



FONTANA CHAMBER ARTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended August 31, 2015 and 2014

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fontana Chamber Arts

We have audited the accompanying financial statements of Fontana Chamber Arts (the Organization), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities and changes in net assets 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 misstatements, whether due to fraud or error.

Auditors' 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 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 auditors' 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 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 Fontana Chamber Arts as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan

October 12, 2015

**Fontana Chamber Arts
Statements of Financial Position
August 31, 2015 and 2014**

	2015	2014
ASSETS		
Current Assets		
Cash	\$ 52,642	\$ 15,167
Investments	356,856	385,643
Grants receivable	108,820	3,320
Accounts receivable	12,850	13,139
Promises to give	4,050	18,850
Prepaid expenses	25,203	16,785
Total Current Assets	560,421	452,904
Property and Equipment		
Leasehold improvements	22,840	22,840
Equipment	38,587	38,587
	61,427	61,427
Accumulated depreciation	(56,433)	(53,618)
Net Property and Equipment	4,994	7,809
Other Assets		
Long-term promises to give	-	2,750
Beneficial interest in assets held at community foundation	2,644	2,872
Total Other Assets	2,644	5,622
Total Assets	\$ 568,059	\$ 466,335
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 2,675	\$ 1,106
Accrued payroll and benefits	-	3,709
Deferred revenue	41,522	43,358
Total Current Liabilities	44,197	48,173
Net Assets		
Unrestricted		
Board designated	334,107	385,643
Undesignated	26,448	5,573
Total unrestricted	360,555	391,216
Temporarily restricted	163,307	26,946
Total Net Assets	523,862	418,162
Total Liabilities and Net Assets	\$ 568,059	\$ 466,335

See Accompanying Notes to Financial Statements

Fontana Chamber Arts
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Support			
Grants	\$ 124,366	\$ 133,300	\$ 257,666
Trust income	90,873	-	90,873
Annual fund	55,660	3,615	59,275
Program sponsors	300	1,000	1,300
In-kind support	14,479	-	14,479
Grants - government	46,400	-	46,400
Special gifts	75,000	1,550	76,550
Net assets released from restrictions	2,876	(2,876)	-
Total Support and Reclassifications	<u>409,954</u>	<u>136,589</u>	<u>546,543</u>
Revenue			
Winter festival ticket sales	104,322	-	104,322
Summer festival ticket sales	18,705	-	18,705
Miscellaneous	23,086	-	23,086
Total Revenue	<u>146,113</u>	<u>-</u>	<u>146,113</u>
Total Support, Revenue and Reclassifications	<u>556,067</u>	<u>136,589</u>	<u>692,656</u>
Expenses			
Program services:			
Concert expenses	431,182	-	431,182
Supporting services			
Management and general	88,301	-	88,301
Fundraising	58,590	-	58,590
Total Expenses	<u>578,073</u>	<u>-</u>	<u>578,073</u>
Operating Income (Loss)	(22,006)	136,589	114,583
Non-operating Revenue (Expense)			
Unrealized losses on investments	(17,539)	(228)	(17,767)
Realized gains on investments	1,413	-	1,413
Interest and dividends	7,471	-	7,471
Total Non-operating Loss	<u>(8,655)</u>	<u>(228)</u>	<u>(8,883)</u>
Change in Net Assets	(30,661)	136,361	105,700
Net Assets at Beginning of Year	<u>391,216</u>	<u>26,946</u>	<u>418,162</u>
Net Assets at End of Year	<u>\$ 360,555</u>	<u>\$ 163,307</u>	<u>\$ 523,862</u>

