

Great Lakes Center for the Arts

Financial Statements

December 31, 2022 and 2021



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

Table of Contents

	Page
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	5
Statement of Functional Expenses	6
Statement of Cash Flows	8
Notes to the Financial Statements	10



Independent Auditors' Report

Management and the Board of Directors
Great Lakes Center for the Arts
Petoskey, Michigan

Opinion

We have audited the accompanying financial statements of Great Lakes Center for the Arts (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Lakes Center for the Arts as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Great Lakes Center for the Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Great Lakes Center for the Arts changed its method of accounting for leases in 2022 as required by the provisions of FASB Accounting Standards Updates relating to FASB ASC 842, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Great Lakes Center for the Arts' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Great Lakes Center for the Arts' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Great Lakes Center for the Arts' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter

The financial statements of Great Lakes Center for the Arts for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on April 15, 2022.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
June 2, 2023

Great Lakes Center for the Arts
Statement of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 432,548	\$ 474,588
Short-term investments restricted for endowment	129,581	129,408
Cash restricted for endowment	750,438	-
Accounts receivable		
Accounts receivable, net	11,713	18,010
Promises to give	1,291,349	1,873,624
Grants receivable	17,406	-
Inventory	7,346	5,808
Prepaid expenses	126,097	67,597
Property and equipment, net	33,932,681	34,917,158
Right of use asset - operating lease, net	<u>132,033</u>	<u>-</u>
Total assets	<u>\$ 36,831,192</u>	<u>\$ 37,486,193</u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Financial Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Accounts payable	\$ 113,080	\$ 70,657
Accrued expenses	60,158	21,338
Deferred revenue	46,534	134,246
Long-term debt	3,267,013	4,242,270
Operating lease obligation	<u>133,740</u>	<u>-</u>
 Total liabilities	 <u>3,620,525</u>	 <u>4,468,511</u>
 Net assets		
Without donor restrictions		
Undesignated	<u>30,899,823</u>	<u>30,875,171</u>
 With donor restrictions		
Perpetual in nature	900,750	145,750
Purpose restrictions	1,426,257	1,996,761
Underwater endowments	<u>(16,163)</u>	<u>-</u>
 Total with donor restrictions	 <u>2,310,844</u>	 <u>2,142,511</u>
 Total net assets	 <u>33,210,667</u>	 <u>33,017,682</u>
 Total liabilities and net assets	 <u><u>\$ 36,831,192</u></u>	 <u><u>\$ 37,486,193</u></u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and gains (losses)						
Admissions and other performance income	\$ 656,314	\$ -	\$ 656,314	\$ 404,429	\$ -	\$ 404,429
Educational services	84,231	-	84,231	72,100	-	72,100
Contributions	5,997	3,511,064	3,517,061	1,423,600	4,085,835	5,509,435
Federal and state grants and contracts	31,401	-	31,401	49,785	-	49,785
Special event revenue	265,298	634,600	899,898	637,600	-	637,600
Contributions of nonfinancial assets	84,105	-	84,105	87,601	-	87,601
Net investment income (loss)	(23,363)	-	(23,363)	15,179	-	15,179
Rental income	192,630	-	192,630	126,249	-	126,249
Miscellaneous income	15,187	-	15,187	-	-	-
Forgiveness of debt	178,612	-	178,612	178,600	-	178,600
Net assets released from restrictions	3,977,331	(3,977,331)	-	3,761,052	(3,761,052)	-
 Total revenue, support and gains (losses)	 5,467,743	 168,333	 5,636,076	 6,756,195	 324,783	 7,080,978
 Expenses						
Program services	3,959,228	-	3,959,228	2,908,800	-	2,908,800
Management and general	396,508	-	396,508	541,628	-	541,628
Fundraising	1,087,355	-	1,087,355	893,386	-	893,386
 Total expenses	 5,443,091	 -	 5,443,091	 4,343,814	 -	 4,343,814
 Change in net assets	 24,652	 168,333	 192,985	 2,412,381	 324,783	 2,737,164
 Net assets - beginning of year	 30,875,171	 2,142,511	 33,017,682	 28,462,790	 1,817,728	 30,280,518
 Net assets - end of year	 \$ 30,899,823	 \$ 2,310,844	 \$ 33,210,667	 \$ 30,875,171	 \$ 2,142,511	 \$ 33,017,682

