

Arts United of Greater Fort Wayne, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2018



Arts United of Greater Fort Wayne, Inc.
December 31, 2018

Contents

Independent Auditor's Report 1

Consolidated Financial Statements

Statement of Financial Position..... 3
Statement of Activities 4
Statement of Functional Expenses 5
Statement of Cash Flows..... 6
Notes to Financial Statements 7

Independent Auditor's Report

Board of Directors
Arts United of Greater Fort Wayne, Inc.
Fort Wayne, Indiana

We have audited the accompanying consolidated financial statements of Arts United of Greater Fort Wayne, Inc. (Organization), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arts United of Greater Fort Wayne, Inc. as of December 31, 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.

Emphasis of Matter

As described in Note 2 of the consolidated financial statements, in 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Wayne, Indiana
May 6, 2019

Arts United of Greater Fort Wayne, Inc.
Consolidated Statement of Financial Position
December 31, 2018

	Arts United	CAP, LLC	Consolidated Total
Assets			
Cash and cash equivalents	\$ 1,834,139	\$ 3,080	\$ 1,837,219
Contributions receivable	3,892,723	-	3,892,723
Accounts receivable	332,517	-	332,517
Grants and prepaid expenses	32,668	-	32,668
Investments	7,470,555	-	7,470,555
Property and equipment	6,548,647	-	6,548,647
Beneficial interest in perpetual trusts	731,717	-	731,717
	<u>\$ 20,842,966</u>	<u>\$ 3,080</u>	<u>\$ 20,846,046</u>
Liabilities			
Accounts payable and accrued expenses	\$ 77,704	\$ 7,775	85,479
Funds held for others	141,193	-	141,193
Grants payable	583,817	-	583,817
Line of credit	179,027	-	179,027
Deferred revenue	66,946	-	66,946
Total liabilities	<u>1,048,687</u>	<u>7,775</u>	<u>1,056,462</u>
Net Assets			
Without donor restrictions			
Available for current operations and property and equipment	7,169,235	(4,695)	7,164,540
Board-designated	422,482	-	422,482
Total unrestricted	<u>7,591,717</u>	<u>(4,695)</u>	<u>7,587,022</u>
With donor restrictions	12,202,562	-	12,202,562
Total net assets	<u>19,794,279</u>	<u>(4,695)</u>	<u>19,789,584</u>
Total liabilities and net assets	<u>\$ 20,842,966</u>	<u>\$ 3,080</u>	<u>\$ 20,846,046</u>

Arts United of Greater Fort Wayne, Inc.
Consolidated Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Sub- Total	CAP, LLC	Consolidated Total
Revenue, Gains (Losses) and Other Support					
Contributions	\$ 263,601	\$ 4,528,032	\$ 4,791,633	\$ 119,545	\$ 4,911,178
Government grants					
Indiana Arts Commission	260,644	-	260,644	-	260,644
City of Fort Wayne	95,000	-	95,000	-	95,000
Rental income	476,258	-	476,258	-	476,258
Box office income	98,677	-	98,677	-	98,677
Events	20,197	-	20,197	27,747	47,944
Investment income	5,673	130,087	135,760	-	135,760
Net realized and unrealized loss on investments	(19,997)	(577,207)	(597,204)	-	(597,204)
Change in value - perpetual trusts	-	(76,788)	(76,788)	-	(76,788)
Other	79,144	-	79,144	20	79,164
In-kind contributions	9,350	-	9,350	-	9,350
	<u>1,288,547</u>	<u>4,004,124</u>	<u>5,292,671</u>	<u>147,312</u>	<u>5,439,983</u>
Net assets released from restriction	<u>2,304,656</u>	<u>(2,304,656)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains (losses) and other support	<u>3,593,203</u>	<u>1,699,468</u>	<u>5,292,671</u>	<u>147,312</u>	<u>5,439,983</u>
Expenses					
Grants	835,322	-	835,322	-	835,322
Community development program	280,725	-	280,725	152,565	433,290
Arts campus operations	1,302,045	-	1,302,045	-	1,302,045
Business services	183,455	-	183,455	-	183,455
Total program services	<u>2,601,547</u>	<u>-</u>	<u>2,601,547</u>	<u>152,565</u>	<u>2,754,112</u>
General and administration	410,491	-	410,491	-	410,491
Fundraising	293,286	-	293,286	-	293,286
Total expenses	<u>3,305,324</u>	<u>-</u>	<u>3,305,324</u>	<u>152,565</u>	<u>3,457,889</u>
Change in Net Assets	287,879	1,699,468	1,987,347	(5,253)	1,982,094
Net Assets, Beginning of Year	<u>7,303,838</u>	<u>10,503,094</u>	<u>17,806,932</u>	<u>558</u>	<u>17,807,490</u>
Net Assets, End of Year	<u>\$ 7,591,717</u>	<u>\$ 12,202,562</u>	<u>\$ 19,794,279</u>	<u>\$ (4,695)</u>	<u>\$ 19,789,584</u>