See Accompanying Notes to Financial Statements

Fontana Chamber Arts
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Support			
Grants	\$ 143,010	\$ 2,200	\$ 145,210
Trust income	88,460	-	88,460
Annual fund	58,299	2,374	60,673
Program sponsors	9,705	5,000	14,705
In-kind support	28,212	-	28,212
Grants - government	44,800	-	44,800
Major gifts	3,500	10,000	13,500
Special gifts	2,950	-	2,950
Net assets released from restrictions	51,911	(51,911)	-
Total Support and Reclassifications	<u>430,847</u>	<u>(32,337)</u>	<u>398,510</u>
Revenue			
Winter festival ticket sales	41,756	-	41,756
Summer festival ticket sales	13,406	-	13,406
Miscellaneous	12,869	-	12,869
Total Revenue	<u>68,031</u>	<u>-</u>	<u>68,031</u>
Total Support, Revenue and Reclassifications	<u>498,878</u>	<u>(32,337)</u>	<u>466,541</u>
Expenses			
Program services:			
Concert expenses	343,774	-	343,774
Supporting services			
Management and general	104,297	-	104,297
Fundraising	71,118	-	71,118
Total Expenses	<u>519,189</u>	<u>-</u>	<u>519,189</u>
Operating Loss	(20,311)	(32,337)	(52,648)
Non-operating Revenue			
Unrealized gains on investments	36,208	372	36,580
Realized gains on investments	8,806	-	8,806
Interest and dividends	8,534	-	8,534
Total Non-operating Revenue	<u>53,548</u>	<u>372</u>	<u>53,920</u>
Change in Net Assets	33,237	(31,965)	1,272
Net Assets at Beginning of Year	<u>357,979</u>	<u>58,911</u>	<u>416,890</u>
Net Assets at End of Year	<u>\$ 391,216</u>	<u>\$ 26,946</u>	<u>\$ 418,162</u>

See Accompanying Notes to Financial Statements

Fontana Chamber Arts
Statements of Cash Flows
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 105,700	\$ 1,272
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,815	3,608
Unrealized (gain) loss on investments	17,539	(36,208)
Realized (gain) loss on investments	(1,413)	(8,806)
Change in beneficial interest in assets held by Kalamazoo Community Foundation	228	(372)
Change in:		
Grants receivable	(105,500)	2,180
Accounts receivable	289	(7,824)
Prepaid expenses	(8,417)	1,509
Promises to give	17,550	2,450
Accounts payable	1,569	(10,301)
Accrued payroll and benefits	(3,709)	3,709
Deferred revenue	(1,836)	17,964
Net Cash Provided by (Used in) Operating Activities	<u>24,815</u>	<u>(30,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments and income retained in account	(7,471)	(8,535)
Net proceeds from sale of investments	20,131	49,448
Net Cash Provided by Investing Activities	<u>12,660</u>	<u>40,913</u>
Net Change in Cash	37,475	10,094
Cash at Beginning of Year	15,167	5,073
Cash at End of Year	<u>\$ 52,642</u>	<u>\$ 15,167</u>

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014

NOTE A – Summary of Significant Accounting Policies

Organization Purpose

Fontana Chamber Arts (the “Organization”) is a not-for-profit organization established to enrich the human spirit by supporting the creation and performance of high quality chamber music within the diverse communities it serves. The Organization is dependent on foundation and trust income, and individual donations for funding operations.

Basis of Accounting

The Organization’s policy is to prepare its financial statements on the accrual basis of accounting; whereby, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The Organization’s net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization’s management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investments and Investment Income

Investments are stated at fair value based on quoted market prices. Unless the donor or law restricts the income or loss, investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the increase or decrease in unrestricted net assets.

Financial Instruments

The Organization’s financial instruments consist of cash, investments, grants and accounts receivable, promises to give, and current liabilities. The Organization’s estimates of fair value approximate their carrying amounts.

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014

NOTE A – Summary of Significant Accounting Policies (Continued)

Contributions and Promises to Give

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give are recognized as revenue in the period the promise is made and as assets, decreases of liabilities or expenses depending on the form of the benefits to be received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

Promises to give are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their evaluation of the status of individual accounts, past credit history with donors and the donors' current financial condition. At August 31, 2015 and 2014 management believes all promises are fully collectible.

