

THE ARTS COUNCIL OF PRINCETON
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT

THE ARTS COUNCIL OF PRINCETON

FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 13

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To the Board of Directors
The Arts Council of Princeton
Princeton, New Jersey

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of The Arts Council of Princeton (a nonprofit organization), which comprise the statement of financial position as of June 30, 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arts Council of Princeton as of June 30, 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.



November 10, 2016
Lawrenceville, NJ

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 286,690	\$ 278,003
Grants receivable	14,224	12,993
Accounts receivable	14,950	200
Unconditional promises to give	-	5,000
Investments	2,075	10,318
Total current assets	317,939	306,514
Property and equipment, net	5,507,642	5,709,837
Investments - restricted for endowment	1,103,766	1,163,234
Total assets	<u>\$ 6,929,347</u>	<u>\$ 7,179,585</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current Liabilities:		
Accounts payable	\$ 4,348	\$ 4,945
Accrued expenses	12,407	12,184
Deferred revenue	149,636	138,276
Note payable, current portion	35,957	34,040
Current total liabilities	202,348	189,445
Note payable, less current portion	404,295	439,683
Total liabilities	606,643	629,128
Net assets:		
Unrestricted	5,166,801	5,301,260
Temporarily restricted	19,240	112,534
Permanently restricted	1,136,663	1,136,663
Total net assets	6,322,704	6,550,457
Total liabilities and net assets	<u>\$ 6,929,347</u>	<u>\$ 7,179,585</u>

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

THE ARTS COUNCIL OF PRINCETON

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2016 and 2015

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions and grants	\$ 362,978	-	\$ -	\$ 362,978	\$ 395,332	\$ 7,500	\$ -	\$ 402,832
Fundraising events	247,720	-	-	247,720	208,180	-	-	208,180
Investment income	1,817	-	-	1,817	143	20,838	-	20,981
Memberships	46,885	-	-	46,885	50,223	-	-	50,223
Noncash contributions	62,500	-	-	62,500	62,500	-	-	62,500
Programs	881,666	-	-	881,666	798,056	-	-	798,056
Net assets released from time and spending restrictions	93,294	(93,294)	-	-	240,236	(240,236)	-	-
Total support and revenue	1,696,860	(93,294)	-	1,603,566	1,754,670	(211,898)	-	1,542,772
Expenses:								
Program	1,303,327	-	-	1,303,327	1,298,643	-	-	1,298,643
General and administrative	363,298	-	-	363,298	339,061	-	-	339,061
Fundraising	164,694	-	-	164,694	191,078	-	-	191,078
Total expenses	1,831,319	-	-	1,831,319	1,828,782	-	-	1,828,782
Changes in net assets	(134,459)	(93,294)	-	(227,753)	(74,112)	(211,898)	-	(286,010)
Net assets, beginning of year	5,301,260	112,534	1,136,663	6,550,457	5,375,372	324,432	1,136,663	6,836,467
Net assets, end of year	\$ 5,166,801	\$ 19,240	\$ 1,136,663	\$ 6,322,704	\$ 5,301,260	\$ 112,534	\$ 1,136,663	\$ 6,550,457

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

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Changes in net assets	\$ (227,753)	\$ (286,010)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	202,196	218,929
Realized and unrealized holding (gains) losses	34,990	48,908
Changes in operating assets and liabilities:		
Grants and accounts receivable	(15,981)	12,000
Unconditional promises to give, net	5,000	154,662
Accounts payable and accrued expenses	(374)	311
Deferred revenue	11,360	21,989
Total adjustments	<u>237,191</u>	<u>456,799</u>
Net cash provided by (used in) operating activities	<u>9,438</u>	<u>170,789</u>
Investing activities:		
Purchases of investments	(36,093)	(78,213)
Sale of investments	68,813	75,849
Net cash provided by (used in) investing activities	<u>32,720</u>	<u>(2,364)</u>
Financing activities:		
Principal payments on note payable	(33,471)	(151,538)
Net cash provided by (used in) financing activities	<u>(33,471)</u>	<u>(151,538)</u>
Increase in cash	8,687	16,887
Cash and cash equivalents:		
Beginning of year	<u>278,003</u>	<u>261,116</u>
End of year	<u>\$ 286,690</u>	<u>\$ 278,003</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 25,652</u>	<u>\$ 32,316</u>
Non cash contributions - securities	<u>\$ 2,035</u>	<u>\$ 12,485</u>
Non cash contributions - rent	<u>\$ 62,500</u>	<u>\$ 62,500</u>
Non cash adjustment to accrued liabilities	<u>\$ -</u>	<u>\$ (89,171)</u>

