

THE DURHAM ARTS COUNCIL, INC.

Financial Statements

June 30, 2021

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Independent Auditor's Report

To the Board of Trustees
The Durham Arts Council, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of The Durham Arts Council, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year 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

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 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, 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.

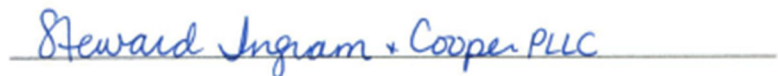
To the Board of Trustees
The Durham Arts Council, Inc.
Durham, North Carolina

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Durham Arts Council, Inc. as of June 30, 2021, 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 discussed in Note 20 to the financial statements, a prior period adjustment has been made in the June 30, 2020 financial statements to correct material misstatements in previously issued financial statements. As a result, beginning of year net assets has been restated in the Statement of Activities. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Steward Ingram + Cooper PLLC" is written above a horizontal line.

Raleigh, North Carolina
March 14, 2022

THE DURHAM ARTS COUNCIL, INC.

Statement of Financial Position

June 30, 2021

<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 61,763
Accounts receivable, net	7,187
Promises to give, net	25,000
Sales tax refund receivable	1,523
Prepaid expenses	12,307
Total current assets	<u>107,780</u>
Properties and equipment, net of accumulated depreciation (See Note 7)	<u>26,659</u>
Other assets:	
Investments	488,349
Artwork	34,430
Total other assets	<u>522,779</u>
Total assets	<u><u>\$ 657,218</u></u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 83,199
Payroll liabilities	5,503
Accrued compensated absences	25,792
Deferred revenue	96,727
Accrued interest - Payroll Protection Program	441
Note payable - Payroll Protection Program	125,650
Total liabilities (all current)	<u>337,312</u>
Net assets:	
Net assets without donor restrictions:	
Board-designated endowment	255,908
Undesignated	(191,061)
Total net assets without donor restrictions	<u>64,847</u>
Net assets with donor restrictions	<u>255,059</u>
Total net assets	<u>319,906</u>
Total liabilities and net assets	<u><u>\$ 657,218</u></u>

THE DURHAM ARTS COUNCIL, INC.

Statement of Activities

For the year ended June 30, 2021

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
Revenue, support and gains:			
Public support:			
Individual and corporate contributions	\$ 217,938	\$ -	\$ 217,938
Support from the City of Durham	704,572	-	704,572
Government grants	520,988	-	520,988
Foundation grants	289,810	-	289,810
Government grant - Payroll Protection Program	102,254	-	102,254
In-kind contributions	736,117	-	736,117
Total public support	<u>2,571,679</u>	<u>-</u>	<u>2,571,679</u>
Earned revenue:			
Class tuition and fees	104,927	-	104,927
Facility and equipment rentals	12,538	-	12,538
Partner program fees	116,517	-	116,517
Artwork sales, net of commissions	135	-	135
Miscellaneous income	83	-	83
Net investment return	37,821	47,206	85,027
Total earned revenue	<u>272,021</u>	<u>47,206</u>	<u>319,227</u>
Net assets released from restrictions	<u>26,775</u>	<u>(26,775)</u>	<u>-</u>
Total revenue, support and gains	<u>2,870,475</u>	<u>20,431</u>	<u>2,890,906</u>
Expenses:			
Program services:			
Program Support Services	1,040,798	-	1,040,798
Arts and Businesses and Public Art	6,526	-	6,526
Creative Arts in Schools	155,609	-	155,609
Art Center School	256,575	-	256,575
Audience and Artist Development	104,260	-	104,260
Centerfest and Dinners	61,471	-	61,471
Grants and Aids to Artists	704,549	-	704,549
Total program services	<u>2,329,788</u>	<u>-</u>	<u>2,329,788</u>
Supporting services:			
Management and general	307,628	-	307,628
Fundraising	84,078	-	84,078
Total expenses	<u>2,721,494</u>	<u>-</u>	<u>2,721,494</u>
Change in net assets	148,981	20,431	169,412
Net assets at beginning of year	(191,756)	307,584	115,828
Prior period adjustment (Note 20)	107,622	(72,956)	34,666
Net assets at beginning of year, as restated	<u>(84,134)</u>	<u>234,628</u>	<u>150,494</u>
Net assets at end of year	<u>\$ 64,847</u>	<u>\$ 255,059</u>	<u>\$ 319,906</u>

See accompanying notes to the financial statements.