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Functional Expenses
For the Year Ended December 31, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ 968,145	\$ 168,223	\$ 387,472	\$ 1,523,840
Advertising and marketing	210,193	-	-	210,193
Contract services	168,907	75,556	-	244,463
Scholarships and grants	10,268	-	-	10,268
Depreciation and amortization	1,025,087	2,824	3,765	1,031,676
Development	1,389	22,982	144,956	169,327
Insurance	42,093	7,581	17,415	67,089
Interest	125,239	13,786	-	139,025
Miscellaneous	24,739	-	-	24,739
Occupancy	218,683	4,113	8,225	231,021
Office expenses	98,005	18,752	45,689	162,446
Performance costs	966,756	-	-	966,756
Professional fees	-	82,691	-	82,691
Direct benefit to donors - special events	-	-	479,833	479,833
Utilities	99,724	-	-	99,724
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses by function	<u>\$ 3,959,228</u>	<u>\$ 396,508</u>	<u>\$ 1,087,355</u>	<u>\$ 5,443,091</u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 640,937	\$ 298,200	\$ 386,619	\$ 1,325,756
Advertising and marketing	20	125,324	5,377	130,721
Contract services	105,000	-	-	105,000
Scholarships and grants	9,330	-	-	9,330
Depreciation and amortization	1,030,085	-	-	1,030,085
Development	-	728	84,969	85,697
Insurance	-	37,760	-	37,760
Interest	175,599	-	-	175,599
Miscellaneous	14,318	-	87,601	101,919
Occupancy	161,068	-	-	161,068
Office expenses	56,400	46,295	37,486	140,181
Performance costs	616,668	-	-	616,668
Professional fees	1,785	33,321	-	35,106
Direct benefit to donors - special events	-	-	291,334	291,334
Utilities	97,590	-	-	97,590
	<u>97,590</u>	<u>-</u>	<u>-</u>	<u>97,590</u>
Total expenses by function	<u>\$ 2,908,800</u>	<u>\$ 541,628</u>	<u>\$ 893,386</u>	<u>\$ 4,343,814</u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 192,985	\$ 2,737,164
Items not requiring cash		
Depreciation and amortization	1,031,676	1,030,085
Change in unamortized discount	(2,061)	(2,572)
Realized loss on uncollectible promise to give	250,000	-
Bad debt expense (recovery)	2,455	(3,347)
Contributions restricted to long-term purpose	(3,397,984)	(4,888,283)
Forgiveness of Paycheck Protection Program loan	(178,612)	(178,600)
Changes in operating assets and liabilities		
Accounts receivable	3,880	11,551
Grants receivable	(17,406)	-
Inventory	(1,538)	(227)
Prepaid expenses	(58,500)	(8,589)
Operating lease assets and liabilities	1,707	-
Accounts payable	25,719	(7,026)
Accrued expenses	38,820	350
Deferred revenue	<u>(87,712)</u>	<u>18,365</u>
Net cash used by operating activities	<u>(2,196,571)</u>	<u>(1,291,129)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(10,446)</u>	<u>(38,246)</u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities		
Proceeds from long-term debt	3,867,013	178,612
Payments on long-term debt	(4,683,707)	(3,504,951)
Collections of contributions restricted for long-term purposes	<u>3,732,282</u>	<u>4,696,407</u>
Net cash provided by financing activities	<u>2,915,588</u>	<u>1,370,068</u>
Net change in cash, cash equivalents, and restricted cash	708,571	40,693
Cash, cash equivalents, and restricted cash - beginning of year	<u>603,996</u>	<u>563,303</u>
Cash, cash equivalents, and restricted cash - end of year	<u><u>\$ 1,312,567</u></u>	<u><u>\$ 603,996</u></u>
Cash, cash equivalents, and restricted cash		
Cash and cash equivalents	\$ 432,548	\$ 474,588
Restricted cash and cash equivalents	<u>880,019</u>	<u>129,408</u>
Total cash, cash equivalents, and restricted cash	<u><u>\$ 1,312,567</u></u>	<u><u>\$ 603,996</u></u>
Supplemental schedule of non-cash investing and financing activities		
Property and equipment purchases included in accounts payable	<u><u>\$ 16,704</u></u>	<u><u>\$ -</u></u>

See Accompanying Notes to the Financial Statements

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

The Great Lakes Center for the Arts (the "Organization") is a not-for-profit organization incorporated in the state of Michigan. The Organization completed construction of its facility in 2018 and began programming in July 2018. The Organization serves the entire northern Michigan region through the cultural arts, intellectual dialogue, and education programs with an annual lineup of world-class performances and visiting artists. Programming includes popular, classical, jazz, and country music performances; theatrical productions; music festivals; opera; films; dance; and lectures, along with an arts education program that serves regional students in partnership with local schools and educators.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

Basis of Presentation

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.

