The Arts Alliance

Financial Statements

December 31, 2016
(With Summarized Comparative Information for 2015)

Table of Contents

YEO & YEO
CPAs & BUSINESS CONSULTANTS

1450 Eisenhower Place
Ann Arbor, MI 48108
Phone (734) 769-1331
Fax (734) 996-3777

Independent Auditors' Report

Management and the Board of Directors
The Arts Alliance
Ann Arbor, MI

We have audited the accompanying financial statements of The Arts Alliance which comprise the statement of financial position as of December 31, 2016, 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.

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 of 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 The Arts Alliance as of December 31, 2016, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the organization's December 31, 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our reported dated November 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
August 16, 2017

The Arts Alliance
Statement of Financial Position
December 31, 2016
(With Summarized Comparative Information for 2015)

		2016		2015
Assets				
Current assets				
Cash	**$**	**24,894**	$	15,546
Accounts receivable		**450**		1,000
Grants receivable		**11,805**		18,060
Prepaid expenses		**11,667**		-
Total assets	**$**	**48,816**	$	34,606
Liabilities and net assets				
Current liabilities				
Accounts payable	**$**	**9,305**	$	9,346
Accounts payable, related party		**608**		32,440
Deferred revenues		**39,718**		14,802
Total current liabilities		**49,631**		56,588
Net assets				
Unrestricted (deficit)		**(21,628)**		(21,982)
Temporarily restricted		**20,813**		-
Total net assets		**(815)**		(21,982)
Total liabilities and net assets	**$**	**48,816**	$	34,606

The Arts Alliance
Statement of Activities
For the Year Ended December 31, 2016
(With Summarized Comparative Information for 2015)

	Unrestricted	Temporarily Restricted	**2016**	2015
Support and revenue				
Government grants	$ 106,020	$ -	**$ 106,020**	$ 144,038
Contributions	72,021	7,952	**79,973**	82,836
Program income	43,613	52,668	**96,281**	88,841
Net assets released from restrictions	39,807	(39,807)	**-**	-
Total support and revenue	261,461	20,813	**282,274**	315,715
Expenses				
Program services	192,273	-	**192,273**	269,928
Management and general	32,955	-	**32,955**	33,394
Fundraising	35,879	-	**35,879**	34,904
Total expenses	261,107	-	**261,107**	338,226
Change in net assets	354	20,813	**21,167**	(22,511)
Net assets (deficit) beginning of year	(21,982)	-	**(21,982)**	529
Net assets (deficit) end of year	$ (21,628)	$ 20,813	**$ (815)**	$ (21,982)

See Accompanying Notes to the Financial Statements

The Arts Alliance

Statement of Functional Expenses

For the Year Ended December 31, 2016

(With Summarized Comparative Information for 2015)

	Program Services	Management and General	Fundraising	**Total**	2015
Contract services	$ 91,000	$ 28,000	$ 21,000	**$ 140,000**	$ 141,794
Awards and grants	39,520	-	-	**39,520**	70,058
Program and projects	48,898	-	-	**48,898**	77,198
Technology	1,074	387	588	**2,049**	4,484
Office expenses	250	48	157	**455**	1,131
Professional fees	6,572	2,022	1,517	**10,111**	12,355
Administrative fees	-	-	421	**421**	1,157
Travel	3,906	451	255	**4,612**	12,204
Printing	88	432	1,061	**1,581**	5,168
Banking, fees and interest	-	1,093	1,817	**2,910**	3,086
Insurance	965	522	124	**1,611**	1,341
Special events	-	-	8,939	**8,939**	8,250
Total	$ 192,273	$ 32,955	$ 35,879	**$ 261,107**	$ 338,226

The Arts Alliance
Statement of Cash Flows
For the Year Ended December 31, 2016
(With Summarized Comparative Information for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	**$ 21,167**	$ (22,511)
Changes in operating assets and liabilities		
Accounts receivable	**550**	56,695
Grants receivable	**6,255**	(14,800)
Prepaid expenses	**(11,667)**	-
Accounts payable	**(41)**	5,957
Accrued payroll and related liabilities	**(31,832)**	(37,998)
Deferred revenue	**24,916**	(25,198)
Net cash provided (used) by operating activities	**9,348**	(37,855)
Cash - beginning of year	**15,546**	53,401
Cash - end of year	**$ 24,894**	$ 15,546

See Accompanying Notes to the Financial Statements

Note 1 – Organization

The Arts Alliance (the "Organization") was formed in 2001 and incorporated on July 12, 2006, and is located in Ann Arbor, Michigan. The Organization began in 2001 as a separate program under the Ann Arbor Chamber of Commerce's special purpose 501(c) (3) entity "The Ann Arbor Council for Community Excellence" (the "Council"). The Organization operated under the Council's 501(c) (3) status until 2008 when they received their own 501(c) (3) determination from the Internal Revenue Service.