THE DURHAM ARTS COUNCIL, INC.
Statement of Functional Expenses
For the year ended June 30, 2021

	Program Services							
	Program Support Services	Arts and Businesses and Public Art	Creative Arts in Schools	Art Center School	Audience and Artist Development	Centerfest and Dinners	Grants and Aid to Artists	Totals
Salaries and wages	\$ 118,741	\$ 5,239	\$ 45,005	\$ 93,820	\$ 85,022	\$ 14,200	\$ 16,859	\$ 378,886
Retirement expense	1,084	58	473	1,024	888	-	181	3,708
Other employee benefits	18,625	834	5,997	11,063	5,310	1,375	1,374	44,578
Payroll taxes	8,870	394	3,300	6,712	6,136	966	1,248	27,626
Professional fees	-	-	-	-	-	-	-	-
Contracted services	420	-	92,621	61,004	5,300	10,290	-	169,635
Advertising and promotion	325	-	-	9,958	540	9,480	-	20,303
Office expenses	19,422	1	49	30,341	33	222	49	50,117
Information technology	252	-	452	9,992	665	991	157	12,509
Occupancy	855,187	-	600	20,226	-	-	1,200	877,213
Travel	-	-	-	-	-	-	-	-
Conferences and training	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-
Depreciation	8,796	-	-	-	-	-	-	8,796
Insurance	7,863	-	-	-	-	-	-	7,863
Grants and awards	-	-	-	-	-	2,800	683,429	686,229
Bank and credit card fees	1,154	-	-	6,100	-	2,951	52	10,257
Program supplies	59	-	7,112	6,135	366	17,871	-	31,543
Dues and publications	-	-	-	200	-	325	-	525
Totals	<u>\$ 1,040,798</u>	<u>\$ 6,526</u>	<u>\$ 155,609</u>	<u>\$ 256,575</u>	<u>\$ 104,260</u>	<u>\$ 61,471</u>	<u>\$ 704,549</u>	<u>\$ 2,329,788</u>

(continued)

THE DURHAM ARTS COUNCIL, INC.

Statement of Functional Expenses

For the year ended June 30, 2021

(continued)

	Program Services	Supporting Services		Total expenses
		Management and General	Fundraising	
Salaries and wages	\$ 378,886	\$ 98,775	\$ 54,567	\$ 532,228
Retirement expense	3,708	1,096	38	4,842
Other employee benefits	44,578	15,445	5,828	65,851
Payroll taxes	27,626	7,646	4,147	39,419
Professional fees	-	112,250	-	112,250
Contracted services	169,635	19,102	5,450	194,187
Advertising and promotion	20,303	500	2,615	23,418
Office expenses	50,117	1,144	2,495	53,756
Information technology	12,509	28,218	5,117	45,844
Occupancy	877,213	1,204	1,200	879,617
Travel	-	-	-	-
Conferences and training	-	370	-	370
Interest expense	-	4,576	-	4,576
Depreciation	8,796	-	-	8,796
Insurance	7,863	12,861	-	20,724
Grants and awards	686,229	-	-	686,229
Bank and credit card fees	10,257	1,331	2,241	13,829
Program supplies	31,543	90	127	31,760
Dues and publications	525	3,020	253	3,798
	<u>\$ 2,329,788</u>	<u>\$ 307,628</u>	<u>\$ 84,078</u>	<u>\$ 2,721,494</u>

THE DURHAM ARTS COUNCIL, INC.