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.

Contributions received with donor-imposed time and/or purpose restrictions are recorded as contributions with donor restrictions regardless of whether the purpose is met in the period in which the gift is received, except for annual fund pledges received and paid within the same year, as these contributions are classified as contributions without donor restrictions. All other contributions with donor-imposed time or purpose restrictions that are met in the period in which the gift is received are released from donor restrictions as of period end.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents. As of December 31, 2022 \$1,027,821 of cash and cash equivalents was in excess of the amount insured by the FDIC.

Reclassification

Certain amounts on the statement of activities and changes in net assets and the statement of functional expenses in the 2021 financial statements have been reclassified to conform to the 2022 presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Accounts Receivable

The Organization uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its receivables balances with particular attention given to those amounts greater than 90 days old. Based on management's review, an allowance of \$2,417 and \$4,478 was deemed necessary as of December 31, 2022 and 2021, respectively.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. An allowance for uncollectible contributions is provided when evidence indicates amounts promised by donors may not be collectible.

Inventory

Inventories consist of finished goods and are stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method.

Investments

Equity securities purchased and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are reported at fair value with unrealized gains and losses included in earnings.

Restricted Assets

Endowed funds use an investment pool approach, under which each restricted purpose endowment has a specific unit interest based on its capital contributions to the pool. Income earned in the pool is allocated quarterly to funds without donor restrictions for general operations and to the individual endowments in proportion to the unit interests as of the end of the quarter. Gains and losses from the sale of pooled investments and unrealized gains and losses on investments held are allocated in the same manner.

Property and Equipment

The Organization follows the practice of capitalizing all expenditures in excess of \$5,000 for property and equipment at cost; the fair value of donated fixed assets is similarly capitalized. Major improvements are capitalized while ordinary maintenance and repairs are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Gifts of land, buildings, equipment and other long-lived assets are also reported as revenue without donor restrictions and net assets, unless

subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Paycheck Protection Program (PPP) Loan

The Organization accounts for the PPP loan as a financial liability in accordance with FASB ASC 470 *Debt*. Interest is accrued throughout the life of the loan, even when no payments are currently due.

Leases

The Organization leases certain buildings. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. Finance leases are contracts that have characteristics that make them similar to the purchase of the underlying asset. Operating leases are contracts that allow for the use of the underlying asset but there is no ownership transfer at the end of the lease.

Right of use assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments. Right of use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that option will be exercised. The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organization

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

has applied the risk-free rate option to the building and office equipment classes of assets.

Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Finance lease expense is allocated between the amortization of the right of use asset and interest expense.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the performance obligations are met. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and Goods

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization's policy is to utilize, rather than monetize, donated services and goods.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Advertising

The Organization expenses advertising costs the first time the advertising occurs. Advertising expense for the years ended December 31, 2022 and 2021 was \$210,193 and \$130,721, respectively.

Functional Expenses

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between the various program and support services on several bases and estimates. Expenses directly allocable to a functional category are allocated as such. Salary and benefits and professional and consulting fees are allocated based

on time and effort. Occupancy costs are allocated based on usage per square foot. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Tax Status

The Organization is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). The Organization files information returns in the U.S. Federal and Michigan jurisdiction.

Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

Management has evaluated subsequent events through June 2, 2023, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

The Organization adopted FASB Topic 842, *Leases*, as of the beginning of the year ended December 31, 2022. This has been adopted using the modified retrospective approach. The effect of the implementation did not change beginning net assets.

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Organization to carry forward the historical lease classification. In addition, the Organization elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases and the useful lives of corresponding leasehold improvements as certain options to renew were not reasonably certain.

The Organization adopted FASB Topic, *Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, as of the beginning of the year ended December 31, 2022. This was applied on a retrospective basis and adoption of the standard had no impact on the financial statement presentation.