Accounts and Grants Receivable

The Organization utilizes the reserve method to account for bad debts based upon a percentage of the aged receivables, analysis of specific receivable balances, and prior year collection experience. Grants receivable are reviewed periodically to determine amounts which are potentially uncollectible. After reasonable attempts to collect a receivable have been unsuccessful, the amount is written off. At August 31, 2015 and 2014 management believes all accounts and grants receivable are fully collectible.

Beneficial Interest in Assets Held at Community Foundation

The Organization transferred funds to the Kalamazoo Community Foundation (KCF) under an agency endowment fund. The Organization has granted conditional variance power to KCF, whereas KCF may redirect the assets in the event the Organization ceases to exist. KCF has the ultimate authority and control over the fund and the income derived therefrom. The Organization retains a beneficial interest in the endowment fund held by the KCF. The beneficial interest in the KCF assets are recorded as temporarily restricted assets. The endowment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the increase or decrease in temporarily restricted net assets. The fair value of these assets totaled \$2,644 and \$2,872 at August 31, 2015 and 2014, respectively.

Additionally, the Organization has been named as a beneficiary organization of two other endowments held at KCF. These endowments do not meet the requirements for the Organization to recognize its rights in beneficial interests. Accordingly, the assets are not recorded in the statements of financial position. These endowments were established to act as a depository for gifts, conveyances, and other transfers KCF received directly from donors intended to benefit the Organization. The fair value of these assets totaled \$27,640 and \$30,085, at August 31, 2015 and 2014, respectively.

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014

NOTE A – Summary of Significant Accounting Policies (Continued)

Property and Equipment

The Organization follows the practice of capitalizing all acquisitions of land, buildings, and equipment in excess of \$500. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset for a specific purpose. Property and equipment are depreciated using the straight-line method over their economic useful lives.

Deferred Revenue

Deferred revenue consists of ticket sales for future concerts and program book advertising.

Board Designated Net Assets

It is the policy of the Organization's Board of Directors to review its plans for future operating funds, equipment acquisitions and other reserves from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing for such items. The balance of the investment account is recorded as board designated net assets.

Concentration of Credit Risk

The Organization has significant investments in stocks, bonds, and mutual funds held by an investment manager engaged by the Organization, and are therefore subject to concentrations of credit risk. Investments are made by the investment manager and the investments are monitored by the Board of Directors. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Organization.

Donated Goods and Services

The Organization is the recipient of non-cash donations including gifts-in-kind and specialized services. Fair value is determined based on estimated market price. During the years ended August 31, 2015 and 2014, the value of contributed goods and services meeting requirements for recognition in the financial statements totaled \$14,479 and \$28,212, respectively. Additionally, the Organization receives donated services from a variety of unpaid volunteers assisting with its programs. No amounts have been recognized in the accompanying statements of activities for these services because the services received have not created or enhanced financial assets or been performed by individuals possessing specialized skills.

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014

NOTE A – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising Costs

All advertising and promotional costs are expensed in the period in which they are incurred. Advertising and promotional costs totaled approximately \$79,700 and \$67,000 during the years ended August 31, 2015 and 2014, respectively.

Cash

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash.

Tax Status

The Internal Revenue Service has determined the Organization to be exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Management of the Organization considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements. The Organization's federal returns for the year ended August 31, 2012 and after could be subject to examination by federal taxing authorities.

NOTE B – Promises to Give

Promises to give consist of:

	2015	2014
Due in less than one year	\$ 4,050	\$ 18,850
Due in one year to three years	--	2,750
Total Promises to Give	<u>\$ 4,050</u>	<u>\$ 21,600</u>

Promises to give due in more than one year have not been discounted since management believes any discount earned is insignificant due to the immateriality of the discount if it were to be taken.

**Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014**

NOTE C – Financial Instruments and Fair Value Measurements

Financial accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

Investments:

The Organization's investment accounts are Level 1 securities consisting of a money market account and mutual funds. The Organization does not have Level 2 or 3 securities.