Arts United of Greater Fort Wayne, Inc.
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services					Fundraising	Total Expenses
	Grants	Community Development	Arts Campus Operations	Business Services	General and Administration		
Salaries and wages	\$ -	\$ 187,080	\$ 379,050	\$ 115,583	\$ 172,257	\$ 94,366	\$ 948,336
Employee benefits	-	14,300	28,988	8,856	99,206	12,275	163,625
Total salaries, wages and related expenses	-	201,380	408,038	124,439	271,463	106,641	1,111,961
Advertising/promotion	-	20,391	-	-	-	27,301	47,692
Artist fees	-	109,000	-	-	-	-	109,000
Travel, hotel, and food	-	222	224	-	1,455	962	2,863
Board development/CAC	-	2,540	333	-	319	205	3,397
Building and stage supplies	-	-	16,105	-	-	-	16,105
Guest services and equipment	-	-	12,182	447	-	-	12,629
Campaign and special events	-	17,069	-	-	-	143,759	160,828
Depreciation	-	-	411,667	-	-	-	411,667
Dues and subscriptions	-	-	508	-	2,666	-	3,174
Grants - AU operating support	583,817	-	-	-	-	-	583,817
Grants - Renaissance capital	2,500	-	-	-	-	-	2,500
Grants - IAC operating support	128,842	-	-	-	-	-	128,842
Grants - IAC project	88,889	-	-	-	-	-	88,889
Grants - Lincoln NAII program	12,043	-	-	-	-	-	12,043
Grants - Amplify Art	19,231	-	-	-	-	-	19,231
Insurance	-	4,403	-	-	25,092	-	29,495
Interest expense	-	-	-	-	7,438	-	7,438
Investment management and bank fees	-	810	13,703	10,970	-	-	25,483
Meetings and conferences	-	460	-	-	2,167	506	3,133
Administrative expenses	-	51	21	1,836	2,108	-	4,016
Office supplies	-	366	1,394	-	5,349	-	7,109
Other expense	-	46,993	1,480	22,961	-	-	71,434
Postage	-	3,110	-	-	7,079	-	10,189
Printing and publications	-	2,786	-	2,268	9,720	193	14,967
Professional services and legal fees	-	-	518	1,075	29,166	-	30,759
Repairs and maintenance	-	-	180,868	-	1,676	-	182,544
Security	-	3,334	1,980	-	603	-	5,917
Telephone/internet	-	-	245	-	20,301	-	20,546
Software	-	550	7,510	19,459	23,889	13,719	65,127
Licenses and permits	-	154	-	-	-	-	154
Rentals	-	18,051	-	-	-	-	18,051
Supplies	-	1,620	16,317	-	-	-	17,937
Utilities	-	-	228,952	-	-	-	228,952
Totals	\$ 835,322	\$ 433,290	\$ 1,302,045	\$ 183,455	\$ 410,491	\$ 293,286	\$ 3,457,889

Arts United of Greater Fort Wayne, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

Operating Activities	
Change in net assets	\$ 1,982,094
Items not requiring (providing) operating activities cash flows	
Depreciation	411,667
Net realized and unrealized gains on investments	597,204
Change in value of beneficial interest in perpetual trusts	76,788
Contributions received and payments received on contributions receivable restricted to acquisition of capital assets	(1,422,837)
Changes in	
Receivables	(3,180,717)
Prepaid expenses	(10,515)
Accounts payable, accrued expenses and funds held by others	(99,917)
Grants payable	9,176
Deferred revenue	14,317
Net cash used in operating activities	<u>(1,622,740)</u>
Investing Activities	
Purchase of property and equipment	(113,695)
Purchase of investments	2,170,506
Sales and maturities of investments	<u>(2,154,655)</u>
Net cash used in investing activities	<u>(97,844)</u>
Financing Activities	
Payments on line of credit	(97,500)
Proceeds from contributions received and payments received on contributions receivable restricted to acquisition of capital assets	<u>1,422,837</u>
Net cash provided from financing activities	<u>1,325,337</u>
Net Decrease in Cash and Cash Equivalents	(395,247)
Cash and Cash Equivalents, Beginning of Year	<u>2,232,466</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,837,219</u>
Supplemental Cash Flows Information	
Interest paid	\$ 7,438

