilities	260,043	-	260,043	822,964
LONG-TERM LIABILITIES				
Notes payable, net of current portion	430,038	-	430,038	-
Total liabilities	690,081	-	690,081	822,964
NET ASSETS				
Unrestricted	2,654,822	271,955	2,926,777	2,805,862
Temporarily restricted	-	805,964	805,964	1,114,543
Permanently restricted for endowment	-	3,577,755	3,577,755	3,577,755
Total net assets	2,654,822	4,655,674	7,310,496	7,498,160
Total liabilities and net assets	\$ 3,344,903	\$ 4,655,674	\$ 8,000,577	\$ 8,321,124

Crooked Tree Arts Council, Inc.

COMBINING STATEMENT OF ACTIVITIES

For the year ended March 31, 2016
(With Comparative Totals for March 31, 2015)

	Operating Fund	Endowment Fund	Total	2015
REVENUES, SUPPORT AND GAINS				
Memberships	\$ 166,075	\$ -	\$ 166,075	\$ 137,510
Contributions and fundraising	976,578	-	976,578	587,012
Grants	122,390	-	122,390	31,494
Admissions and entry fees	400,737	-	400,737	376,207
Special fundraising events, net of costs of \$411,766 and \$426,066, respectively	296,697	-	296,697	258,269
Merchandise sales, net of cost of sales of \$95,425 and \$47,643, respectively	64,188	-	64,188	29,108
Interest and dividend income	23	98,668	98,691	106,707
Net realized and unrealized gains on investments	-	(179,302)	(179,302)	117,915
Other revenue	<u>23,687</u>	<u>-</u>	<u>23,687</u>	<u>19,847</u>
Total revenues, support and gains	<u>2,050,375</u>	<u>(80,634)</u>	<u>1,969,741</u>	<u>1,664,069</u>
EXPENSES				
Program				
Performing Arts	203,065	-	203,065	253,696
Visual Arts	288,748	-	288,748	304,696
Education	<u>1,005,300</u>	<u>-</u>	<u>1,005,300</u>	<u>923,887</u>
Total program	<u>1,497,113</u>	<u>-</u>	<u>1,497,113</u>	<u>1,482,279</u>
Supporting services				
Management and general	332,721	32,439	365,160	313,709
Fundraising	<u>295,132</u>	<u>-</u>	<u>295,132</u>	<u>243,432</u>
Total supporting services	<u>627,853</u>	<u>32,439</u>	<u>660,292</u>	<u>557,141</u>
Total expenses	<u>2,124,966</u>	<u>32,439</u>	<u>2,157,405</u>	<u>2,039,420</u>
OPERATING TRANSFERS	<u>199,992</u>	<u>(199,992)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	125,401	(313,065)	(187,664)	(375,351)
NET ASSETS , beginning of year	<u>2,529,421</u>	<u>4,968,739</u>	<u>7,498,160</u>	<u>7,873,511</u>
NET ASSETS , end of year	<u>\$ 2,654,822</u>	<u>\$ 4,655,674</u>	<u>\$ 7,310,496</u>	<u>\$ 7,498,160</u>