



ArtPrize Grand Rapids

Financial Statements
Years Ended December 31, 2016 and 2015

ArtPrize Grand Rapids

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ArtPrize Grand Rapids

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Independent Auditor's Report

Board of Directors
ArtPrize Grand Rapids
Grand Rapids, Michigan

We have audited the accompanying financial statements of ArtPrize Grand Rapids (ArtPrize), which comprise the statements of financial position as of December 31, 2016 and 2015, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to an express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 ArtPrize Grand Rapids as of December 31, 2016 and 2015, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

February 1, 2017

Financial Statements

ArtPrize Grand Rapids
Statements of Financial Position

<i>December 31,</i>	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 25,571	\$ 28,676
Contributions receivable (Note 1)	3,645	60,320
Prepaid expenses	4,911	16,271
Merchandise inventory	13,758	16,377
Total current assets	47,885	121,644
Artwork	270,000	445,000
Intangible Assets, net (Note 3)	298,417	306,351
Fixed Assets, net (Note 2)	11,214	19,725
Total Assets	627,516	892,720
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	109,993	18,546
Deferred revenue (Note 6)	118,000	-
Accrued payroll	39,066	17,266
Total current liabilities	267,059	35,812
Noncurrent Liabilities		
Note payable - related party (Note 4)	-	307,969
Total Liabilities	267,059	343,781
Net Assets	360,457	548,939
Total Liabilities and Net Assets	\$ 627,516	\$ 892,720

See accompanying notes to financial statements.

ArtPrize Grand Rapids

Statements of Activities

<i>Year ended December 31,</i>	Unrestricted 2016	Unrestricted 2015
Support and Revenue		
Corporate contributions	\$ 1,860,636	\$ 1,706,965
Grants and foundation contributions	795,425	824,000
Forgiveness of debt (Note 4)	307,969	1,500,000
City, state and federal grants	237,000	192,392
Individual contributions	200,107	214,297
Registration fee revenue, net of discounts	112,550	115,100
Merchandise revenue	108,638	128,233
Other income	68,550	50,779
Total Support and Revenue	3,690,875	4,731,766
Expenses		
Payroll expense	1,424,491	1,370,274
Prize money	500,000	500,000
Operations	384,323	338,071
Artists, venues, speakers and jurors	296,816	248,752
Marketing	237,304	235,506
Disposal of artwork and inventory	185,862	79,511
General and administrative	158,447	169,035
Depreciation and amortization	151,214	145,815
Business development	108,592	74,579
Community relations	92,460	47,924
Educational programming	89,480	77,289
Public relations expense	70,141	55,609
Merchandise purchases	61,863	83,938
Technology expense	55,957	53,453
Donated goods and services	52,328	112,361
Membership program	10,079	13,180
Total Expenses	3,879,357	3,605,297
Change in Net Assets	(188,482)	1,126,469
Net Assets (Deficit), beginning of year	548,939	(577,530)
Net Assets, end of year	\$ 360,457	\$ 548,939

See accompanying notes to financial statements.

ArtPrize Grand Rapids

Statements of Cash Flows

<i>Year ended December 31,</i>	2016	2015
Cash From (for) Operating Activities		
Change in net assets	\$ (188,482)	\$ 1,126,469
Adjustments to reconcile change in net assets to net cash from (for) operating activities:		
Depreciation and amortization	151,214	145,815
Disposal of artwork	175,000	30,000
Disposal of inventory	10,862	49,511
Forgiveness of debt (Note 4)	(307,969)	(1,500,000)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	56,675	(13,810)
Prepaid expenses	11,360	5,434
Merchandise inventory	(8,243)	4,171
Accounts payable	91,447	(47,711)
Deferred revenue	118,000	-
Accrued payroll	21,800	(22,182)
Net Cash From (for) Operating Activities	131,664	(222,303)
Cash for Investing Activities		
Purchases of fixed assets	(7,396)	(12,893)
Purchases of intangibles	(127,373)	(188,874)
Net Cash for Investing Activities	(134,769)	(201,767)
Financing Activity		
Proceeds from related party note payable	-	250,000
Net Decrease in Cash and Cash Equivalents	(3,105)	(174,070)
Cash and Cash Equivalents, beginning of year	28,676	202,746
Cash and Cash Equivalents, end of year	\$ 25,571	\$ 28,676

See accompanying notes to financial statements.

ArtPrize Grand Rapids

Notes to Financial Statements

1. Significant Accounting Policies

Description of Operations

ArtPrize Grand Rapids (ArtPrize) was incorporated on March 16, 2009. ArtPrize is an international art competition, open to any artist and decided by public vote, promoting critical dialogue and collaboration throughout the year.

Basis of Presentation and Method of Accounting

The net assets of ArtPrize and the changes therein are classified and reported based upon the existence of donor-imposed restrictions. At December 31, 2016 and 2015, ArtPrize reported the following classification:

Unrestricted net assets - represent resources that are not restricted, either temporarily or permanently, by donor-imposed stipulations. They are available for the support of all organizational operations and services.

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

Contributions received are recorded as unrestricted, as there are no donor-imposed restrictions.

Contributions Receivable

Unconditional promises to give are recognized as revenue in the period received. Conditional promises to give are recognized as revenue when the conditions are met. Contributions that are not collected before year-end are recorded as contributions receivable on the statements of financial position. The balance at December 31, 2016 and 2015 was \$3,645 and \$60,320, respectively. The entire amount is due within one year.