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Arts United of Greater Fort Wayne, Inc. (Organization) was incorporated as a not-for-profit organization in June 1955, under the laws of the state of Indiana. The Organization's mission is to provide support to arts organizations and unite and coordinate arts efforts within northeast Indiana. The Organization's support is derived principally from contributions.

During 2017, the Organization changed its year-end from June 30 to December 31.

Principle of Consolidation

The consolidated financial statements include the accounts of Arts United of Greater Fort Wayne, Inc. and CAP, LLC. All material interorganizational accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of the revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Net Assets – Basis of Presentation

Net assets, revenue, expenses, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. The definitions used to clarify and report net assets are as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor imposed stipulations and are available for use in general operations or are part of what is invested in property, plant and equipment (net of related debt). However, the governing board may designate any of these funds for specific purposes (*i.e.*, specific purpose reserves or endowments).

Net Assets With Donor Restrictions – Net assets subject to donor imposed stipulations (1) that will be met either by actions of the Organization or the passage of time or (2) that are to be permanently maintained by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market funds.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

At December 31, 2018, the Organization's cash accounts exceeded federally insured limits by approximately \$773,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Certificates of deposit are carried at cost. Realized and unrealized gains and losses are reflected in the consolidated statement of activities. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as without donor restrictions or with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization is not considered to be a private foundation.

Property and Equipment

Expenditures for property and equipment and items, which substantially increase the useful lives of existing assets, are capitalized at cost. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives as follows:

	<u>Years</u>
Furniture and equipment	5-25
Building and land improvements	5-25
Buildings	30-50

Deferred Revenue

Income from grants is deferred and recognized over the periods to which the grants relate.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. For year ended December 31, 2018, \$9,350 was received in in-kind contributions.

Note 2: Change in Accounting Principle

During 2018, the Organization adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes by financial statement area is as follows:

Statement of financial position:

- The statement of financial position distinguishes between two new classes of net assets — those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification of unrestricted net assets. The organizations had no underwater endowments to reclassify upon adoption.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Statement of activities:

- The standard requires the Organization to report expenses by both nature and function, either in the statement of activities, as a separate statement or within the notes.
- Investment income is shown net of external and direct internal investment expenses. There is no longer a requirement to include a disclosure of those netted expenses.

Notes to the financial statements:

- FASB requires enhanced quantitative and qualitative disclosures to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date.
- Provide disclosures on amounts and purposes of governing Board or self-imposed designations and appropriations as of the end of the period.

This change had no impact on previously reported change in net assets.

Note 3: Contributions Receivable

Contributions receivable at December 31 consisted of the following:

Due within one year	\$	1,541,255
Due in one to five years		2,469,300
		<u>4,010,555</u>
Less		
Unamortized discount		(117,832)
		<u><u>\$ 3,892,723</u></u>

The discount rate was 2.50 percent for the period ended December 31, 2018.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 4: Investments and Investment Return

The Organization's investments at December 31 are as follows:

U.S. Government securities	\$ 99,317
U.S. Government agency obligations	123,723
Corporate bonds	216,941
Common stocks	
Consumer	182,690
Energy	67,305
Financial	329,979
Service	285,621
Health care	331,444
Industrial	199,253
Information technology	493,750
Material	79,407
Telecommunication	70,545
Real estate	21,745
Utilities	61,805
Mutual funds	
Fixed income funds	2,094,117
Blended funds	1,374,624
Emerging market funds	92,323
Growth funds	681,334
Value funds	476,101
Real estate funds	101,938
Bank loan funds	58,670
Other funds	27,923
	<hr/>
Total	\$ 7,470,555
	<hr/> <hr/>

The following schedule summarizes the investment return and its classification in the statements of activities for the year ended December 31, 2018:

