



FONTANA CHAMBER ARTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended August 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Report of Supplementary Information

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 3, 2017

Fontana Chamber Arts
Statements of Financial Position
August 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets		
Cash	\$ 90,360	\$ 86,221
Investments	319,444	359,309
Grants receivable	3,100	6,510
Accounts receivable	12,712	2,700
Promises to give	750	800
Prepaid expenses	16,942	31,399
Total Current Assets	<u>443,308</u>	<u>486,939</u>
Property and Equipment		
Leasehold improvements	22,840	22,840
Equipment	40,976	38,587
	<u>63,816</u>	<u>61,427</u>
Accumulated depreciation	(61,687)	(59,237)
Net Property and Equipment	<u>2,129</u>	<u>2,190</u>
Other Assets		
Beneficial interest in assets held at community foundation	3,035	2,786
Total Other Assets	<u>3,035</u>	<u>2,786</u>
Total Assets	<u>\$ 448,472</u>	<u>\$ 491,915</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 5	\$ 3,701
Deferred revenue	27,394	27,192
Total Current Liabilities	<u>27,399</u>	<u>30,893</u>
Net Assets		
Unrestricted		
Board designated	297,817	335,661
Undesignated	(30,088)	(50,229)
Total Unrestricted	<u>267,729</u>	<u>285,432</u>
Temporarily restricted	153,344	175,590
Total Net Assets	<u>421,073</u>	<u>461,022</u>
Total Liabilities and Net Assets	<u>\$ 448,472</u>	<u>\$ 491,915</u>

See Accompanying Notes to Financial Statements.

Fontana Chamber Arts
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Releases and Revenue			
Support			
Grants	\$ 12,573	\$ 116,200	\$ 128,773
Trust income	94,572	-	94,572
Annual fund	50,829	3,669	54,498
Program sponsors	15,000	-	15,000
In-kind support	9,230	-	9,230
Grants - government	21,000	-	21,000
Special gifts	7,929	1,500	9,429
Net assets released from restrictions	<u>143,864</u>	<u>(143,864)</u>	<u>-</u>
Total Support and Releases	<u>354,997</u>	<u>(22,495)</u>	<u>332,502</u>
Revenue			
Winter festival ticket sales	42,535	-	42,535
Advertising and miscellaneous	<u>21,777</u>	<u>-</u>	<u>21,777</u>
Total Revenue	<u>64,312</u>	<u>-</u>	<u>64,312</u>
Total Support, Revenue and Reclassifications	<u>419,309</u>	<u>(22,495)</u>	<u>396,814</u>
Expenses			
Program services:			
Concert expenses	322,499	-	322,499
Supporting services			
Management and general	99,789	-	99,789
Fundraising	<u>47,511</u>	<u>-</u>	<u>47,511</u>
Total Expenses	<u>469,799</u>	<u>-</u>	<u>469,799</u>
Operating Loss	(50,490)	(22,495)	(72,985)
Non-operating Revenue			
Unrealized gain on investments	19,478	249	19,727
Interest and dividends	<u>13,309</u>	<u>-</u>	<u>13,309</u>
Net Non-Operating Revenue	<u>32,787</u>	<u>249</u>	<u>33,036</u>
Change in Net Assets	(17,703)	(22,246)	(39,949)
Net Assets at Beginning of Year	<u>285,432</u>	<u>175,590</u>	<u>461,022</u>
Net Assets at End of Year	<u>\$ 267,729</u>	<u>\$ 153,344</u>	<u>\$ 421,073</u>

See Accompanying Notes to Financial Statements.

