

***MCLEAN COUNTY ARTS CENTER***

***ANNUAL FINANCIAL REPORT***

***For the year ended August 31, 2022***

DRAFT



**MCLEAN COUNTY ARTS CENTER**

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**August 31, 2022**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
McLean County Arts Center

### Opinion

We have audited the accompanying financial statements of McLean County Arts Center (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McLean County Arts Center as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of McLean County Arts Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about McLean County Arts Center's ability to continue as a going concern for a reasonable period of time.

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

Bloomington, Illinois  
Report date

MCLEAN COUNTY ARTS CENTER

STATEMENT OF FINANCIAL POSITION  
August 31, 2022

	2022
<b><u>ASSETS</u></b>	
Current Assets:	
Cash and cash equivalents	\$ 131,538
Endowment money market	16,677
Employee retention credit receivable	<u>10,345</u>
Total current assets	<u>158,560</u>
Property and Equipment:	
Land	50,000
Land improvements	30,432
Building	810,809
Equipment	69,418
Less: Accumulated depreciation	<u>(675,931)</u>
Net property and equipment	<u>284,728</u>
Other Assets:	
Endowment investments	1,800,479
Permanent collection	<u>70,000</u>
Total other assets	<u>1,870,479</u>
TOTAL ASSETS	<u><u>2,313,767</u></u>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
Current Liabilities:	
Credit card payables	12,986
Accrued expenses	42
Deferred revenue	<u>66,366</u>
Total current liabilities	<u>79,394</u>
Net Assets:	
Without donor restrictions	417,217
Without donor restrictions - board designated	<u>1,817,156</u>
Total net assets	<u>2,234,373</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,313,767</u></u>

See Notes to Financial Statements.

**MCLEAN COUNTY ARTS CENTER**

**STATEMENT OF ACTIVITIES**

**Year Ended August 31, 2022**

2022

Net assets without donor restrictions:	
Support and revenue:	
Tuition income	\$ 77,458
Gallery sales	16,245
Membership dues	35,008
Sponsorships	16,345
Grants	39,850
Contributions - cash and other financial assets	187,907
Contributions - nonfinancial assets	18,000
Special events	44,225
Investment income (loss)	(282,017)
Employee retention credit	9,803
Other income	4,987
	<hr/>
Total support and revenue	167,811
	<hr/>
Expenses:	
Program services	
Art programming	321,655
Support services	
Management and general	91,465
Fundraising	6,810
	<hr/>
Total expenses	419,930
	<hr/>
Change in net assets without donor restrictions	(252,119)
Net assets without donor restrictions, beginning of year, as restated	2,486,492
	<hr/>
Net assets without donor restrictions, end of year	\$ 2,234,373
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See Notes to Financial Statements.

**MCLEAN COUNTY ARTS CENTER**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended August 31, 2022**

	Program Services		Support Services		Total Expenses
	Art Programming	Management and General	Fundraising		
Salaries	\$ 103,101	46,622			149,723
Artist expense	42,271				42,271
Professional fees		4,724			4,724
Grantwriting expense	1,703	547	5,250		7,500
Supplies	19,025	2,114			21,139
Licenses and permits		10			10
Postage and shipping	5,309		279		5,588
Occupancy	20,246	3,573			23,819
Taxes		760			760
Telephone	3,092	3,092			6,184
Fees and charges	3,458	10,372			13,830
Printing	8,973		1,281		10,254
Production/Exhibition	28,034	3,115			31,149
Travel	960	240			1,200
Office expense	6,374	708			7,082
Repairs and maintenance	13,234	1,471			14,705
Rental Expense	2,475				2,475
Conferences	884				884
Catering	10,983	2,746			13,729
Advertising	7,116				7,116
Insurance	11,341	3,780			15,121
Payroll tax	8,172	3,776			11,948
Dues and subscriptions	7,130	2,377			9,507
Honoraria	4,835				4,835
Depreciation	12,939	1,438			14,377
	<u>\$ 321,655</u>	<u>91,465</u>	<u>6,810</u>		<u>419,930</u>

See Notes to Financial Statements.

