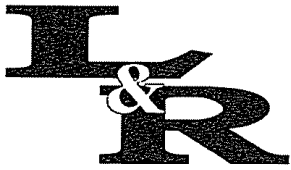


LANSING ART GALLERY, INC.
(A NON-PROFIT CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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Report on the Financial Statements

We have audited the accompanying financial statements of **Lansing Art Gallery, Inc.** (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2016, and the related statement 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lansing Art Gallery, Inc., as of June 30, 2016, 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.

Prior Period Financial Statements

The June 30, 2015 financial statements were reviewed by us, and our report thereon, dated October 23, 2015, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

A handwritten signature in black ink that reads "Layton & Richardson, P.C." in a cursive style.

Certified Public Accountants

East Lansing, Michigan
October 10, 2016

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LANSING ART GALLERY, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	JUNE 30,	
	2016 (AUDITED)	2015 (REVIEWED)
CURRENT ASSETS		
Cash and cash equivalents	\$ 78,319	\$ 92,193
Receivables - contributions and grants	15,658	20,888
Inventory	4,967	2,680
Security deposit	2,000	2,000
Prepaid expenses	<u>2,000</u>	<u>2,000</u>
TOTAL CURRENT ASSETS	<u>102,944</u>	<u>119,761</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	34,673	34,673
Equipment and fixtures	11,214	11,214
Less: accumulated depreciation	<u>(25,731)</u>	<u>(22,639)</u>
NET PROPERTY AND EQUIPMENT	<u>20,156</u>	<u>23,248</u>
OTHER ASSETS		
Investments	1,372	3,658
Collection of artwork	<u>23,995</u>	<u>19,150</u>
TOTAL OTHER ASSETS	<u>25,367</u>	<u>22,808</u>
TOTAL ASSETS	<u><u>\$ 148,467</u></u>	<u><u>\$ 165,817</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 5,057	\$ 3,948
Other accrued liabilities	3,385	4,363
Deferred revenue	<u>3,180</u>	<u>6,485</u>
TOTAL CURRENT LIABILITIES	<u>11,622</u>	<u>14,796</u>
NET ASSETS		
Unrestricted - undesignated	128,191	126,425
Temporarily restricted	<u>8,654</u>	<u>24,596</u>
TOTAL NET ASSETS	<u>136,845</u>	<u>151,021</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 148,467</u></u>	<u><u>\$ 165,817</u></u>

See independent auditors' report and notes to financial statements.

LANSING ART GALLERY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016 (AUDITED)		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
SUPPORT AND REVENUES			
Public support			
Grants	\$	\$ 54,577	\$ 54,577
Contributions	25,958	6,150	32,108
In-kind contributions	24,681		24,681
Membership dues	9,065		9,065
Sponsorships	12,000		12,000
Special events	8,369		8,369
Revenues			
Education	33,235		33,235
Sales income	40,094		40,094
Exhibition income	23,446		23,446
Investment income	(1,912)		(1,912)
Net assets released from restrictions	76,669	(76,669)	
TOTAL SUPPORT AND REVENUES	251,605	(15,942)	235,663
EXPENSES			
Program services			
Arts and cultural	171,801		171,801
Supporting services			
Management and general	64,295		64,295
Fundraising	13,743		13,743
TOTAL EXPENSES	249,839		249,839
CHANGE IN NET ASSETS	1,766	(15,942)	(14,176)
NET ASSETS, JULY 1	126,425	24,596	151,021
NET ASSETS, JUNE 30	\$ 128,191	\$ 8,654	\$ 136,845

See independent auditors' report and notes to financial statements.

2015
(REVIEWED)

UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
\$	\$	\$
33,619	81,533	81,533
875	50	33,669
9,135		875
14,731		9,135
19,726		14,731
50,223		19,726
270		50,223
89,521	(89,521)	270
<u>218,100</u>	<u>(7,938)</u>	<u>210,162</u>
158,161		158,161
54,190		54,190
10,172		10,172
<u>222,523</u>		<u>222,523</u>
(4,423)	(7,938)	(12,361)
130,848	32,534	163,382
<u>\$ 126,425</u>	<u>\$ 24,596</u>	<u>\$ 151,021</u>

LANSING ART GALLERY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

2016
(AUDITED)

	PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL EXPENSES
	ARTS AND CULTURAL	FUND- RAISING	MANAGEMENT AND GENERAL	
Salaries and wages	\$ 87,904	\$ 4,884	\$ 4,884	\$ 97,672
Payroll taxes and fringe benefits	<u>7,762</u>	<u>431</u>	<u>431</u>	<u>8,624</u>
 Total salaries and related expenses	 95,666	 5,315	 5,315	 106,296
Special events		6,300		6,300
Insurance	1,296	76	153	1,525
Rent	21,000	600	2,400	24,000
Professional fees	10,424		9,211	19,635
Supplies	402		5,629	6,031
Printing and postage			7,092	7,092
Utilities	78	11	5	94
Telephone	583	46	33	662
Service charges			3,828	3,828
Dues and memberships		801		801
Occupancy	424		11	435
Education expense	7,947			7,947
Grants				
Sense of place			23,580	23,580
ArtQuest				
CRCF				
Other			1,100	1,100
Sales expenses	7,062			7,062
Gift shop - cost of sales	22,739			22,739
Other	<u>4,180</u>	<u>594</u>	<u>2,846</u>	<u>7,620</u>
 Total expenses before depreciation	 171,801	 13,743	 61,203	 246,747
Depreciation			<u>3,092</u>	<u>3,092</u>
 TOTAL EXPENSES	 <u>\$ 171,801</u>	 <u>\$ 13,743</u>	 <u>\$ 64,295</u>	 <u>\$ 249,839</u>

See independent auditors' report and notes to financial statements.

2015
(REVIEWED)

PROGRAM SERVICES	SUPPORTING SERVICES		TOTAL EXPENSES
ARTS AND CULTURAL	FUND- RAISING	MANAGEMENT AND GENERAL	
\$ 81,022	\$ 4,501	\$ 4,501	\$ 90,024
<u>6,877</u>	<u>382</u>	<u>382</u>	<u>7,641</u>
87,899	4,883	4,883	97,665
	3,794		3,794
1,310	77	154	1,541
21,000	600	2,400	24,000
2,532		2,238	4,770
136		1,912	2,048
		2,031	2,031
117	17	7	141
571	45	33	649
		3,819	3,819
	223		223
466		12	478
9,196			9,196
		16,816	16,816
		9,000	9,000
		3,957	3,957
		1,286	1,286
2,699			2,699
28,490			28,490
<u>3,745</u>	<u>533</u>	<u>2,550</u>	<u>6,828</u>
158,161	10,172	51,098	219,431
		3,092	3,092
<u>\$ 158,161</u>	<u>\$ 10,172</u>	<u>\$ 54,190</u>	<u>\$ 222,523</u>

LANSING ART GALLERY, INC.
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	2016	2015
	(AUDITED)	(REVIEWED)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (14,176)	\$ (12,361)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	3,092	3,092
Contribution of assets	(4,845)	
Realized loss on investments	2,285	
Unrealized loss on investments		440
(Increase) decrease in assets		
Receivables - contributions and grants	5,230	23,190
Inventory	(2,287)	(741)
Increase (decrease) in liabilities		
Accounts payable	1,109	1,038
Deferred revenue	(3,305)	1,925
Other accrued liabilities	(978)	203
	<u> </u>	<u> </u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(13,875)</u>	<u>16,786</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,875)	16,786
CASH AND CASH EQUIVALENTS, JULY 1	<u>92,193</u>	<u>75,407</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 78,318</u></u>	<u><u>\$ 92,193</u></u>
 Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	\$	\$

See independent accountants' review report and notes to financial statements.

LANSING ART GALLERY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1: **BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES**

Background

Lansing Art Gallery, Inc. (the Gallery) was incorporated in 1965 as a nonprofit organization. Lansing Art Gallery creates awareness, enjoyment, and education of the visual arts through the support of Michigan artists.

The Gallery operates under a Board of Directors and an Executive Director. The primary sources of revenue are art sales, fundraising events, donations, and grants.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

Lansing Art Gallery, Inc. reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent the resources available for use in carrying on the operations of the Gallery. The unrestricted portion is under the discretionary control of the Board of Directors, and it is against this fund that all expenditures for current operations are charged.
- Temporarily restricted net assets represent contributions and other income that has been received, but is temporarily restricted for future activities.
- Permanently restricted net assets represent donor and board stipulated instruments that are to be maintained, with only the income from the instruments expended.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related support is reported in the statement of activities as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of the temporarily restricted net asset class.

