



ARTS COUNCIL  
OKLAHOMA CITY™

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 and 2017**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Arts Council of Oklahoma City

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Arts Council of Oklahoma City which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, (collectively, 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 of 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 reasonable 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 Arts Council of Oklahoma City as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the 2017 financial statements of Arts Council of Oklahoma City, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Oklahoma City, Oklahoma  
September 24, 2018

**ARTS COUNCIL OF OKLAHOMA CITY**  
**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,360,010	\$ 1,475,910
Restricted cash	2,638	15,065
Receivables:		
Pledges and other	143,301	60,933
Grants	160,000	-
Prepaid expenses and other	21,157	25,369
Total current assets	1,687,106	1,577,277
Investments	844,385	831,059
Beneficial interest in assets held by others	58,356	57,102
Property and equipment, net	1,485,203	1,493,451
Art collection	51,435	50,685
Total assets	\$ 4,126,485	\$ 4,009,574
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 20,448	\$ 30,199
Accrued liabilities	18,204	26,632
Total current liabilities	38,652	56,831
Net assets:		
Unrestricted:		
Board designated	1,961,742	2,070,586
Undesignated	1,879,860	1,689,575
Total unrestricted	3,841,602	3,760,161
Donor restricted:		
Temporarily	215,398	161,749
Permanently	30,833	30,833
Total donor restricted	246,231	192,582
Total net assets	4,087,833	3,952,743
Total liabilities and net assets	\$ 4,126,485	\$ 4,009,574

**ARTS COUNCIL OF OKLAHOMA CITY**

**STATEMENTS OF ACTIVITIES**

**Year ended June 30, 2018  
(with summarized totals for year ended June 30, 2017)**

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Revenues, Gains and Other Support</b>					
Programs and events	\$ 792,953	\$ 25,385	\$ -	\$ 818,338	\$ 585,645
Fundraising	549,303	-	-	549,303	764,102
Allied Arts Foundation	151,141	-	-	151,141	147,828
Grants	399,607	160,057	-	559,664	163,201
In-kind contributions	533,275	-	-	533,275	505,979
Other	34,685	-	-	34,685	25,017
Gain on sale of land	-	-	-	-	818,626
Increase in value of beneficial interest in assets held by others	-	1,254	-	1,254	2,739
Investment return	16,179	-	-	16,179	36,528
Net assets released from restrictions	133,047	(133,047)	-	-	-
<b>Total revenues, gains and other support</b>	<b>2,610,190</b>	<b>53,649</b>	<b>-</b>	<b>2,663,839</b>	<b>3,049,665</b>
<b>Expenses</b>					
Programs and events	1,995,057	-	-	1,995,057	1,894,191
Fundraising	116,802	-	-	116,802	123,281
General and administrative	416,890	-	-	416,890	439,662
<b>Total expenses</b>	<b>2,528,749</b>	<b>-</b>	<b>-</b>	<b>2,528,749</b>	<b>2,457,134</b>
Increase in net assets	81,441	53,649	-	135,090	592,531
Net assets, beginning of year	3,760,161	161,749	30,833	3,952,743	3,360,212
Net assets, end of year	<u>\$3,841,602</u>	<u>\$ 215,398</u>	<u>\$ 30,833</u>	<u>\$4,087,833</u>	<u>\$3,952,743</u>

**ARTS COUNCIL OF OKLAHOMA CITY**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2018 and 2017**

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 135,090	\$ 592,531
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	192,075	212,094
Gain on sale of land	-	(818,626)
Net investment income from beneficial interest in assets held by others	(4,107)	(5,582)
Distributions from beneficial interest in assets held by others	2,853	2,843
Net gains and reinvested income on investments	(13,326)	(33,685)
Donated art	(750)	(1,300)
Donated property and equipment	-	(8,550)
Change in operating assets and liabilities:		
Receivables	(242,368)	61,620
Prepaid expenses and other	4,212	(6,460)
Accounts payable and accrued liabilities	(18,179)	7,451
Tenant deposits	-	(2,900)
	55,500	(564)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(200,828)	(477,614)
Proceeds from sales of investments	200,828	477,614
Purchases of property and equipment	(183,827)	(84,102)
Proceeds from sale of land	-	883,626
	(183,827)	799,524
Net cash provided by (used in) investing activities		
Net increase (decrease) in cash and cash equivalents and restricted cash	(128,327)	792,960
Cash and cash equivalents and restricted cash at beginning of year	1,490,975	692,015
Cash and cash equivalents and restricted cash at end of year	\$ 1,362,648	\$ 1,490,975