Statement of Cash Flows

For the year ended June 30, 2021

Cash flows from operating activities:	
Support from the City of Durham	\$ 704,572
Contributions received	217,938
Government and foundation grants received	835,798
Program service fees received	191,261
Other revenue received	218
Employee compensation paid	(532,999)
Other operating expenses paid	(1,434,966)
Interest paid	(3,281)
Income taxes paid	-
Interest and dividend income received	10,711
Net cash used in operating activities	<u>(10,748)</u>
Cash flows from investing activities:	
Purchases of properties and equipment	(1,780)
Proceeds from sale of investments	77,513
Purchases of investments	<u>(85,769)</u>
Net cash used in investing activities	<u>(10,036)</u>
Cash flows from financing activities:	
Loan proceeds - Payroll Protection Program	125,650
Net change in short-term note - bank	<u>(100,263)</u>
Net cash provided by financing activities	<u>25,387</u>
Net change in cash and cash equivalents	4,603
Cash and cash equivalents, beginning of year	<u>57,160</u>
Cash and cash equivalents, end of year	<u>\$ 61,763</u>
<u>Noncash Investing and Financing Activities:</u>	
Loan forgiveness - Payroll Protection Program	<u>\$ 101,400</u>

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of The Durham Arts Council, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Organization and Programs

The Durham Arts Council, Inc. (DAC) was organized in North Carolina in 1954 as a nonprofit corporation operating in downtown Durham, North Carolina.

The Durham Arts Council, Inc.'s mission is to lead, inspire and promote excellence in and access to the creation, experience and active support of the arts for all the people in the Durham community. The Organization offers programs in the following categories:

Artist Services – DAC offers a wide variety of grants and resources to local arts organizations and artists. Grants consist of cash and use of the DAC building to support arts creation, presentation, and engagement. DAC also offers exhibition and performance opportunities on an annually recurring basis, as well as occasional one-time-only artist calls.

Arts and Businesses – Supports Durham SmART Initiative, which is a plan to connect arts and cultural asset “hub” areas in downtown Durham through creative placemaking with public art, wayfinding, pedestrian amenities program overlays, and exciting lighting and urban landscape design.

Creative Arts in Schools – Program places professional artists to provide interactive arts programs in public and private classrooms and community settings. Program partners include community centers, schools, after school programs, community festivals, and senior centers. Program also offers professional development arts workshops for teachers and business teams.

Classes and Camps – DAC offers arts classes and camps in visual and performing arts for all ages including drawing, painting, pottery, jewelry, photography, graphic design, music, dance, theater, and more. DAC camps are offered based on the Durham Public Schools calendar.

Facilities and Rentals – The DAC building features 4 galleries, 2 theatres with support spaces, outdoor terraces and gardens, meeting rooms, rehearsal spaces and studios for digital arts, dance, photography, clay, fiber arts, visual arts, and children's art.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

Adoption of New Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). This update has been further amended and clarified by ASU No.'s 2015-14, 2016-08, 2016-10 and 2016-12. These updates require revenue recognition to be more closely aligned with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to receive in exchange for those goods or services. The updates also require additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, along with any significant judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-9 is effective for years beginning after December 15, 2019.

In June 2018, the FASB issued ASU 2018-08, *Not-for Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update clarifies how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. This ASU is effective for years beginning after December 15, 2018.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). The FASB issued ASU 2016-15 to improve U.S. GAAP by providing guidance on the cash flow statement classification of eight specific areas where there is existing diversity in practice. The FASB expects that the guidance in this ASU will reduce the current and potential future diversity in practice in such areas. This ASU is effective for years beginning after December 15, 2018.

On July 1, 2020, the Organization adopted ASU’s 2014-09, 2018-08, and 2016-15, as amended, as management believes these standards improve the usefulness and understandability of the Organization’s financial reporting.

Analysis of various provisions in these standards resulted in no significant changes in the way the Organization recognizes revenue or classifies transactions in the Statement of Cash Flows and therefore no changes to the previously issued audited financial statements were required. The presentation and disclosures related to revenue have been enhanced in accordance with these standards.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021, with early adoption permitted. Management is in the process of evaluating this standard and currently does not plan to elect early adoption.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires organizations to present contributed nonfinancial assets as a separate line item in the statement of activities. The ASU also requires that organizations disclose the disaggregated amounts of the contributed nonfinancial assets by category and qualitative information about how the contributed nonfinancial assets are going to be used, a description of any donor restrictions related to the assets, and valuation techniques used to value the contributions. The effective date of this standard is for annual reporting periods beginning after June 15, 2021, with early adoption permitted. Management is in the process of evaluating this standard and currently does not plan to elect early adoption.