**MCLEAN COUNTY ARTS CENTER**

**STATEMENT OF CASH FLOWS**

**Year Ended August 31, 2022**

	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets without donor restrictions	\$ (252,119)
Adjustments to reconcile change in net assets without donor restrictions to net cash flows from operating activities:	
Depreciation	14,377
Net realized and unrealized loss on investments	361,749
(Increase) decrease in assets:	
Employee retention credit receivable	(10,345)
Increase (decrease) in liabilities:	
Credit card payables	4,048
Accrued expenses	(127)
Deferred revenue	22,191
	<hr/>
<b>Net cash flows from operating activities</b>	<b>139,774</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	(223,307)
Proceeds from investments	233,566
Purchase of property and equipment	(125,453)
	<hr/>
<b>Net cash flows from investing activities</b>	<b>(115,194)</b>
Net increase in cash and cash equivalents	24,580
Cash and cash equivalents, beginning of year	<hr/> 106,958
Cash and cash equivalents, end of year	<hr/> <hr/> \$ 131,538

See Notes to Financial Statements.



## MCLEAN COUNTY ARTS CENTER

### NOTES TO FINANCIAL STATEMENTS

August 31, 2022

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#### Note 1 - Summary of Activities and Significant Accounting Policies

**Summary of Activities:** The McLean County Arts Center (the "Center") presents approximately sixteen exhibitions yearly, including the annual Holiday Treasures exhibition and the annual Amateur Competition and Exhibition which for over 70 years has showcased the best amateur artists from the region. The Center also offers art classes, artist lectures, art workshops for children and adults and associated performing and literary arts presentations. The community is also offered opportunities to purchase current artwork through the Center's Sales and Rental Gift Gallery.

**Basis of Accounting:** The financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation:** The Center is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets whose use has been limited by donors to a specific time period or purpose or, whose use have been restricted by donors in perpetuity. When a restriction is met or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. For the year ended August 31, 2022, the Center did not have any net assets with donor restrictions.

**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 reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Income Tax Status:** The McLean County Arts Center is organized as a not-for-profit organization under the laws of the State of Illinois. The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation by the Internal Revenue Service.

**Cash and Cash Equivalents:** For purposes of the Statement of Cash Flows, the Center considers all cash and investment accounts available for current use with an original maturity of three months or less to be cash equivalents.

**Investments:** Investments in marketable securities are carried at fair value. Unrealized gains or losses are recognized reflecting the differences between cost or amortized cost and market value of the investment. Amortized cost includes adjustments for accretion of discounts and amortization of premiums of debt securities over the remaining periods until maturity of the securities. Realized gains or losses are recognized reflecting the difference between the proceeds from sale of the investments and the cost or amortized cost of the investments.

## MCLEAN COUNTY ARTS CENTER

### NOTES TO FINANCIAL STATEMENTS (Continued) August 31, 2022

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#### Note 1 - Summary of Activities and Significant Accounting Policies, continued

**Property and Equipment:** Property and equipment are stated at cost. The fair value of donated property and equipment is similarly capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

When properties are retired or otherwise disposed, the asset and accumulated depreciation accounts are adjusted accordingly. Any resulting profit or loss is reflected in income in the period incurred.

**Deferred Revenue:** Deferred revenue represents tuition received for classes to be held in the next fiscal year, and ticket sales, application fees, and booth rental for events that will take place in the next fiscal year.

**Collections:** The Center owns an art collection acquired principally through donations. Collection items are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved. For the year ended August 31, 2022, artwork is recorded at its estimated fair market value of \$ 70,000 based on an appraisal conducted during 2018.

**Contributions:** Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor restrictions.

**Advertising:** Advertising costs are expensed as incurred. Advertising expense for the year ended August 31, 2022 was \$ 7,116.

**Board Designated Net Assets:** The Board of Directors has designated a portion of net assets without donor restrictions to be set aside for specific purposes. See Note 5 for additional information.

**New Accounting Pronouncement:** During the year ended August 31, 2022, the Center adopted the guidance of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 requires the Center to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and to disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. The Center has adopted this new standard retrospectively; however, the implementation did not result in a significant change to the Center's financial statements.