## ARTS COUNCIL OF OKLAHOMA CITY

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### Note 1 – Nature of Operations and Summary of Significant Accounting Policies

##### Nature of operations

Arts Council of Oklahoma City (the Arts Council) is a nonprofit organization whose mission is to bring the arts and the community together. The Arts Council supports the community and enhances the quality of the community by presenting visual and performing arts in a lively, accessible way. This is done through events like Festival of the Arts, Art Moves, Opening Night, Community Arts Program, Twilight Concerts and a host of other programs and member services.

##### Summarized comparative financial information

The accompanying statements of activities include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for fiscal year 2017 from which the summarized information was derived.

##### Basis of presentation

Information regarding financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classes of net assets are comprised of the following:

*Unrestricted net assets:* net assets that are not subject to donor-imposed stipulations. Unrestricted net assets are comprised of board designated (see Note 2) and undesignated.

*Temporarily restricted net assets:* net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Arts Council or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted support is reported as unrestricted if restrictions are met in the same reporting period.

*Permanently restricted net assets:* net assets subject to donor-imposed stipulations that such resources be maintained permanently. Generally, the donors of these assets permit the Arts Council to use all or part of the income earned on any related investments for general or specific purposes.

##### Expiration of donor-imposed restrictions

The expiration of a donor-imposed restriction of a contribution is recognized in the year in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of property and equipment without donor stipulations concerning the use of long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as revenues of the temporarily



restricted net asset classification. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors, or by the change of restriction specified by the donors.

Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

#### Cash and cash equivalents

Cash equivalents are temporary investments with maturities of 90 days or less when purchased. In the statements of cash flows, total cash and cash equivalents and restricted cash of \$1,362,648 and \$1,490,975 at June 30, 2018 and 2017, consist of cash and cash equivalents of \$1,360,010 and \$1,475,910, respectively, and restricted cash of \$2,638 and \$15,065, respectively.

#### Investment valuation and income recognition

Investments are reported at fair market value. Fair market value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

#### Property and equipment

Property and equipment additions equal to or greater than \$1,000 are recorded at cost, if purchased, or at fair value at the date of contribution, if contributed. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 22 years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets, which range from 7 to 22 years, or the term of the lease, unless the lease renewal is reasonably assured.

#### Impairment of long-lived assets

Recoverability of long-lived assets is assessed periodically. Provisions for impairment of long-lived assets used in operations are recorded when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets.

#### Revenue recognition

Revenues generated from exchange transactions are recognized when the service or goods have been provided and the earnings process is significantly complete. Unconditional promises to make a contribution are recognized as revenue in the period the pledge is received. Grant revenue is recognized when all applicable contingencies have been met.

Commissions earned from sales of art during Festival of the Arts for years ended June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Total art sales	\$ 1,330,732	\$ 999,783
Less amounts paid to artists	1,067,680	800,269
	<u>\$ 263,052</u>	<u>\$ 199,514</u>

### Donated materials and services

Donated property and equipment, art and other noncash donations are recorded as contributions at their fair value at their date of donation. These donations are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Donated services that do not either require specialized skills or enhance nonfinancial assets are not recorded in the financial statements because no objective basis is available to measure the value of such services. A substantial number of volunteers have donated significant amounts of their time to the Arts Council's program services and its fundraising campaigns, the value of which is not recorded in the financial statements.