The Arts Alliance mission is to advocate for and support the Creative Sector in Washtenaw County, MI - arts and cultural organizations and creative individuals and businesses - to ensure that our region remains a great place to create, live, work, learn, play and visit.

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the Organization's financial statements. These accounting principles conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the *Audit and Accounting Guide for Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants.

Net Assets

The Organization's net assets are categorized and reported as follows:

Unrestricted Net Assets

These net assets are available for general operations and are not subject to donor-imposed restrictions.

Temporarily Restricted

These net assets are limited to uses specified by donor-imposed restrictions. When donor restrictions expire or the nature and purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Organization has no temporarily restricted net assets.

Permanently Restricted

Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources to be maintained permanently. The income from the investment of these resources is expended for general or restricted purposes as specified by the donor. The Organization has no permanently restricted net assets.

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.

Cash
The Organization considers all highly liquid investments held in demand deposit accounts with an original maturity of less than three months to be considered cash.

Concentrations and Credit Risks
The Organization has a cash account at a local bank. The account at this financial institution is insured by the FDIC up to $250,000. At December 31, 2016, there were no cash account balances over the FDIC coverage limit.

Contributions
Unconditional promises to give are recognized as revenue when the underlying promises are received by the Organization. Gifts of cash and other assets are reported as temporarily restricted contributions if they are received with donor stipulations that limit the use of the donated assets or restrict them for a future period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and changes in net assets as a satisfaction of time or program restrictions.

Revenue Recognition
The Organization records grant revenues when earned based upon U.S. GAAP and the terms of the individual grant documents. Program income includes fees raised for various programs and membership dues from individuals and other organizations. The Organization records program income when the program is completed. The organization records membership dues when amounts are paid. Any benefits received related to the membership dues are negligible. Membership dues are the equivalent of contributions and are therefore recognized fully when paid by members.

Accounts Receivable
Accounts receivable are related to program service fees and membership dues. Grants receivable are related to Michigan Council for Arts and Cultural Affairs grants that have been earned, but payment not received.

Allowance for Doubtful Accounts
Accounts receivable are stated at unpaid balances, less any allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on management experience. The allowance at December 31, 2016 and 2015 was $0.

Prepaid Expenses
Prepaid expense accounts are related to those expenses for goods or services that have been paid for in advance of the expense being incurred.

Deferred Revenue
Deferred revenue is related to grant funds that have been received in advance, but not yet earned according to U.S. GAAP.

Contributed Materials and Services
The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amount reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. There were no contributed services for the years ended December 31, 2016 and 2015.

Functional Allocation of Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of support, revenue, and expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status
The Organization is a nonprofit Michigan corporation recognized as exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Code.

Subsequent Events
Management has evaluated subsequent events through August 16, 2017, which is the date the financial statements were available to be issued.

Note 3 – Service Agreement

The Organization partners with Artrain, Incorporated for contracted services, space and supplies. A formal agreement was effective July 1, 2013 to December 31, 2013. The Organization has an informal agreement with Artrain, Incorporated to continue this after December 31, 2013. The service agreement includes rent and charges for shared services including telephone, postage, copier use, internet service, computer support, payroll and benefits and office supplies. See Note 4 for the details of the amount of shared costs.

Note 4 – Related Party Transactions

The Organization and Artrain, Incorporated are considered related parties due to the organizations sharing management and staff. During 2016, the Organization incurred $140,000 in expenses to Artrain, Incorporated for rent, administration, and other shared operating costs. During 2015, the Organization incurred $125,001 in expenses to Artrain, Incorporated for rent, administration, and other shared operating costs. The prepaid balance from Artrain, Incorporated as of December 31, 2016 was $11,667. The payable balance to Artrain, Incorporated as of December 31, 2015 $32,440.

Note 5 – Deficit Net Assets

The organization shows positive changes in net assets in the current year after two years of significant deficits in net assets. However almost all of the positive net asset changes in the current year are temporarily restricted for specific use and therefore not available for unrestricted operations.

Management has procured a $40,000 NEA grant in the fiscal year ended December 31, 2017. Management will continue to operate a lean operation, reducing expenses where possible. At the time of issuance there was a positive change in net assets.

The financial statements were prepared on a going concern basis. The going concern basis assumes that the Organization will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.