The following table summarizes the investments at readily determinable fair value at August 31:

	2015	2014
Investments:		
Money market	\$ 18,649	\$ 11,368
Mutual funds – equities	212,519	240,000
Mutual funds – fixed income	125,688	134,275
Total Investments	\$ 356,856	\$ 385,643

NOTE D – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Donor restricted for specific purpose	\$ 26,363	\$ 9,500
Restricted for future year operations	134,300	14,574
Beneficial interest held at community foundation	2,644	2,872
Total Temporarily Restricted Net Assets	\$ 163,307	\$ 26,946

**Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2015 and 2014**

NOTE E – Concentration

Approximately 38% and 18% of the Organization's support and revenue was provided by a grant from one foundation during the years ended August 31, 2015 and 2014, respectively.

Additionally, the Organization is named as a beneficiary of a trust fund whereby the principal is held in perpetuity by a third party and the investment income earned thereon is distributed to the Organization. Approximately 17% of the Organization's support and revenue was provided by income distributions from this trust fund during the years ended August 31, 2015 and 2014.

NOTE F – Leases

The Organization leases its office facilities under a non-cancelable operating lease expiring December 31, 2017. The lease calls for annual increases to cover its proportioned shared costs. Lease expenses paid by the Organization totaled \$10,103 and \$9,908, during the years ended August 31, 2015 and 2014, respectively.

Additionally, during the year ended August 31, 2014, the Organization recorded in-kind revenue and rent expense of \$19,565 for the estimated fair value of subsidized office space rented. No in-kind revenue was recorded during the year ended August 31, 2015.

Future minimum lease payments under this non-cancelable lease agreement at August 31 are as follows:

2016	\$	10,200
2017		10,200
2018		3,400
Total	\$	<u>23,800</u>

NOTE G – Cash Flow Information

No cash was paid for interest during the years ended August 31, 2015 and 2014.

NOTE H – Subsequent Events

Management has evaluated subsequent events through October 12, 2015, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**Fontana Chamber Arts
Schedule of Functional Expenses
For the Year Ended August 31, 2015**

	Concert Expenses	Management and General	Fund- Raising	Total
Operating Expenses				
Compensation and benefits	\$ 97,258	\$ 44,818	\$ 53,432	\$ 195,508
Guest artist expenses	167,334	-	-	167,334
Advertising and promotion	77,438	-	2,307	79,745
Concert production	47,446	-	-	47,446
Concert facilities	16,237	-	-	16,237
Website	14,644	-	-	14,644
Receptions	10,825	-	-	10,825
Office rent	-	10,103	-	10,103
Office expenses	-	6,990	1,565	8,555
Professional services	-	6,250	-	6,250
Office supplies	-	5,996	-	5,996
Insurance	-	4,865	-	4,865
Professional development	-	2,908	1,286	4,194
Telephone	-	3,556	-	3,556
Depreciation	-	2,815	-	2,815
Total Expenses	\$ 431,182	\$ 88,301	\$ 58,590	\$ 578,073

**Fontana Chamber Arts
Schedule of Functional Expenses
For the Year Ended August 31, 2014**

	Concert Expenses	Management and General	Fund- Raising	Total
Operating Expenses				
Compensation and benefits	\$ 127,535	\$ 43,774	\$ 58,878	\$ 230,187
Guest artist expenses	110,544	-	-	110,544
Advertising and promotion	57,053	-	9,501	66,554
Concert production	30,953	-	-	30,953
Office rent	-	29,377	-	29,377
Office expenses	-	5,385	1,366	6,751
Professional services	-	6,625	-	6,625
Concert facilities	6,446	-	-	6,446
Office supplies	-	6,403	-	6,403
Receptions	6,324	-	-	6,324
Website	4,919	-	-	4,919
Telephone	-	4,203	-	4,203
Insurance	-	3,937	-	3,937
Depreciation	-	3,608	-	3,608
Professional development	-	985	1,373	2,358
Total Expenses	\$ 343,774	\$ 104,297	\$ 71,118	\$ 519,189