Fontana Chamber Arts
Statement of Activities and Changes in Net Assets
For the Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Releases and Revenue			
Support			
Grants	\$ 5,651	\$ 144,750	\$ 150,401
Trust income	93,210	-	93,210
Annual fund	62,849	4,407	67,256
Program sponsors	7,000	-	7,000
In-kind support	12,245	-	12,245
Grants - government	18,000	-	18,000
Special gifts	10,812	1,750	12,562
Net assets released from restrictions	<u>138,766</u>	<u>(138,766)</u>	<u>-</u>
Total Support and Releases	<u>348,533</u>	<u>12,141</u>	<u>360,674</u>
Revenue			
Winter festival ticket sales	57,203	-	57,203
Summer festival ticket sales	12,509	-	12,509
Advertising and miscellaneous	<u>19,512</u>	<u>-</u>	<u>19,512</u>
Total Revenue	<u>89,224</u>	<u>-</u>	<u>89,224</u>
Total Support, Revenue and Reclassifications	<u>437,757</u>	<u>12,141</u>	<u>449,898</u>
Expenses			
Program services:			
Concert expenses	376,817	-	376,817
Supporting services			
Management and general	102,024	-	102,024
Fundraising	<u>56,237</u>	<u>-</u>	<u>56,237</u>
Total Expenses	<u>535,078</u>	<u>-</u>	<u>535,078</u>
Operating Income (Loss)	(97,321)	12,141	(85,180)
Non-operating Revenue			
Unrealized loss on investments	11,370	142	11,512
Interest and dividends	<u>10,828</u>	<u>-</u>	<u>10,828</u>
Net Non-Operating Revenue	<u>22,198</u>	<u>142</u>	<u>22,340</u>
Change in Net Assets	(75,123)	12,283	(62,840)
Net Assets at Beginning of Year	<u>360,555</u>	<u>163,307</u>	<u>523,862</u>
Net Assets at End of Year	<u>\$ 285,432</u>	<u>\$ 175,590</u>	<u>\$ 461,022</u>

See Accompanying Notes to Financial Statements.

Fontana Chamber Arts
Statements of Cash Flows
For the Years Ended August 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (39,949)	\$ (62,840)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,450	2,804
Unrealized gain on investments	(19,820)	(11,926)
Realized gain on investments	(7,078)	(3,050)
Change in beneficial interest in assets held by Kalamazoo Community Foundation	(249)	(142)
Change in:		
Grants receivable	3,410	102,310
Accounts receivable	(10,012)	10,150
Prepaid expenses	14,458	(6,195)
Promises to give	50	3,250
Accounts payable	(3,696)	1,026
Deferred revenue	202	(14,330)
Net Cash Provided by (Used in) Operating Activities	<u>(60,234)</u>	<u>21,057</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,385)	-
Purchase of investments and income retained in account	(6,236)	(7,742)
Net proceeds from sale of investments	72,994	20,264
Net Cash Provided by Investing Activities	<u>64,373</u>	<u>12,522</u>
Net Change in Cash	4,139	33,579
Cash at Beginning of Year	86,221	52,642
Cash at End of Year	<u>\$ 90,360</u>	<u>\$ 86,221</u>

See Accompanying Notes to Financial Statements.

**Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016**

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, 2017 and 2016

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, 2017 and 2016 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, 2017 and 2016, management believes all receivables 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 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 \$3,035 and \$2,786 at August 31, 2017 and 2016, 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 \$49,986 and \$29,071, at August 31, 2017 and 2016, respectively.

**Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016**

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 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, 2017 and 2016, the value of contributed goods and services meeting requirements for recognition in the financial statements totaled \$9,230 and \$12,245, 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.

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.

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.

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

NOTE A – Summary of Significant Accounting Policies (Continued)

Advertising Costs

All advertising and promotional costs are expensed in the period in which they are incurred. Advertising and promotional costs totaled approximately \$36,200 and \$58,800 during the years ended August 31, 2017 and 2016, respectively.

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.

NOTE B – Promises to Give

Promises to give consist of amounts due in less than one year and totaled \$750 and \$800 at August 31, 2017 and 2016, respectively.

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.