Cash and Cash Equivalents

The Organization considers all checking accounts, money market accounts, and any other highly liquid investments with original maturities of less than three months to be cash equivalents. The Organization's checking and money market accounts divided between two financial institutions.

At any given time, amounts in these accounts may exceed the \$250,000 federally insured limit. As of June 30, 2021, the Organization had no uninsured account balances.

Accounts Receivable

Accounts receivable consist primarily of small, noninterest bearing amounts, due for services performed. Accounts receivable are recorded at net realizable value, which is the amount the Organization expects to collect.

The Organization determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when they are deemed uncollectible. As of June 30, 2021, management has determined that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. The Organization determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. The Organization reviewed the promises to give and determined that no allowance for uncollectible promises to give was necessary as of June 30, 2021.

Properties and Equipment

The Organization records property and equipment additions over \$500 at cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Computer and office equipment	5-10 years
Leasehold improvements	10-25 years

When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset.

Artwork

Works of art, historical treasures, and similar assets are capitalized at their original cost if purchased, or if donated, at fair value on the date of donation. The artwork held by the Organization meets the depreciation exception defined in FASB ASC 958-360-35-3. This exception applies to works of art whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long. Accordingly, the capitalized artwork is not being depreciated by the Organization.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Investments

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, a board-designated endowment fund.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue from class tuition and fees, partner program fees, and facility and equipment rentals are earned at the time the class, program or rental takes place. Artwork and concession sales are earned at the time the sale takes place.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Advertising Costs

Advertising costs are expensed as incurred and amounted to \$23,418 for the year ended June 30, 2021.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Donated Services

A number of volunteers have donated significant amounts of time to the Organization's program services. Donated services are recognized as contributions if the services 1) create or enhance nonfinancial assets or 2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services not meeting these criteria are not reflected in the financial statements.

Compensated Absences

All full-time employees of the Organization are entitled to paid-time-off based on their service time with the Organization. Employees are allowed to carryover any unused paid-time-off up to 180 days past their employment anniversary date. The Organization accrues for the costs of compensated absences to the extent that the employee's right to receive payment relates to service already rendered, the paid-time-off has not expired, payment is probable, and the amount can be reasonably estimated.

Functional Allocation of Expenses

The costs of programs and supporting service activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supported services benefited.

Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

In the normal course of business, the Organization is subject to examination by various taxing authorities. Although the outcome of tax audits is always uncertain, management believes that there are no significant unrecognized tax liabilities as of June 30, 2021.

The Organization files Form 990 (Return of Organization Exempt from Tax) as required by law. The Organization is no longer subject to Federal tax return examination for years ending prior to June 30, 2018.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash and money market accounts with financial institutions believed to be creditworthy. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from long-time donors. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Directors believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Note 2 – Liquidity and Availability

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:

Cash and cash equivalents	\$ 61,763
Accounts receivable, net	7,187
Promises to give, net	25,000
Sales tax refund receivable	1,523
Investments	<u>488,349</u>
	583,822
Net assets with donor restrictions	(255,059)
Board-designated endowment net assets	<u>(255,908)</u>
Financial assets available for general expenditure	<u>\$ 72,855</u>

The Organization invests cash in excess of daily requirements in money market accounts.

The Organization has a board-designated endowment of \$255,908 as of June 30, 2021. Although the Organization does not intend to spend from these investments, they could be made available, if necessary, at the discretion of the board of trustees.

The Organization is the current beneficiary of two funds held by the Triangle Community Foundation. While the Organization does not meet the criteria to recognize a beneficial interest these funds, it reasonably expects to continuing receiving grants from these funds on an annual basis. See Note 17 for more information.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 3 – Fair Value Measurements and Disclosures

The Organization reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous market, at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset or liability.