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 at December 31, 2022 and 2021:

	2022	2021
Cash and cash equivalents	\$ 432,548	\$ 474,588
Short-term investments	129,581	129,408
Accounts receivable	11,713	18,010
Promises to give	1,291,349	1,873,624
Grants receivable	17,406	-
Cash restricted for endowment	<u>750,438</u>	<u>-</u>
 Total financial assets - end of year	 2,633,035	 2,495,630
 Less: Financial assets unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions		
Restricted by donor with time or purpose restrictions	1,426,257	996,500
Not subject to appropriation or expenditure		
Subject to endowment purposes	900,750	129,408
Accumulated gains on endowment funds	<u>-</u>	<u>8,658</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 306,028</u>	 <u>\$ 1,361,064</u>

The Organization is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

In the event of an unanticipated liquidity need, the Organization has available borrowings up to approximately \$1,730,000 and \$9,915,000 as of December 31, 2022 and 2021, respectively, as further described in Note 8.

Note 3 - Promises to Give

As of December 31, 2022 and 2021, gross promises to give totaling \$400,000 and \$810,700, respectively, were received from members of the board and are outstanding and included in promises to give in the statement of financial position.

Promises to give are scheduled to be collected as follows:

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 667,036	\$ 977,334
One to five years	682,500	931,500
More than five years	<u>40,000</u>	<u>65,000</u>
	1,389,536	1,973,834
Less discount to net present value	<u>(98,187)</u>	<u>(95,732)</u>
Total promises to give	<u>\$ 1,291,349</u>	<u>\$ 1,878,102</u>

Note 4 - Investments

Fair value of marketable debt and equity securities at December 31 consist of:

	<u>2022</u>	<u>2021</u>
Available for sale		
Exchange traded funds	<u>\$ 129,581</u>	<u>\$ 129,408</u>

Investment income is composed of the following at December 31:

	<u>2022</u>	<u>2021</u>
Dividends and interest	\$ 1,645	\$ 773
Other investment income	1,451	6,687
Unrealized gain (loss)	<u>(26,459)</u>	<u>7,719</u>
Total investment income (loss)	<u>\$ (23,363)</u>	<u>\$ 15,179</u>

Note 5 - Conditional Promises to Give

The Organization has received conditional contributions of approximately \$2,250,000. The contributions are conditioned upon the Organization raising matching funds of \$7,000,000 by December 31, 2023, to finalize its sustainability campaign. As of December 31, 2022, the expected level of funds has not been raised; therefore revenue for these conditional contributions has not been recognized by the Organization.

Beginning in 2018 and for 20 years, the Organization has access to conditional contributions from estimated tax increment revenue authorized by law to be captured from levies imposed by the local taxing authority, not to exceed \$1,631,042 plus interest of up to the average annual prime rate or 3.5 percent, whichever is less, on unreimbursed eligible activities. These contributions are conditioned upon the Organization incurring certain eligible expenses relating to development of its property. The taxing authority has the sole discretion to determine the amount reimbursed, which is dependent upon sufficient tax revenue. As of December 31, 2022 and 2021, \$28,815 and \$28,620, respectively, has been collected and recognized as contributions without donor restrictions on the statement of activities and changes in net assets related to this conditional contribution.

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Note 6 - Property and Equipment

Major classes of assets and related accumulated depreciation thereon are summarized as follows:

	2022	2021	Depreciable Life - Years
Land	\$ 13,010,000	\$ 13,010,000	-
Artwork	28,300	28,300	-
Land improvements	1,746,456	1,746,456	20
Buildings	19,216,590	19,216,590	40
Machinery and equipment	463,109	423,370	3-10
Furniture and fixtures	3,957,574	3,957,574	10
Intangibles	42,272	57,503	5-20
	38,464,301	38,439,793	
Accumulated depreciation	(4,531,620)	(3,522,635)	
Property and equipment, net	<u>\$ 33,932,681</u>	<u>\$ 34,917,158</u>	

Note 7 - Leases

The Organization leases certain office facilities at various terms under long-term non-cancelable operating lease agreements. The leases expire in April 2026. The Organization includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The operating lease provides for increases in future minimum annual rental payments. Additionally, the operating lease agreement requires the Organization to pay real estate taxes, insurance, and repairs.