ArtPrize maintains an allowance for doubtful accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers anticipated customer performance. When management determines that it is probable that an account will not be collected, it is written off against the allowance. No allowance was considered necessary at December 31, 2016 and 2015.

Merchandise Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market and consists primarily of ArtPrize merchandise such as apparel, accessories and printed goods.

Property and Equipment

ArtPrize capitalizes all expenditures for property and equipment in excess of \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives are three years for the property and equipment and five years for leasehold improvements.

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Notes to Financial Statements

ArtPrize periodically reviews all noncurrent assets that have finite lives and that are not held for sale for impairment by comparing the carrying value of the assets to their estimated future undiscounted cash flows.

Artwork

ArtPrize has received donations of artwork, which are recorded as revenue and an asset at the appraised value at the date of donation. Artwork is not depreciated.

Income Taxes

ArtPrize is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. ArtPrize is not aware of any material uncertain tax positions.

Donated Services

Certain functions of ArtPrize are performed by volunteers who have donated their services. The value of this contributed time is recorded at fair value of the services received as a contribution and related expense when the services would have otherwise been purchased. The total amount recorded in 2016 and 2015 is immaterial.

Concentration of Credit Risk

Financial instruments, which subject ArtPrize to concentrations of credit risk, consist primarily of cash. Total deposits at times exceeded the amount insured by federal agencies and, therefore, bear a risk of loss. ArtPrize has not experienced any losses on these deposits.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain amounts previously reported in prior fiscal years have been reclassified to conform with the current year's presentation.

Subsequent Events

Management has evaluated subsequent events through February 1, 2017, the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, to improve the presentation of financial statements of not-for-profit entities such as charities, foundations, universities and nonprofit health care providers. The

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Notes to Financial Statements

changes to the nonprofit financial statement model are intended to provide more useful information to donors, grantors and other users. The ASU addresses net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows, and includes illustrative financial statements for not-for-profit entities reflecting the changes made by the new standard. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and early adoption is permitted. ArtPrize is currently evaluating the effect the provisions of ASU 2016-14 will have on its financial statements.

2. Fixed Assets

The following table summarizes fixed assets:

<i>December 31,</i>	2016	2015
Property and equipment	\$ 80,946	\$ 73,550
Leasehold improvements	33,775	33,775
	114,721	107,325
Less accumulated depreciation	(103,507)	(87,600)
	\$ 11,214	\$ 19,725

Depreciation expense for the years ended December 31, 2016 and 2015 was \$15,907 and \$19,021, respectively.

3. Intangible Assets

ArtPrize capitalizes expenditures for intangible assets, which consist of trademarks and website development. Intangible assets are amortized using the straight-line method over the useful lives of the assets. Useful lives are three years for website development and eight years for trademarks. Amortization expense for the years ended December 31, 2016 and 2015 was \$135,307 and \$126,794, respectively. The gross carrying amount, accumulated amortization and net carrying value of intangible assets are as follows:

	Gross Carrying Amount	Accumulated Amortization	December 31, 2016
Trademarks	\$ 8,028	\$ (7,024)	\$ 1,004
Website development	1,924,294	(1,626,881)	297,413
	\$ 1,932,322	\$ (1,633,905)	\$ 298,417

	Gross Carrying Amount	Accumulated Amortization	December 31, 2015
Trademarks	\$ 8,028	\$ (6,021)	\$ 2,007
Website development	1,796,921	(1,492,577)	304,344
	\$ 1,804,949	\$ (1,498,598)	\$ 306,351

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Notes to Financial Statements

Expected amortization of the intangible assets is as follows:

Year ending December 31,

2017	\$	140,857
2018		110,259
2019		47,301
		<hr/>
		\$ 298,417

4. Related Party Transactions

ArtPrize has a zero interest note payable to a related party with a principal amount of \$5,000,000 and a balance of \$0 and \$307,969 at December 31, 2016 and 2015, respectively. During 2016 and 2015 respectively, principle of \$307,969 and \$1,500,000 was forgiven and considered a donation to ArtPrize. \$250,000 was drawn on the loan in 2015. The forgiveness amounts in both years have been reported as a contribution in the statements of activities.

ArtPrize also paid rent to the same related party in 2016 and 2015 in the amounts of \$31,200 and \$30,600, respectively. This is a related party due to common oversight.

5. Retirement Plan

ArtPrize provides a 401(k) profit sharing plan (the Plan) that covers all eligible employees. Employees are eligible to participate in the Plan after six months of eligible service. Each participant may elect to contribute up to the maximum limit by federal law. ArtPrize matches each employee's contribution up to 3%. Employer contributions totaled \$31,774 and \$25,664, respectively, for the years ended December 31, 2016 and 2015. Effective January 1, 2017, the Company switched to a safe harbor plan to allow for higher deferral rates for all employees.

6. Sponsorship Agreements

ArtPrize has several multi-year sponsorship agreements that extend out as far as 2018. These sponsorships will be recognized as revenue in the year of the sponsored event as follows:

Year ending December 31,

2017	\$	1,300,500
2018		648,000
		<hr/>
Total	\$	1,948,500

As of December 31, 2016, ArtPrize had received \$118,000 in sponsorship intended for the 2017 event. ArtPrize properly accounted for this as deferred revenue.

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Notes to Financial Statements

7. Functional Expenses

A summary of expenses, by functional classification, is as follows:

<i>Year ended December 31,</i>	2016	2015
Program expenses	\$ 2,584,246	\$ 2,429,800
General and administrative expenses	926,139	798,756
Fundraising expenses	368,972	376,741
Total Expenses	\$ 3,879,357	\$ 3,605,297