#### Note 2 - Cash and Cash Equivalents and Deposits in Excess of Insured Limits

The Center maintains cash balances at two financial institutions located in Bloomington, Illinois. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$ 250,000. At August 31, 2022, the Center's cash balances were fully insured.

**MCLEAN COUNTY ARTS CENTER**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2022**

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**Note 2 - Cash and Cash Equivalents and Deposits in Excess of Insured Limits, continued**

Cash and cash equivalents at August 31, 2022 consisted of the following:

Checking accounts	\$ 131,489
Petty cash	<u>49</u>
Total	<u>\$ 131,538</u>

**Note 3 - Investments**

The following summarizes the Center's investments as of August 31, 2022:

	<u>Fair Value</u>	<u>Cost</u>
Money market funds	\$ 16,677	16,677
Fixed income	188,562	212,537
Equities and satellites	<u>1,611,917</u>	<u>1,225,490</u>
Total investments	<u>\$ 1,817,156</u>	<u>1,454,704</u>

The following summarizes the investment return for the year ended August 31, 2022:

Interest and dividend income	\$ 79,732
Net realized gain	56,168
Net unrealized loss	<u>(417,917)</u>
Net investment return (loss)	<u>\$ (282,017)</u>

The investments listed above are uninsured and uncollateralized for the year ended August 31, 2022.

**Note 4 - Fair Value Measurement**

The Center follows the fair value accounting guidance related to financial assets and liabilities. The guidance defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements. It also establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

*Level 1:* Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

*Level 2:* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

**MCLEAN COUNTY ARTS CENTER**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2022**

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**Note 4 - Fair Value Measurement, continued**

*Level 3:* Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Financial assets and liabilities measured at their fair value on a recurring basis during the year ended August 31, 2022:

<u>Assets</u>	Fair Value 8/31/22	Level 1	Level 2	Level 3
Money market funds	\$ 16,677	16,677		
Fixed income	188,562	188,562		
Equities and satellites	1,611,917	1,611,917		
Total	\$ 1,817,156	1,817,156	-	-

For the above noted money market funds, fixed income, and equities and satellites, the Center used quoted prices in active markets for identical assets to determine their fair value. Thus they are considered to be Level 1 instruments. There was no change in the valuation technique during the year ended August 31, 2022.

There were no assets or liabilities measured at fair value on a nonrecurring basis during the year ended August 31, 2022.

**Note 5 - Board Designated Net Assets**

The Board of Directors has designated net assets without donor restrictions that were received from a friend of the Center at the time of her death as a general endowment fund to support the mission of the Center. Since these net assets resulted from an internal designation and are not donor-restricted, they are classified and reported as net assets without donor restriction.

The Center does not currently have a formal investment policy. However, per the trust agreement that was set up for the endowment, distributions of the net income and principle shall be made, even to the extent of exhausting principle, to further the charitable purpose of the Center, provide for capital improvements, or assist in times of financial hardship. During the year ended August 31, 2022, monthly distributions of \$ 7,000 were made from the endowment to the Center for general operating use.

**Note 6 - Revenues**

**Revenue Recognition:** As described in Note 1, the Center is supported through revenues from classes and workshops, memberships, and gallery sales. The Center generally recognizes all revenue at a point in time. The Center is not serving as an agent, nor has it arranged for another entity to transfer the goods and services.

## MCLEAN COUNTY ARTS CENTER

### NOTES TO FINANCIAL STATEMENTS (Continued) August 31, 2022

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#### Note 6 – Revenues, continued

Economic factors impact the amount, timing, and uncertainty of revenue and cash flows. For example, the timing and uncertainty of receiving payment for membership dues is affected by an individual's current ability to pay. Whereas, timing and payment for the classes, workshops, and gallery sales is more certain as payment is generally made before, or at the time of, the event.

**Performance Obligations:** For the membership dues, the Center's contracts with customers have one bundled performance obligation and a contract duration of one year. The performance obligation is typically satisfied as the service is rendered. Membership dues, which range from \$ 25 to \$ 1,000, include the following benefits depending on the membership level: email notifications of all Center activities, free attendance to artist receptions, discounts on classes, gift shop purchases, and facility rental, and invitation only events. The membership dues are due at the first of the membership year, and are recognized at the beginning of the membership year. For the tuition income and gallery sales, those contracts with customers have one performance obligation and a contract duration of less than a day to a few months. The performance obligation is typically satisfied upon completion of the event. These items are charged and recognized in the period of the event or at registration.