All of the Organization's investment assets are classified within Level 1 because they comprise open-end mutual funds, exchange traded funds, and publicly traded common stocks with readily determinable fair values.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 3 – Fair Value Measurements and Disclosures (continued)

The following tables present assets measured at fair value on a recurring basis as of June 30, 2021:

	Level 1		
	Endowment Investments	Investments	Total
Cash equivalents	\$ 9,261	\$ 153	\$ 9,414
Mutual funds:			
Equities	243,758	8,616	252,374
Fixed income	196,141	8,524	204,665
	<u>439,899</u>	<u>17,140</u>	<u>457,039</u>
Exchange traded funds:			
Equities	5,134	-	5,134
Fixed income	14,381	-	14,381
	<u>19,515</u>	<u>-</u>	<u>19,515</u>
Publicly traded stock:			
The Coca-Cola Company	-	2,381	2,381
Total investments	<u>\$ 468,675</u>	<u>19,674</u>	<u>\$ 488,349</u>

Note 4 – Net Investment Return

The following schedule summarizes net investment return for the year ended June 30, 2021:

Interest and dividends	\$10,711
Realized and unrealized gains (losses)	76,698
Investment expenses	<u>(2,382)</u>
Net investment return	<u>\$ 85,027</u>

Note 5 – Endowment

The Organization's endowment (the Endowment) consists of three individual funds established by donors to provide perpetual funding for specific activities and general operations. The Endowment also includes one fund that has been designated for endowment by the Organization's Board of Trustees.

The Board of Directors has interpreted the North Carolina Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As of June 30, 2021, there were no such stipulations.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 5 – Endowment (continued)

As a result of this interpretation, the Organization retains in perpetuity 1) the original value of the initial and subsequent gift amounts (including promises to give, net of discounts and allowance for uncollectible promises to give) donated to the Endowment and 2) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2021, the Organization had the following endowment net asset composition by fund type:

	Without Donor Restrictions	With Donor Restrictions	Totals
<u>Donor-restricted endowment funds:</u>			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by the donor	\$ -	\$ 151,197	\$ 151,197
Accumulated investment gains	-	61,579	61,579
	-	212,776	212,776
<u>Board-designated endowment funds:</u>			
Original amount and additional amounts designated by the board of trustees	118,252	-	118,252
Accumulated investment gains	137,656	-	137,656
	255,908	-	255,908
Total	\$ 255,908	\$ 212,776	\$ 468,684

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 5 – Endowment (continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). Management has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. As of June 30, 2021, the Organization did not have any underwater endowment funds.

Investment Policy – The Organization has adopted an investment policy for all investments, including endowments funds, that attempts to preserve and grow wealth over time. The policy applies asset allocation ranges to allow for maximum flexibility to take advantage of opportunities within capital markets. The Organization’s overall investment objective is balanced. This objective offers the potential for both current income and capital appreciation, with corresponding allocations to fixed income and equities, and where appropriate, other asset classes.

Spending Policy – The Organization’s Board of Directors reviews the endowment balances each year as a part of the annual budgeting process and approves appropriations for the following year. Historically the Organization has been able to fund the initiatives supported by the endowment funds without appropriating funds from the endowment.

Changes in Endowment net assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ -	\$ 307,584	\$307,584
Prior period adjustment	216,801	(136,924)	79,877
Endowment net assets, beginning of year, as restated	216,801	170,660	387,461
Investment return, net	37,333	42,116	79,449
Contributions	1,774	-	1,774
Distribution of endowment assets	-	-	-
Endowment net assets, end of year	<u>\$ 255,908</u>	<u>\$ 212,776</u>	<u>\$ 468,684</u>

Note 6 – Promises to Give

The Organization’s unconditional promises to give as of June 30, 2021 totaled \$25,000 and were all expected to be collected within one year.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 7 – Property and Equipment

Property and equipment consist of the following as of June 30, 2021:

Computer and office equipment	\$ 380,828
Leasehold improvements	<u>1,146,077</u>
Total	1,526,905
Less: accumulated depreciation	<u>(1,500,246)</u>
Properties and equipment, net	<u>\$ 26,659</u>

Depreciation expense totaled \$8,796 for the year ended June 30, 2021.

Note 8 – Note Payable-Payroll Protection Program

On April 20, 2020, the Organization received loan proceeds from Truist Bank in the amount of \$101,400 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provided loans to qualifying businesses for amounts up to 2.5 times their 2019 average monthly payroll expenses. The loan and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its pre-pandemic employee levels. The amount of loan forgiveness may be reduced if the borrower terminates employees or reduces salaries. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%.

The Organization was notified by Truist Bank in February 2021 that the SBA approved their PPP loan forgiveness application. Therefore, the entire amount, including accrued interest of \$854, is presented as an increase to net assets in the Statement of Activities for the year ended June 30, 2021.