Dividends and interest	\$ 135,760
Net realized and unrealized losses on investments	<u>(597,204)</u>
Total return on investments	<u>\$ (461,444)</u>

Management fees relating to the above investments totaled \$46,771 for the year ended December 31, 2018. These fees are netted against dividends and interest.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 5: Property and Equipment

The Organization's property and equipment at December 31 are as follows:

Building and improvements	\$ 11,444,282
Furniture and equipment	1,682,943
Land improvements	763,867
Construction in progress	<u>120,553</u>
	14,011,645
Accumulated depreciation	<u>(8,611,368)</u>
	5,400,277
Land	<u>1,148,370</u>
	<u><u>\$ 6,548,647</u></u>

Note 6: Beneficial Interest in Perpetual Trusts

The Organization is the beneficiary under three perpetual trusts administered by an outside party. Under the terms of the trust, the Organization has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust. The estimated value of the expected future cash flows is \$731,717, which represents the fair market value of the trust assets at December 31, 2018.

Note 7: Leases

The Organization leases office and arts facilities and equipment to other not-for-profit member organizations under various agreements, which are renewed annually. Rental income from the lease agreements for the year ended December 31, 2018, was \$476,258, which includes technical production, concession and parking fees. The gross amounts of property and equipment and related accumulated depreciation for leasing under operating leases are as follows:

Buildings and improvements	\$ 11,444,282
Property and equipment	<u>1,682,943</u>
	13,127,225
Accumulated depreciation	<u>(8,026,308)</u>
	<u><u>\$ 5,100,917</u></u>

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Future minimum rental income payments under operating leases are:

2019	\$ 167,858
2020	117,702
2021	<u>65,934</u>
Total minimum lease payments	<u>\$ 351,494</u>

Note 8: Line of Credit

The Organization has a \$1,500,000 revolving line of credit expiring in February 2020. At December 31, 2018, there was \$179,027 borrowed against this line. The line is secured by investments. Interest varies at LIBOR plus 1.5 percent.

Note 9: Net Assets with Donor Restrictions

Net assets with donor restrictions at December 31, are restricted for the following purposes or periods:

Campaign receivable - time	\$ 3,358,301
Public Art program	115,000
Lincoln internship program	17,957
Amplify Art	<u>19,769</u>
Subject to specified purpose or time	3,511,027
Endowments	
Subject to appropriation and expenditure when a specified event occurs	4,073,049
Investment in perpetuity, the income of which is expendable to fund facilities management activities and other activities of the Organization	3,886,769
Beneficial interest in perpetual trusts	<u>731,717</u>
Total endowments	8,691,535
Total net assets with donor restrictions	<u>\$ 12,202,562</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by other events specified by donors:

Current year campaign activity	\$ 1,017,005
Prior year campaign activity	<u>727,595</u>
Total campaign activity	1,744,600
Endowment distribution	227,924
Other programs	<u>332,132</u>
	<u>\$ 2,304,656</u>

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 10: Endowment

The Organization's endowment consists of two individual funds established for a variety of purposes. The endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization's governing body is subject to the State of Indiana Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net asset to net asset without donor restrictions. The governing body of the Organization has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted SPMIFIA to permit not spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMFIA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Changes in endowment net assets for the year December 31, 2018, were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of period	\$ —	\$ 9,443,367	\$ 9,443,367
Endowment earnings	—	(523,908)	(523,908)
Contributions	—	—	—
Endowment payout	—	(227,924)	(227,924)
Endowment net assets, end of period	<u>\$ —</u>	<u>\$ 8,691,535</u>	<u>\$ 8,691,535</u>

The composition of net assets by type of endowment fund at December 31, 2018, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	<u>\$ —</u>	<u>\$ 8,691,535</u>	<u>\$ 8,691,535</u>

Amounts of donor-restricted endowment funds classified as net assets with donor restrictions consisted of:

Portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or Indiana UPMIFA	<u>\$ 4,618,486</u>
Portion of perpetual endowment funds subject to a time restriction under Indiana UPMIFA with purpose restrictions	<u>\$ 4,073,049</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or Indiana UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies at December 31, 2018.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods. Under the Organization's policies, endowment assets are invested in a manner that is intended to produce results that exceed appropriate benchmarks while assuming a moderate level of investment risk. The Organization expects its endowment funds to provide an average rate of return of approximately 8 percent annually over time. Actual returns in any given year may vary from this amount.