The transaction price for the membership dues contains variable consideration in that the dues rate is based on which membership level you select. The transaction price for the tuition income and gallery sales may also contain variable consideration as the supplies for each class are different, and each artist has different fees for their artwork. The estimate of variable consideration is not constrained.

**Membership Dues:** The Center charges different amounts for membership dues depending on the membership level. Dues start at \$ 25 and increase to \$ 1,000 depending on the level of benefits the member desires. The Center recognizes the full membership amount at the beginning of the membership year. Revenue recognized from such sources was \$ 35,008 for the year ended August 31, 2022.

**Tuition Income and Gallery Sales:** The Center also charges different amounts for classes and workshops and gallery sales depending on the individual class or workshop, the projected cost of the event, and the artist's fees. Revenue recognized from tuition income and gallery sales was \$ 77,458 and \$ 16,245, respectively, for the year ended August 31, 2022.

#### Note 7 - Accounting for Uncertain Tax Positions

The McLean County Arts Center files a Form 990 (Return of Organization Exempt from Income Tax) annually. There were no uncertain tax benefits identified and recorded as a liability as of August 31, 2022. Forms 990 filed by the McLean County Arts Center are closed to examination by taxing authorities for the years before 2019. Returns are generally subject to examination for three years after they have been filed.

**MCLEAN COUNTY ARTS CENTER**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2022**

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**Note 8 - Liquidity and Availability of Resources**

The Center has \$ 158,560 of financial assets available within one year of the Statement of Financial Position date to meet cash needs for general expenditure consisting of cash and cash equivalents of \$ 131,538, money market funds of \$ 16,677, and receivables of \$ 10,345. The receivables are subject to implied time restrictions, but are expected to be collected within one year. Best practices suggest maintaining financial assets on hand to meet 60 days of normal operating expenses. The Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**Note 9 - Method of Cost Allocation**

The costs of providing various programs and supporting services are summarized on a functional basis in the Statement of Activities. Expenses are directly charged to the appropriate activity, where feasible. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, they require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include all operating expenses. These expenses are allocated among the programs and supporting services based on an estimated percentage of what function is benefited. The Center reevaluates its allocation method each year to determine if there are adjustments that are necessary to the allocation method based on actual activities conducted during the year.

**Note 10 - Employee Retention Credit**

The legislation passed with the Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed for payroll tax credits to organizations affected by government restrictions. The tax credits are allowed based on retaining employees during the period under government restrictions. The Center qualified during fiscal year 2022 and has filed a claim for the tax credit related to calendar year 2020. As of August 31, 2022, the tax credit is still receivable and is included in income in the amount of \$ 10,345. Of this total, \$ 9,803 is recorded as employee retention credit and \$ 542 is recorded as investment income. The tax credit was subsequently received in November 2022.

**Note 11 - Nonfinancial Contributions**

Nonfinancial contributions are used for program services and management and general. Following is a summary of nonfinancial contributions recognized by the Center and where they are reflected in the statement of functional expenses for the year ended August 31, 2022:

	<u>2022</u>
Production/Exhibition	<u>\$ 18,000</u>
Total nonfinancial contributions	<u>\$ 18,000</u>

**MCLEAN COUNTY ARTS CENTER**

**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**August 31, 2022**

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**Note 12 - Prior Period Adjustment**

During the year ended August 31, 2021, the Center received payments for classes and events to be held during the year ended August 31, 2022. These payments were improperly recorded as revenue instead of deferred revenue for the year ended August 31, 2021. The following summarizes the restatement:

	<u>Without Donor Restrictions</u>
Net assets at beginning of year, as previously reported	\$ 2,530,667
Prior period adjustment – deferred revenue at August 31, 2021	<u>(44,175)</u>
Net assets at beginning of year, as restated	<u>\$ 2,486,492</u>

**Note 13 - Subsequent Events**

The McLean County Arts Center has evaluated events occurring subsequent to August 31, 2022 as to their potential impact to the financial statements through REPORT DATE, which is the date the financial statements were available to be issued.