On February 24, 2021, the Organization received a second round of PPP loan proceeds from Truist Bank in the amount of \$125,650. This loan carries substantially the same terms as the initial PPP loan and may be fully forgiven if the Organization maintains its employee and compensation levels, uses all of the funds for payroll costs and other eligible expenses, and at least 60% of the proceeds are spent on payroll costs.

As of the date the financial statements were available to be issued the Organization has not submitted its forgiveness application for its second PPP loan. The Organization believes that it has met all of the criteria for having the loan forgiven. Therefore, the entire amount is presented in current liabilities on the Statement of Financial Position.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 9 – Short-Term Note Payable – Bank

The Organization has a \$100,000 operating line of credit agreement with a banking institution. The line of credit is opened ended and has a variable interest rate equal to the banking institution's prime rate plus 2%. The line of credit is payable on demand and is secured by all deposits and investments maintained by the Organization with the banking institution and any of its affiliates. The carrying amount of deposits and investments that collateralize this line of credit as of June 30, 2021 is as follows:

Cash and cash equivalents	\$ 55,520
Investments	205,784
Total	<u>\$ 261,304</u>

This line of credit had no balance as of June 30, 2021.

Note 10 – Leases

Clay Studio

The Organization leases space for its clay studio in Durham, North Carolina. The lease was entered into in November 2016 and expires in October 2021. The base rental rate under the agreement is \$550 per month. Additionally, the Organization is required to pay variable fees to the landlord for common area maintenance, trash removal and utilities.

Under the terms of this lease the Organization is required make minimum payments during the year ending June 30, 2022 of \$2,200.

Rent expense under this agreement totaled \$6,600 for the year ended June 30, 2021.

Durham Arts Council Building

The Organization occupies the building known as the Durham Arts Council Building. The building is owned by the City of Durham. The Organization and the City have entered into a 10-year agreement ending on December 31, 2023, whereas the Organization occupies the building while agreeing to provide the city with professional management, programing, and operation of the building to ensure it is managed and operated for the long-term benefit of the city and the general public.

Since the Organization occupies the building without making rental payments to the City of Durham an in-kind contribution has been recorded. Management has estimated the rental fair value of the building to be approximately \$21 per square foot. Included in the Organization's occupancy expense on the Statement of Functional Expenses is donated rent for the Durham Arts Council Building of \$704,000.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 11 – Net Assets with Donor Restrictions

The Organization's net assets with donor restrictions are restricted for the following purposes as of June 30, 2021:

Subject to expenditure for specified purpose:

Development and communications program	\$ 25,000
Goodridge scholarship fund	17,283
	<u>42,283</u>

Endowments:

Subject to expenditure when a specified event occurs:

Accumulated investment gains	61,579
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Perpetual in nature:

Arts programs (Emerging Artists, CAPS, Annual Arts Fund)	<u>151,197</u>
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Total endowments	<u>212,776</u>
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Total net assets with donor restrictions	<u>\$ 255,059</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 2021:

Subject to expenditure for specified purpose:

Development and communications program	\$ 25,000
Goodridge scholarship fund	1,775
	<u>26,775</u>

Net assets released from donor restrictions	<u>\$ 26,775</u>
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Note 12 – Revenue from Contracts with Customers

The Organization receives revenue from contracts with customers primarily through class tuition and fees, facility and equipment rentals, partner program fees and artwork sales.

Class tuition and fees – revenue from these fees is recognized at the time the class or camp takes place. All registrations are completed online, and all fees are required to be paid in full before the class or camp begins. All revenue received is recorded as deferred revenue until the class or camp takes place. Class and tuition fees amounted to \$104,927 for the year ended June 30, 2021.

Facility and equipment rentals – revenue from these fees is recognized at the time the rental takes place. Rental reservations generally require the payment of a deposit that is 50% of the total rental fee. This deposit is recorded as deferred revenue until the rental takes place. Payment of the remaining 50% of the rental fee is required prior to the rental period. Facility and equipment rentals amounted to \$12,538 for the year ended June 30, 2021.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 12 – Revenue from Contracts with Customers (continued)

Partner program fees – revenue from these fees is recognized at the time the program takes place. Fees for these programs are paid in advance by the school system or other venue where the program will take place. Amounts received in advance are recorded as deferred revenue until the program takes place. Partner program fees amounted to \$116,517 for the year ended June 30, 2021.