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

THE ARTS COUNCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization

The Arts Council of Princeton (the Organization) is a non-profit organization incorporated under the laws of the State of New Jersey on September 28, 1967. With a mission of building community through the arts, the Arts Council, housed in the landmark Paul Robeson Center for the Arts, fulfills its mission by presenting a wide range of arts education, exhibition, performing arts and community programs designed to be high-quality, engaging, affordable and accessible for the diverse population of the greater Princeton region.

2. Summary of Significant Accounting Policies

The financial statements of The Arts Council of Princeton have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

Resources are classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. The three net asset categories are unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. For the years ended June 30, 2016 and 2015 the organization had accounting transactions in all three of the net asset categories as follows:

- Unrestricted net assets - Net assets that are not subject to donor- imposed restrictions.
- Temporarily restricted net assets - Net assets subject to donor- imposed restrictions that will be met by the passage of time or by some action of the organization.
- Permanently restricted net assets – Net assets which are endowment funds or funds to be held in perpetuity. The income from the assets can be used to support the Organization’s general activities, unless the donor specifies otherwise.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain items relating to the year ended June 30, 2015 have been reclassified to conform with the current year’s presentation.

Donated Space

The Arts Council receives donated space from a for profit business located in Princeton. The space is used for storage and to run programs. The value of all donated space included in these financial statements is \$62,500 for the years ended June 30, 2016 and 2015.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. This includes money market accounts with brokerage firms. Cash did not exceed the amounts insured by the FDIC during the years ended June 30, 2016 and June 30, 2015.

THE ARTS COUNCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS
(Continued)2. Summary of Significant Accounting Policies (Continued)Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Donated investments are recorded at the fair value at the date of receipt.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period when the promises are made and as assets, decreases of liabilities, or expense depending on the form of benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment

Property and equipment are stated at cost. Generally, acquisitions over \$2,500 are capitalized. Maintenance and repairs that do not improve or extend the lives of assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Revenue and Support Recognition

Contributions, which include unconditional promises to give, are recognized in the period in which they are received or promised. Contributions are considered to be unrestricted unless specifically restricted by the donor.

Revenue is recognized when earned. Monies received in advance of programs are recorded as deferred revenue on the statement of financial position.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Contributions receivable represent amounts committed by donors that have not been received by the Organization. Contributions receivable with donor-imposed restrictions that limit their use to long-term purposes are classified as a noncurrent asset.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

THE ARTS COUCLIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS
(Continued)2. Summary of Significant Accounting Policies (Continued)Revenue and Support Recognition (continued)

The Organization accounts for contract and grant revenues, which are exchange transactions, in the statement of activities to the extent that expenses have been incurred for the purposes specified by the grantor during the period. In applying this concept the legal and contractual requirements of each individual program are used as guidance. All monies not expended in accordance with the grant or contract is recorded as a liability to the grantor as the Organization does not maintain any equity in the grant or contract. Additionally, funds received in advance of their proper usages, which are exchange transactions, are accounted for as deferred revenue in the statement of financial position.

Tax Exempt Status

The Organization has received a determination from the Internal Revenue Service granting exemption from tax under Section 501 (c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal income tax has been recorded in the statements of activities and changes in net assets.

Accounting for Uncertainties in Income Taxes

The Organization adopted the provisions of FASB ASC740-10 relating to uncertainty in income taxes. The implementation included evaluating the tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities. The Organization does not believe that there are any uncertain tax positions on those returns that meet the requirements of FASB ASC740-10 and therefore should be reflected in the financial statements. Management is not aware of any violation of its tax status as an organization exempt from income taxes. Annually Form 990T is filed to report any unrelated business income.

The Organization is subject to routine audits by taxing authorities. There are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examination for years prior to June 30, 2013.

Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash, contributions receivable, accounts payable and accrued expenses and grants payable approximate their fair values because of the relatively short maturity of these instruments.

3. Grants Receivable

Grants receivable consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
New Jersey State Council on the Arts	\$ 12,693	\$ 12,693
New Jersey State Council for the Humanities	1,531	300
	<u>\$ 14,224</u>	<u>\$ 12,993</u>

THE ARTS COUCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS
(Continued)7. Fair Value Measurements

Investments are required to be categorized based on fair value of inputs of Levels 1, 2 and 3. Under Level 1 inputs, investments are required to be categorized based on quoted market prices in active markets for identical investments. Level 2 inputs are based primarily on using observable measurement criteria, including quoted market prices of similar investments in active and inactive markets and other observable corroborated factors. Level 3 inputs are assets measured at fair value on a recurring basis using significant unobservable measurement criteria based on the best information available.

A portion of the Organization's investments are held in a pooled fund managed by the Princeton Area Community Foundation (PACF). The funds in PACF are valued using Levels 1 and 3 inputs at 47% and 53% for June 30, 2016, and at 55% and 45% for June 30, 2015. Some of the preceding calculations are based on the fair value measurement data that is reflected in the audited financial statements of the Princeton Area Community Foundation at December 31, 2015 and 2014.

The investments are categorized as follows:

Fair Value Measurements at Reporting Date Using

<u>June 30, 2016</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Investments restricted for endowment			
Mutual funds	\$ 151,543	\$ 151,543	\$ -
Princeton Area Community Foundation	952,223	447,545	504,678
Subtotal	1,103,766	599,088	504,678
Investments other			
Cash and cash equivalents	2,075	2,075	-
	<u>\$ 1,105,841</u>	<u>\$ 601,163</u>	<u>\$ 504,678</u>

Fair Value Measurements at Reporting Date Using

<u>June 30, 2015</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 3</u>
Investments restricted for endowment			
Mutual funds	\$ 159,824	\$ 159,824	\$ -
Certificates of deposit	40,000	40,000	-
Princeton Area Community Foundation	963,410	529,875	433,535
Subtotal	1,163,234	729,699	433,535
Investments other			
Cash and cash equivalents	10,318	10,318	-
	<u>\$ 1,173,552</u>	<u>\$ 740,017</u>	<u>\$ 433,535</u>

8. Property and Equipment

Property and equipment consists of the following at June 30:

THE ARTS COUCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS
(Continued)8. Property and Equipment (continued)

	Useful Lives Years	2016	2015
Property and equipment			
Land		35,000	35,000
Building	40	6,912,557	6,912,557
Equipment	5-30	102,633	102,633
Furniture and fixtures	5-7	141,010	141,010
Computer equipment	5	73,119	73,119
		<u>7,264,319</u>	<u>7,264,319</u>
Accumulated depreciation and amortization		<u>(1,756,677)</u>	<u>(1,554,482)</u>
Property and equipment, net		<u>\$ 5,507,642</u>	<u>\$ 5,709,837</u>

Depreciation expense amounted to \$202,196 and \$218,929 for the years ended June 30, 2016 and 2015, respectively.

Restrictions on use: The deed for the property includes a "reverter" clause, restricting the use of the property to the purposes of the Organization and not for commercial, trade, or manufacture. If the property is not used as specified in the clause, title shall revert to Princeton Municipality.

9. Note Payable

The Organization has a loan payable to PNC Bank with a maturity date of May 18, 2019. The original loan amount was \$1,400,000. The original interest rate was 6.05%, however the loan was modified on May 20, 2013 to reduce the interest rate to 5.49% for the remaining life of the loan. Monthly payments are \$4,933, with a balloon payment due May 18, 2019. The loan is secured by the Organization's building. The outstanding balance on June 30, 2016 and June 30, 2015 was \$440,252 and \$473,723.