Total lease costs for the year ended December 31, 2022 is as follows:

Operating lease cost \$ 42,304

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the
measurement of lease liabilities
Operating cash flows from operating
leases \$ 40,597

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term
in years:
Operating leases 3.30

Weighted-average discount rate:
Operating leases 3.99%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022:

	<u>Operating</u>
2023	\$ 41,472
2024	42,601
2025	43,879
2026	<u>14,771</u>
Total lease payments	142,723
Less interest	<u>(8,983)</u>
Present value of lease liabilities	<u>\$ 133,740</u>

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Note 8 - Notes Payable

	<u>2022</u>	<u>2021</u>
Credit agreement with a bank for delayed-draw borrowings limited to formulas based on certain percentages of pledges receivable, underwriting support, and access to tax increment financing, not to exceed \$5,000,000 and \$14,000,000 in 2022 and 2021, respectively, in aggregate borrowings. Interest is payable monthly at a rate of the secured overnight financing rate plus 262 basis points.	\$ 3,267,013	\$ 4,083,707
Paycheck Protection Program Second Draw (PPP2) loan payable to the Federal government in monthly principal installments of \$10,000 through the year ended December 31, 2023.	<u>-</u>	<u>178,612</u>
Long-term debt	<u>\$ 3,267,013</u>	<u>\$ 4,262,319</u>

The PPP2 loan and accrued interest was forgiven by the Small Business Administration in 2022; The forgiveness of debt has been recognized on the statement of activities.

Interest expense for 2022 and 2021 amounted to \$139,025 and \$175,599, respectively.

The bank note of \$3,267,013 has a maturity date of October 5, 2024.

Note 9 - Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Future programming and operations	\$ 659,401	\$ 376,000
Subject to the passage of time	766,856	1,612,103
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Restricted by donors for		
Accumulated investment gains (losses) on endowment funds	(16,163)	8,658
Not subject to spending policy or appropriation:		
Donor-restricted contributions to the endowment	<u>900,750</u>	<u>145,750</u>
Total net assets with donor restrictions	<u>\$ 2,310,844</u>	<u>\$ 2,142,511</u>

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Note 10 - Net Assets Released from Donor Restrictions

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 the donors as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Expiration of time restrictions	\$ 3,371,406	\$ 3,276,180
Satisfaction of purpose restrictions		
Future programming and operations	<u>605,925</u>	<u>484,872</u>
Total net assets released from donor restrictions	<u>\$ 3,977,331</u>	<u>\$ 3,761,052</u>

Note 11 - Endowment

The Organization's endowment consists entirely of donor-restricted endowment funds and is classified based on those donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the 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. At December 31, 2022 and 2021, there were no such donor stipulations. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) 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 by use in a manner consistent with the

standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund; (2) The purposes of the Organization and the donor-restricted endowment fund; (3) General economic conditions; (4) The possible effect of inflation and deflation; (5) The expected total return from income and the appreciation of investments; (6) Other resources of the Organization; and (7) The investment policies of the Organization.

The endowment net asset composition by type of fund as of December 31, 2022 is as follows:

	<u>With Donor Restrictions</u>
Donor-restricted	
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 900,750
Accumulated investment losses	<u>(16,163)</u>
Total endowment funds	<u>\$ 884,587</u>

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Changes in endowment net assets for the year ended December 31, 2022 are as follows:

	<u>With Donor Restrictions</u>
Beginning of year	\$ 129,408
Contributions	780,000
Investment income	1,631
Net appreciation (depreciation)	<u>(26,452)</u>
End of year	<u>\$ 884,587</u>

The endowment net asset composition by type of fund as of December 31, 2021 is as follows:

	<u>With Donor Restrictions</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 120,750
Accumulated investment gains	<u>8,658</u>
Total endowment funds	<u>\$ 129,408</u>

The changes in endowment net assets for the year ended December 31, 2021 are as follows:

	<u>With Donor Restrictions</u>
Beginning of year	\$ 96,463
Contributions	25,000
Investment income	<u>7,945</u>
End of year	<u>\$ 129,408</u>

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets will be invested in equities and fixed-income securities in a manner that is intended to achieve a return equal to or greater than spending. As of December 31, 2022 and 2021, cash collected on an endowment pledge is reported as restricted cash on the statement of financial position. The secondary investment objective is to earn a total return, net of expense, at least equal to the portfolio's composite benchmark defined in its investment policy statement. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

Currently, endowment funds are held as restricted cash on the statement of financial position. To satisfy its long-term rate-of-return objectives, the Organization has a plan to rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

places a greater emphasis on equity and fixed-income-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

No appropriations shall be made from the endowment unless and until its total market value exceeds \$1,000,000, as measured at the end of the calendar quarter. Once this threshold has been met, the Organization has a policy of appropriating for distribution each year up to 5 percent of its endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected rate of return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

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). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2022, funds with original gift values of \$900,750, fair values of \$884,587 and deficiencies of \$16,163 were reported in net assets with donor restrictions. During the year, the Organization did not appropriate any funds from the underwater endowments.