Arts United of Greater Fort Wayne, Inc.

Notes to Consolidated Financial Statements

December 31, 2018

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy (the spending policy) of appropriating for expenditure each year up to 5 percent of its endowment fund's average fair value over the prior twelve quarters through the year-end preceding the year in which expenditure is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 11: Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2018</u>
Cash	\$ 1,837,219
Accounts receivable	332,517
Cash collections from contributions receivable for operations	1,200,000
Endowment draw	<u>494,282</u>
	<u>\$ 3,864,018</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and receivables, as well as a line of credit (Note 8).

Arts United of Greater Fort Wayne, Inc.

Notes to Consolidated Financial Statements

December 31, 2018

Note 12: Grants Payable

Grants to eligible arts and cultural organizations for general operating support. Grants approved in 2018 and paid in 2019 are as follows:

	Grants Approved for Payment in 2019
Operating support grants	
Fort Wayne Philharmonic	\$ 136,862
Fort Wayne Museum of Art	110,157
Fort Wayne Civic Theatre	74,129
Fort Wayne Ballet	83,452
Allen County/Fort Wayne Historical Society	49,420
Fort Wayne Dance Collective	21,308
Fort Wayne Youtheatre	20,863
ARCH	12,518
Artlink	12,518
Audience Unlimited	12,518
Cinema Center	12,518
F.A.M.E	12,518
Fort Wayne Children's Choir	12,518
Unity	12,518
	<hr/>
Total	\$ 583,817

Note 13: Employee Benefits

The Organization maintains a 403(b) tax-deferred annuity plan for the benefit of all full-time employees, which allows for both employee and employer contributions. The Organization contributes a matching contribution of 50 percent of employee contributions, up to 3 percent to 4 percent of eligible employee compensation, based on length of service. The Organization's contribution to the plan was \$13,016 for the year ended December 31, 2018.

Note 14: Concentration

Contributions

Approximately 93 percent of all contributions receivable were from three donors at December 31, 2018. The Organization received two contributions that comprised approximately 61 percent of total contribution income for the year ended December 31, 2018.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 15: Related Party Transactions

At December 31, 2018, the Organization had cash and investments of approximately \$1,656,000 at one financial institution where a Board member is either employed or has an ownership interest.

Note 16: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements* defines fair value as 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. Topic 820 also specifies a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There were no liabilities measured at fair value on a recurring basis and no assets or liabilities measured at fair value on a nonrecurring basis. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Cash Equivalents and Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stocks, exchange-traded mutual funds, money market funds and U.S. Government securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the valuation hierarchy. The inputs used by the pricing services to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market publications. Level 2 securities include corporate bonds and U.S. Government agency obligations. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There are no Level 3 securities.

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Beneficial Interest in Perpetual Trusts

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreements. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018:

	2018			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	\$ 295,404	\$ 295,404	\$ -	\$ -
Investments				
U.S. Government securities	99,317	99,317	-	-
U.S. Government agency obligations	123,723	-	123,723	-
Corporate bonds	216,941	-	216,941	-
Common stocks				
Consumer	182,690	182,690	-	-
Energy	67,305	67,305	-	-
Financial	329,979	329,979	-	-
Service	285,621	285,621	-	-
Health care	331,444	331,444	-	-
Industrial	199,253	199,253	-	-
Information technology	493,750	493,750	-	-
Material	79,407	79,407	-	-
Telecommunication	70,545	70,545	-	-
Real estate	21,745	21,745	-	-
Utilities	61,805	61,805	-	-
Mutual funds				
Fixed income funds	2,094,117	2,094,117	-	-
Blended funds	1,374,624	1,374,624	-	-
Emerging market funds	92,323	92,323	-	-
Growth funds	681,334	681,334	-	-
Value funds	476,101	476,101	-	-
Real estate funds	101,938	101,938	-	-
Bank loan funds	58,670	58,670	-	-
Other funds	27,923	27,923	-	-
Beneficial interest in perpetual trusts	731,717	-	731,717	-

Arts United of Greater Fort Wayne, Inc.
Notes to Consolidated Financial Statements
December 31, 2018

Note 17: Subsequent Events

Subsequent events have been evaluated through May 6, 2019, which is the date the financial statements were available to be issued.