Future minimum principal payments are as follows at June 30:

2017	\$ 35,957
2018	37,981
2019	<u>366,314</u>
	<u>\$ 440,252</u>

10. Deferred Revenue

Deferred revenue represents payments received in advance for programs to be held in the subsequent year and consists of the following at June 30:

	2016	2015
Summer programs	\$ 134,636	\$ 120,776
Other	15,000	17,500
	<u>\$ 149,636</u>	<u>\$ 138,276</u>

THE ARTS COUNCIL OF PRINCETON
NOTES TO FINANCIAL STATEMENTS
(Continued)

11. Net Assets – Temporarily Restricted

Restricted net assets are available for the following purposes or periods at June 30:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
5 in 5 campaign	\$ 19,240	\$ 78,463
Capital contributions	-	7,500
Appreciation (depreciation) and investment income on permanently restricted assets	-	26,571
	<u>\$ 19,240</u>	<u>\$ 112,534</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows at June 30:

	<u>2016</u>	<u>2015</u>
Assets restricted for 5 in 5 campaign for paydown of principal and interest on loans	\$ 66,623	\$ 183,854
Expenses restricted for the 5 in 5 campaign related to professional fees	100	10,166
Investment income	26,571	46,216
	<u>\$ 93,294</u>	<u>\$ 240,236</u>

12. Net Assets – Permanently Restricted

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. Permanently restricted net assets consisted of the following balances on June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Permanently restricted net assets:		
Waxwood memorial (scholarships)	\$ 40,000	\$ 40,000
J Seward Johnson Sr. Charitable Trust (community support)	250,000	250,000
Evans endowment (scholarships)	147,000	147,000
Galbraith endowment (youth programs)	699,663	699,663
	<u>\$ 1,136,663</u>	<u>\$ 1,136,663</u>

13. Investment Income

The following schedule summarizes investment returns and their classification in the statement of activities for the years ended June 30:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 36,866	\$ -	\$ 36,866
Net realized and unrealized gains	(35,049)	-	(35,049)
Total investment return	<u>\$ 1,817</u>	<u>\$ -</u>	<u>\$ 1,817</u>

THE ARTS COUNCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS
(Continued)13. Investment Income (continued)

	2015		
	Unrestricted	Temporarily Restricted	Total
Interest and dividend income	\$ 627	\$ 69,262	\$ 69,889
Net realized and unrealized gains	(484)	(48,424)	(48,908)
Total investment return	\$ 143	\$ 20,838	\$ 20,981

14. Endowment Funds

The Organization's endowment consists of certificates of deposit, money market funds, equity securities and mutual funds. These funds are for scholarships and assistance for arts programs to underserved constituents. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on existence or absence of donor-imposed restrictions.

The Organization interprets the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which became effective September 2009, as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the Organization in a manner consistent with the standard of prudence prescribed by state law. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period.

15. Fundraising Events

Fundraising events consisted of the following at June 30, 2016 and 2015:

	2016			2015		
	Revenues	Expenses	Net Income	Revenues	Expenses	Net Income
Pinot to Picasso	\$ 76,065	\$ 15,548	\$ 60,517	\$ 68,190	\$ 11,270	\$ 56,920
Dining by Design	171,655	34,556	137,099	139,990	31,099	108,891
	\$ 247,720	\$ 50,104	\$ 197,616	\$ 208,180	\$ 42,369	\$ 165,811

THE ARTS COUNCIL OF PRINCETON

NOTES TO FINANCIAL STATEMENTS

(Continued)

16. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments, promises to give receivables and notes payable. The Organization maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses on such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances. Concentrations of credit risk with respect to promises to give receivable are limited due to the large number of contributions comprising the Organization's contributor base and their dispersion across different industries and geographic areas. Concentration of credit risk with respect to the note payable is limited as the amount is placed with a high quality financial institution.

17. Commitments and Disputes

The architect on the Arts Council's renovation project was sued by the builder over cost overruns related to the project. The architect filed a counterclaim and included the Arts Council among those named in the counterclaim. The nature of the litigation is breach of contract involving the architect and the builder. The case has been settled with no financial liability to the Arts Council of Princeton. The settlement occurred during the year ended June 30, 2015.

18. Payroll Taxes

All payroll tax deposit payments are being deposited and /or paid in a timely manner. All payroll tax returns have been filed on a timely basis.

19. Subsequent Events

In accordance with Generally Accepted Accounting Principles the Arts Council has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements for the period of time from June 30, 2016 through November 10, 2016. No subsequent events were identified that require adjustment to or disclosure within the financial statements.