Note 12 - Revenue from Contracts with Customers

The Organization's exchange revenue is derived primarily from box office ticket sales and venue rentals. For the years ended December 31, 2022 and 2021, total revenue recognized from box office ticket sales with customers was \$612,958 and \$376,867, respectively, and is represented with admission and other performance income on the

statement of activities and changes in net assets. Revenue recognized from venue rentals is shown separately on the statement of activities and changes in net assets.

The following summarizes revenue by type for the year ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenue from contracts with customers	\$ 1,071,336	\$ 597,603
Educational services	9,189	5,175
Contribution revenue	3,517,061	5,509,435
Federal and state grants and contracts	31,401	49,785
Special event revenue	752,548	637,600
Contributions of nonfinancial assets	84,105	87,601
Net investment income (loss)	(23,363)	15,179
Miscellaneous income	15,187	-
Forgiveness of debt	<u>178,612</u>	<u>178,600</u>
Total revenue	<u>\$ 5,636,076</u>	<u>\$ 7,080,978</u>

Bad debt expense related to contracts with customers for the years ended December 31, 2022 and 2021 was \$0.

The revenue from contracts with customers for the year ended December 31, 2022 and 2021 consists of:

	<u>2022</u>	<u>2021</u>
Revenue earned at a point in time	<u>\$ 1,071,336</u>	<u>\$ 597,603</u>

Revenue earned at a point in time consists of box office ticket sales and venue rentals. Transaction prices for ticket sales are specifically tied to the value of the ticket, and transaction prices for venue rentals are determined by the rental agreement, neither of which includes variable

Great Lakes Center for the Arts

Notes to the Financial Statements

December 31, 2022 and 2021

consideration. Cash for same-day performances or events is collected at the point of sale, resulting in the recognition of admissions and other performance incomes on the statement of activities and changes in net assets. In some situations, seasonal subscriptions are purchased in advance, with revenue recognized at a point in time when performances occur, which could result in the Organization recognizing contract liabilities represented as deferred revenue on the statement of financial position.

There were no contract liabilities as of December 31, 2022 and 2021. The following summarizes contract assets as of:

	December 31, 2022	December 31, 2021	December 31, 2020
Accounts receivable	\$ 11,713	\$ 18,010	\$ 23,567

There were no changes in judgments related to revenue recognition for the years ended December 31, 2022 and 2021.

Note 13 - Contributed Nonfinancial Assets

Contributed nonfinancial assets for the year ended December 31, 2022 were:

Category	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Donor relations	\$ 15,093	Fundraising	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products or services in the United States.
Gala	30,000	Floral arrangements for Gala and season	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Hospitality	1,030	Programs	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Instruments	1,200	Dorothy Gerber Strings Program	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Promotional materials	1,000	Dorothy Gerber Strings Program	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Books/school materials	2,600	NextGen Education Program	No associated donor restrictions	Great Lakes Center for the Arts recorded the value of the materials based on the fair market value of the products if they had been purchased from the vendor.
Lodging	4,182	Programs	No associated donor restrictions	Great Lakes Center for the Arts recorded the value of the lodging based on the fair market price.
Transportation	29,000	Programs	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products or services in the United States.
Volunteer services	-	Programs	No associated donor restrictions	Criteria for recording revenue are not met; approximately 1,800 volunteer hours were donated
	<u>\$ 84,105</u>			

Great Lakes Center for the Arts
Notes to the Financial Statements
December 31, 2022 and 2021

Contributed nonfinancial assets for the year ended December 31, 2021
were:

Category	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Donor relations	\$ 51,534	Fundraising	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products or services in the United States.
Gala	5,000	Floral arrangements for Gala and season	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Instruments	1,650	Dorothy Gerber Strings Program	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Books/school materials	2,817	NextGen Education Program	No associated donor restrictions	Great Lakes Center for the Arts recorded the value of the materials based on the fair market value of the products if they had been purchased from the vendor.
Transportation	26,600	Programs	No associated donor restrictions	Great Lakes Center for the Arts estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products or services in the United States.
Volunteer services	-	Programs	No associated donor restrictions	Criteria for recording revenue are not met; approximately 1,550 volunteer hours were donated
	<u>\$ 87,601</u>			

Note 14 - Retirement Plan

The Organization sponsors a 401(k) plan for all employees over the age of 21 after completing three months of service. The plan allows employees to make elective deferrals as a percentage of eligible compensation and provides for the Organization to make a discretionary matching contribution. There were no employer contributions in 2022 and 2021.