Artwork sales – revenue from artwork sales is recognized, net of commissions due to the artist, at the time the sale takes place. All artwork sales require full payment at the time of sale. Artwork sales, net of commissions of \$455, amounted to \$135 for the year ended June 30, 2021.

Contract asset and liabilities related to contracts with customers were as follows:

	Accounts Receivable	Deferred Revenue
June 30, 2020	22,977	155,238
June 30, 2021	7,187	96,727

Note 13 – Donated Facilities, Donated Professional Services, and Donated Materials

During the year ended June 30, 2021, the Organization received support in the form of donated facilities, donated advertising, donated landscape design services and donated items to be sold in fundraising auctions. Donated facilities were received from the City of Durham for the use of the Durham Arts Council Building. See Note 10 for more information. Donated advertising services consisted of design services and radio advertising. Auction items received consisted primarily of art, event tickets, and other experiences. These contributions were recorded at their fair value when received and then the contribution was adjusted up or down based on the auction sales price of each item. The initial value of all contributed auction items was \$17,608 for the year ended June 30, 2021. These items were subsequently sold for \$10,741.

In-kind contribution revenue has been recognized in the Statement of Activities for the donated services and items described above. The Organization has recorded in-kind expenses related to these in-kind contributions in the Statement of Functional Expenses as follows:

Advertising and promotion	\$ 13,684
Occupancy-Landscape design services	825
Occupancy-Donated facilities	704,000
Program supplies	17,608
	\$ 736,117

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 14 – Contingencies, Commitments, and Concentrations

Support from the City of Durham

The Organization receives significant support from the City of Durham in the form of cash and donated facilities. Under a 10-year agreement that began on January 1, 2014, the City is to provide the Organization a significant amount of annual support in exchange for the Organization providing professional management, programming, and operation of the building to ensure it is managed and operated for the long-term benefit of the city and the general public. The annual fee to be received is discretionary and determined annually by the city council. Generally, the fee may increase or decrease by 2.75% based on the Organization's performance. For the year ended June 30, 2021, the City provided \$704,572 of cash support and \$704,000 in the form of donated facilities to the Organization. This support is approximately 50% of the Organization's total revenue and support for the year.

Government Grants

The Organization has received significant grant funds from the State of North Carolina and other government agencies. These grant agreements contain provisions stating that the grantor has the right to audit all financial, performance, and compliance records related to grant agreements. Such audits could result in the refund of grant funds to the grantor. Management has reviewed all provisions of these grant agreements and believes that the Organization is in compliance with all aspects of these agreements. Therefore, no provision has been made in the accompanying financial statements for the refund of grant funds.

Because a significant portion of the Organization's revenues is provided by government grants, its funding is vulnerable to changes in the legislative priorities of state and local governments. Government grants accounted for approximately 18% of the Organization's total revenue and support for the year ended June 30, 2021.

Note 15 – Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses are allocated on the basis of estimates of time and effort.

Note 16 – Retirement Plan

The Organization offers a SIMPLE IRA retirement plan to all eligible employees. All full-time employees become eligible after completing one year of service and having reached age 21. Furthermore, to be eligible, an employee must have earned \$5,000 during any preceding 24 months of employment and be reasonably expected to earn at least \$5,000 during the calendar year.

The Organization matches 3% of the participating employees' gross wages. The Organization made contributions to the plan in the amount of \$4,842 for the year ended June 30, 2021.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 17 – Funds Held by Triangle Community Foundation

The Organization is currently the beneficiary of two separate funds, Durham Arts Council Endowment Fund and Fletcher Performing Arts Fund, held by the Triangle Community Foundation. The Foundation provides annual grants to the Organization from these funds. Under the terms of the agreements that created these funds, the Triangle Community Foundation was granted variance power which allows them to remove the Durham Arts Council as the beneficiary under certain circumstances. As a result of this variance power, the Organization has not recorded a beneficial interest in the assets held by Triangle Community Foundation.