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 1: **BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES** - Continued

Contributions - Concluded

Governmental grants that are for particular operating purposes are not considered to be contributions and are recognized as revenue when expenses are incurred under the appropriate activity type (i.e., unrestricted).

Investments

The Gallery's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Fair value was determined using quoted market prices in active markets. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Financial Instruments and Concentrations of Risk

Investments consist of various mutual funds and corporate stock. Investments are stated at fair (market) value.

The Gallery is required by U.S. generally accepted accounting principles to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Gallery to concentrations of credit risk consist of the investment defined above.

The Gallery places its investments with high credit-quality financial institutions. Although the types of investments held are not federally insured, they are, in the opinion of management, subject to minimal risk.

The carrying amounts of cash and cash equivalents, accounts payable, and amounts included in investments and accruals meet the definition of financial instruments approximate fair value.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, money market accounts, and petty cash. The Gallery considers all investments purchased with a maturity of three months or less to be cash equivalents.

Inventory

Inventory, consisting of items available for resale in the Gallery's gift shop, are recorded at cost on a first-in/first-out basis.

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 1: **BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES** - Continued

Grants Receivable

Lansing Art Gallery, Inc. reports its receivables at their estimated net realizable value.

Allowance for Uncollectable Accounts

The Gallery considers accounts and grants receivable to be fully collectable; accordingly, no allowance for doubtful accounts is required.

Property and Equipment

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets which range from 5 to 10 years using the straight-line method. Donated equipment is recorded at fair market value at the date of the donation. Purchased equipment is recorded at cost.

The Gallery's policy is to capitalize expenditures for furniture, fixtures, equipment, and leasehold improvements. Repair and maintenance costs are expensed as incurred.

Collection of Artwork

Artwork acquired by the Gallery is capitalized in the period acquired. Contributed items are recorded at their fair or appraised value at the date accepted by the Gallery. Other artwork items are recorded at cost at the date of purchase.

Donated Goods and Services

The Gallery records various types of in-kind contributions. This includes the recognition of professional services received if those services (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

During the years ended June 30, 2016 and 2015, the Gallery received donated services that met criteria for recognition in the amount of \$16,060 and \$875, respectively. The contributions are recorded as revenue in the applicable line items with an offsetting amount to various expenses in the amount of \$16,060 and \$875, respectively.

In addition, a number of volunteers have donated services to the Gallery's program and supporting services. These in-kind contributions are not reflected in the financial statements since these services do not meet the criteria for recognition. The estimated amount of the donated services not recorded in the financial statements for the years ended June 30, 2016 and 2015 was \$35,298 and \$29,630, respectively.

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 1: **BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES** - Continued

Donated Goods and Services - Concluded

Contributions of tangible assets are recognized at fair value when received. The value of donated assets is recorded as contributions in the period the assets are received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or assets. The value at June 30, 2016 and 2015 was \$8,621 and \$0, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2016 and 2015 were \$405 and \$1,391, respectively.

Income Tax Status

The Gallery has been classified as an other than private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Code requires that tax-exempt organizations must comply with federal tax law to maintain tax-exempt status and avoid penalties. The Gallery is subject to a tax on income from any unrelated business as defined by Section 509(a)(1) of the Code.

Professional standards prescribe a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken. The Gallery has analyzed tax positions taken for filing with the Internal Revenue Service. The Gallery believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Gallery's financial condition, results of operations or cash flows. Accordingly, the Gallery has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016 and 2015.

The Gallery is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Gallery believes it is no longer subject to income tax examinations for years prior to June 30, 2012.

The Gallery's policy is to classify income tax related interest and penalties as interest expense and other expenses, respectively.

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 1: **BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES** – Concluded

Functional Expenses

Certain costs of the Gallery have been allocated to program service and supporting service activities. Salaries and related expenses have been allocated based upon estimated time percentages for each employee. The allocation of other costs is based on management's estimation of actual activity.

Date of Management's Review

Subsequent events have been evaluated through October 10, 2016, which is the date the financial statements were available to be issued.