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

NOTE C – Financial Instruments and Fair Value Measurements (Continued)

The following table summarizes the investments at readily determinable fair value at August 31, 2017:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Investments:				
Money market accounts	\$ 56,136	\$ 56,136	\$ -	\$ -
Bond funds	92,318	92,318	-	-
Mutual funds	170,990	170,990	-	-
Total Investments	<u>\$ 319,444</u>	<u>\$ 319,444</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes the investments at readily determinable fair value at August 31, 2016:

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)
Investments:				
Money market accounts	\$ 10,293	\$ 10,293	\$ -	\$ -
Bond funds	120,526	120,526	-	-
Mutual funds	228,490	228,490	-	-
Total Investments	<u>\$ 359,309</u>	<u>\$ 359,309</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE D – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Donor restricted for specific purpose	\$ 34,109	\$ 31,554
Restricted for future year operations	116,200	141,250
Beneficial interest held at community foundation	3,035	2,786
Total Temporarily Restricted Net Assets	<u>\$ 153,344</u>	<u>\$ 175,590</u>

Fontana Chamber Arts
Notes to the Financial Statements
For the Years Ended August 31, 2017 and 2016

NOTE E – Concentration

Approximately 29% and 23% of the Organization's support and revenue was provided by a grant from one foundation during the years ended August 31, 2017 and 2016, 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 28% and 21%, of the Organization's support and revenue was provided by income distributions from this trust fund during the years ended August 31, 2017 and 2016, respectively.

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 \$10,718 and \$10,404, during the years ended August 31, 2017 and 2016, respectively. Future minimum lease payments under this non-cancelable lease agreement at August 31, 2017, totaled \$3,400.

NOTE G – Cash Flow Information

No cash was paid for interest during the years ended August 31, 2017 and 2016.

NOTE H – Subsequent Events

Management has evaluated subsequent events through October 3, 2017, 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, 2017**

	Concert Expenses	Management and General	Fund- Raising	Total
Operating Expenses				
Compensation and benefits	\$ 88,456	\$ 57,971	\$ 45,306	\$ 191,733
Guest artist expenses	141,651	-	-	141,651
Advertising and promotion	35,424	-	794	36,218
Concert production	28,290	-	-	28,290
Concert facilities	14,406	-	-	14,406
Website	11,755	-	-	11,755
Office rent	-	10,718	-	10,718
Office expenses	-	6,356	1,411	7,767
Professional services	-	6,475	-	6,475
Office supplies	-	5,088	-	5,088
Insurance	-	5,060	-	5,060
Telephone	-	3,776	-	3,776
Receptions	2,517	-	-	2,517
Depreciation	-	2,450	-	2,450
Professional development	-	1,895	-	1,895
Total Expenses	\$ 322,499	\$ 99,789	\$ 47,511	\$ 469,799

See Accompanying Notes to Financial Statements.

**Fontana Chamber Arts
Schedule of Functional Expenses
For the Year Ended August 31, 2016**

	Concert Expenses	Management and General	Fund- Raising	Total
Operating Expenses				
Compensation and benefits	\$ 90,135	\$ 60,071	\$ 51,192	\$ 201,398
Guest artist expenses	168,922	-	-	168,922
Advertising and promotion	56,675	-	2,163	58,838
Concert production	33,538	-	-	33,538
Website	13,675	-	-	13,675
Office rent	-	10,404	-	10,404
Office expenses	-	6,988	1,409	8,397
Receptions	7,996	-	-	7,996
Professional services	-	6,225	-	6,225
Concert facilities	5,876	-	-	5,876
Insurance	-	5,042	-	5,042
Office supplies	-	4,987	-	4,987
Telephone	-	4,147	-	4,147
Professional development	-	1,356	1,473	2,829
Depreciation	-	2,804	-	2,804
Total Expenses	\$ 376,817	\$ 102,024	\$ 56,237	\$ 535,078

See Accompanying Notes to Financial Statements.