The Durham Arts Council Endowment Fund is administered by a separate board that is responsible for making all funding decisions. Currently the Organization receives 4% of the 13-quarter rolling average of the fund's balance on an annual basis. The Fund's board also has the ability to make discretionary distributions to the Organization. During the year ended June 30, 2021, the Organization received \$126,698, including a \$100,000 discretionary distribution, from the Durham Arts Council Endowment Fund. As of June 30, 2021, the balance of the fund was \$828,108.

The Fletcher Performing Arts Fund was established in 1988 to primarily support programming in the Carolina Theatre. The Triangle Community Foundation determines the amount to be distributed each year. All distributions are provided to the Durham Arts Council and 75% of the funds are then awarded to the Carolina Theatre to fund artists of national or international stature during their annual performance season, 24% to subsidize the costs of Triangle based nonprofit organizations that are self-producing performances in the Carolina Theatre, and 1% to the Durham Arts Council as a fee for administering the disbursement of the funds. During the year ended June 30, 2021, the Organization received \$85,319 from the Fletcher Performing Arts Fund. As of June 30, 2021, the balance of the fund was \$1,719,038.

Note 18 – Risks and Uncertainties

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (COVID-19). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic. This pandemic has adversely affected global economic activity and has greatly contributed to the significant volatility in financial markets throughout the world.

Depending on the severity and length of the outbreak, this pandemic could present material uncertainty and risk with respect to the Organization including an adverse effect on the ability to continue with its overall operating performance, the ability to collect promises to give, the ability of employees to continue working, the impact on vendors, the ability of the Organization to hold theater performance and classes and workshops and other aspects of the Organization's operations.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 18 – Risks and Uncertainties (continued)

The rapid development and fluidity of this situation precludes management from making an estimate as to the ultimate adverse impact of the pandemic on the Organization's liquidity, financial condition, and results of operations for the year ending June 30, 2022.

Note 19 – Subsequent Events

The Organization has evaluated all subsequent events through March 14, 2022, the date the financial statements were available to be issued.

Shuttered Venue Operators Grant

Subsequent to year end, the Organization was approved and received grant funding in the amount of \$493,227 under the Shuttered Venue Operators Grant (SVOG) program.

The SVOG program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The program has provided grants to shuttered venues, such as live venue operators, motion picture theater operators, theatrical producers, live performing arts organizations, and museum operators, and is administered by the SBA's Office of Disaster Assistance.

Note 20 – Prior Period Adjustment

Beginning of year net assets in the Statement of Activities has been restated to correct the following errors in prior year financial statements.

In the Organization's June 30, 2020 financial statements, the Organization's accounts payable and accrued expenses balance did not include \$17,300 payable for services received during the fiscal year. Correcting this error reduced beginning of year net assets without donor restrictions.

In the Organization's June 30, 2020 financial statements, an unconditional promise to give of \$50,000 was not recorded. This promise to give was originally received in the year ended June 30, 2019 in the amount of \$75,000. Correcting this error increased beginning of year net assets with donor restrictions.

In previously issued financial statements the Organization has not recorded its investment in Coca-Cola Company common stock in the amount of \$1,966. Correcting this error increased beginning of year net assets without donor restrictions.

THE DURHAM ARTS COUNCIL, INC.

Notes to Financial Statements

June 30, 2021

Note 20 – Prior Period Adjustment (continued)

In previously issued financial statements the Organization has incorrectly allocated investment return to net assets with donor restrictions and has also included board designated net assets with donor restricted net assets. The net effect of correcting these errors is a reduction to beginning of year net assets with donor restrictions of \$122,956 and an equal increase to beginning of year net assets without donor restrictions.

Below is a summary of the prior period adjustments described above:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Accounts payable and accrued expenses	\$ (17,300)	-	\$ (17,300)
Promise to give	-	50,000	50,000
Investments	1,966	-	1,966
Correction of donor restricted net assets	<u>122,956</u>	<u>(122,956)</u>	<u>-</u>
Total	<u>\$ 107,622</u>	<u>\$ (72,956)</u>	<u>\$ 34,666</u>

If the adjustments above were included in the June 30, 2020 financial statements the Organization's decrease in net assets would have been \$(99,461) which is \$17,575 lower than the previously reported decrease of \$(81,886).