In fiscal year 2017, donated equipment was \$8,550. In fiscal year 2018, there was no donated equipment. In fiscal years 2018 and 2017, donated services and supplies primarily for Opening Night and Festival of the Arts were \$533,276 and \$496,979, respectively, and are reported within programs and events (\$499,466 and \$442,325, respectively), fundraising (\$16,535 and \$38,573, respectively) and general and administrative (\$17,275 and \$16,081, respectively) in the financial statements.

### Allocation of certain expenses

The financial statements present expenses by functional classification. Salary and benefits expenses of \$698,785 and \$705,373 has been allocated for fiscal years 2018 and 2017, respectively, based on an estimated amount of time spent by employees on each program.

### Income taxes

As a public charity, the Arts Council is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Arts Council currently has no unrelated business income.

Management assesses whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the tax authority has full knowledge of all information. If the tax position does not meet the more likely than not threshold, the benefit of the tax position is not recognized in the financial statements.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU decreases the number of net asset classes from three to two, requires reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments, requires disclosures of how an entity manages its liquid available resources to meet cash needs for general expenditures within one year and the availability of a nonprofit's financial assets to meet cash needs for general expenditures within one year, and requires reporting of expenses by nature and function, as well as an analysis of these expenses. The ASU must be adopted on a retrospective basis. The ASU will be effective for the Arts Council for its fiscal year ending

June 30, 2019. Management is currently evaluating the effects adoption of this guidance will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. As deferred by ASU 2015-14, the update is effective for the Arts Council for its fiscal year ending June 30, 2020. The standard permits the use of either the retrospective or cumulative effect transition method. Management has not yet evaluated the impact this standard will have on its financial statements and related disclosures, including the selection of a transition method.

#### Reclassifications

Certain reclassifications have been made to the fiscal year 2017 summarized financial statement information to conform to the current year presentation. These reclassifications had no effect on the increase in net assets for fiscal year 2017.

#### Subsequent events

Management has evaluated events through September 24, 2018, the date the financial statements were available to be issued.

#### **Note 2 – Board Designated Funds**

The Board of Directors (the Board) has designated funds for certain specified purposes (not for normal operating expenses or new or unbudgeted programs and expenses) that require approval by the Board. At June 30, 2018 and 2017, the balance of these board designated, unrestricted net assets (consisting of cash and cash equivalents and investments) was \$1,961,742 and \$2,070,586, respectively.

#### **Note 3 – Investments and Investment Return**

Investments consist of the following at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Mutual funds:				
Marketable equity securities	\$ 138,461	\$ 172,637	\$ 97,980	\$ 124,793
Fixed income securities	640,745	628,101	663,604	661,964
Money market fund	41,882	41,882	42,986	42,986
Other	1,765	1,765	1,316	1,316
Total investments	\$ 822,853	\$ 844,385	\$ 805,886	\$ 831,059

Investment return consists of the following for the years ended June 30:

	2018	2017
Dividend and interest income	\$ 24,258	\$ 17,551
Net realized gains (losses)	(665)	16,956
Net unrealized gains (losses)	(3,640)	5,630
Investment fees	(3,774)	(3,609)
	<u>\$ 16,179</u>	<u>\$ 36,528</u>

The Arts Council invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

#### **Note 4 – Beneficial Interest in Assets Held by Others**

The Arts Council has transferred funds to Oklahoma City Community Foundation, Inc. (the Foundation), and specified itself as the beneficiary of the funds. Annually, distributions from the funds are paid to the Arts Council according to the Foundation's spending policy. The Foundation maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community. The Foundation also maintains legal ownership of the funds. At June 30, 2018 and 2017, the fair value of the funds contributed by the Arts Council was \$58,356 and \$57,102, respectively. A portion of these funds is temporarily restricted, and a portion is permanently restricted (see Note 7).

In addition to these funds, the Foundation maintains other funds that have been contributed by various donors to the Foundation for the benefit of the Arts Council. The funds contributed by various donors are not included as assets of the Arts Council. The earnings from these funds are paid to the Arts Council each year. For fiscal years 2018 and 2017, the Arts Council received \$17,764 and \$17,677, respectively, from the funds both contributed from the Arts Council and from various donors. The Arts Council has no remainder interest in the corpus of the funds. The market value of these funds was \$363,971 and \$355,628 at June 30, 2018 and 2017, respectively.

#### **Note 5 – Fair Value Measurements**

Accounting guidance provides a framework for measuring fair value and 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 are described as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – 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; and inputs that are derived principally from or corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.
- Level 3 – Significant unobservable inputs.

The asset 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 June 30, 2018 and 2017. In fiscal years 2018 and 2017, there were no transfers of financial instruments between Level 1 and Level 2 or transfers in or out of Level 3.

*Mutual funds and money market fund* – Valued at quoted market prices, which represent the net asset value of shares held at year-end.

*Beneficial interest in assets held by others* – Stated at fair value as determined by the Foundation based on the fair value of the underlying investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Arts 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.

Assets measured at fair value on a recurring basis consisted of the following types of instruments as of June 30:

	Fair Value Measurements as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 628,101	\$ -	\$ -	\$ 628,101
Equity	172,637	-	-	172,637
Total mutual funds	800,738	-	-	800,738
Money market fund	41,882	-	-	41,882
Other	1,765	-	-	1,765
Beneficial interest in assets held by others	-	-	58,356	58,356
Total assets at fair value	\$ 844,385	\$ -	\$ 58,356	\$ 902,741
	Fair Value Measurements as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 661,964	\$ -	\$ -	\$ 661,964
Equity	124,793	-	-	124,793
Total mutual funds	786,757	-	-	786,757
Money market fund	42,986	-	-	42,986
Other	1,316	-	-	1,316
Beneficial interest in assets held by others	-	-	57,102	57,102
Total assets at fair value	\$ 831,059	\$ -	\$ 57,102	\$ 888,161

## Note 6 – Property and Equipment

Property and equipment consists of the following as of June 30:

	2018	2017
Furniture and fixtures	\$ 507,921	\$ 497,224
Festival of the Arts equipment	2,146,738	1,977,416
All Access Arts equipment	18,718	18,718
Opening Night equipment	58,877	58,877
Arts Council leasehold improvements (A)	937,605	933,797
Twilight Concert equipment	22,447	22,447
McAlpine Center leasehold improvements (A)	306,744	306,744
Total property and equipment	3,999,050	3,815,223
Accumulated depreciation and amortization	(2,513,847)	(2,321,772)
Property and equipment, net	\$ 1,485,203	\$ 1,493,451

(A) Accumulated amortization of Arts Council leasehold improvements was \$825,912 and \$754,296 as of June 30, 2018 and 2017, respectively. Accumulated amortization of McAlpine Center leasehold improvements was \$262,570 and \$225,251 as of June 30, 2018 and 2017, respectively. The Arts Council and McAlpine facilities are leased under an operating lease that expires on December 31, 2022; however, the lease can be terminated by the lessor upon notice.

## Note 7 – Donor Restricted Net Assets

Donor restricted net assets consist of the following as of June 30:

	2018	2017
The portion of perpetual endowment funds subject to time restriction – without purpose restrictions (see Note 4)	\$ 27,523	\$ 26,269
Contributions received with donor restricted purposes	187,875	135,480
Total temporarily restricted	\$ 215,398	\$ 161,749
Permanently restricted – the portion of perpetual endowment funds with purpose restrictions (see Note 4)	\$ 30,833	\$ 30,833

## Note 8 – Concentrations of Credit Risk

Financial instruments that are subject to concentrations of credit risk consist of cash and cash equivalents, receivables, investments, and beneficial interest in assets held by others. Typically, cash and cash equivalents exceed federally insured limits, but management believes any possible credit risk is minimal. At June 30, 2018 and 2017, cash in excess of federally insured limits was \$891,540 and \$1,020,309, respectively. Credit risk for all pledges and other receivables is concentrated because the majority of the balances are receivable from individuals located within the same geographic region. All investments are managed within established guidelines which limit the amounts which may be invested with one issuer.