NOTE 2: **CASH, CASH EQUIVALENTS AND INVESTMENTS**

Deposits of cash and cash equivalents with financial institutions are detailed as follows:

ACCOUNT TYPE	BOOK BALANCE	BANK BALANCE	FDIC INSURED
JUNE 30, 2016			
Checking	\$ 8,567	\$ 9,656	\$ 9,656
Money market	69,552	69,552	69,552
Petty cash	<u>200</u>	<u> </u>	<u> </u>
	<u>\$ 78,319</u>	<u>\$ 79,208</u>	<u>\$ 79,208</u>
JUNE 30, 2015			
Checking	\$ 29,463	\$ 35,203	\$ 35,203
Money market	62,530	62,530	62,530
Petty cash	<u>200</u>	<u> </u>	<u> </u>
	<u>\$ 92,193</u>	<u>\$ 97,733</u>	<u>\$ 97,733</u>

NOTE 3: **FIXED ASSETS**

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
JUNE 30, 2016				
Leasehold improvements	\$ 34,673	\$	\$	\$ 34,673
Equipment and fixtures	<u>11,214</u>	<u> </u>	<u> </u>	<u>11,214</u>
Total	45,887			45,887
Less: accumulated depreciation	(<u>22,639</u>)	(<u>3,092</u>)	<u> </u>	(<u>25,731</u>)
	<u>\$ 23,248</u>	<u>\$ (3,092)</u>	<u>\$</u>	<u>\$ 20,156</u>

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 3: **FIXED ASSETS** - Concluded

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
JUNE 30, 2015				
Leasehold improvements	\$ 34,673	\$	\$	\$ 34,673
Equipment and fixtures	<u>11,214</u>	<u> </u>	<u> </u>	<u>11,214</u>
Total	45,887			45,887
Less: accumulated depreciation				
	(<u>19,547</u>)	(<u>3,092</u>)	<u> </u>	(<u>22,639</u>)
	<u>\$ 26,340</u>	<u>\$ (3,092)</u>	<u>\$</u>	<u>\$ 23,248</u>

Depreciation expense for the years ended JUNE 30, 2016 and 2015 was \$3,092 and \$3,092, respectively.

NOTE 4: **COLLECTION OF ARTWORK**

The following is a summary of the changes in collection of artwork:

	BALANCE, JULY 1	ADDITIONS	DELETIONS	BALANCE, JUNE 30
JUNE 30, 2016				
Collection of artwork	<u>\$ 19,150</u>	<u>\$ 4,845</u>	<u>\$</u>	<u>\$ 23,995</u>
JUNE 30, 2015				
Collection of artwork	<u>\$ 19,150</u>	<u>\$</u>	<u>\$</u>	<u>\$ 19,150</u>

NOTE 5: **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are comprised of the following:

	2016	2015
Program restriction		
Ingham County	\$ 4,440	\$
David Thomas Memorial	3,414	3,364
Michigan Council for Arts		6,667
Joe D. Pentecost Foundation	800	
City of Lansing		12,065
Art Scholarships	<u> </u>	<u>2,500</u>
	<u>\$ 8,654</u>	<u>\$ 24,596</u>

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 6: NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by meeting time and program restrictions specified by donors as follows:

	2016	2015
Program restriction		
City of Lansing	\$ 19,565	\$ 44,185
Ingham County	1,150	4,885
Thomas Memorial	100	110
Capital Region Community Foundation	2,630	7,150
Michigan Council for Arts	30,117	20,133
Joe D. Pentecost Foundation	4,200	5,000
RE Olds Foundation	5,000	
Mariel Foundation	6,000	
Miscellaneous	<u>7,907</u>	<u>8,058</u>
	<u>\$ 76,669</u>	<u>\$ 89,521</u>

NOTE 7: OPERATING LEASE

The Gallery leases its facilities from Spirit of Downtown Lansing, LLC under a 5 year operating lease which began January 1, 2016, and will expire December 31, 2020. Lease payments are \$2,000 monthly. Total rent expense was \$24,000 and \$24,000 for the years ended June 30, 2016 and 2015, respectively.

Required lease payments are as follows:

YEAR ENDING	AMOUNT
June 30, 2017	\$ 24,120
June 30, 2018	24,361
June 30, 2019	24,605
June 30, 2020	24,851
June 30, 2021	<u>12,487</u>
	<u>\$ 110,424</u>

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 8: **INVESTMENTS**

Investments are reported on the basis of quoted market prices, if available, or based on income if not, and consist primarily of the following:

	DONATED BASIS	FAIR VALUE	REALIZED/ UNREALIZED APPRECIATION (DEPRECIATION)
JUNE 30, 2016			
REIT Operating Partnership	\$ 1,237	\$ 1,372	\$ 135
Oil and Gas Limited Partnerships	7,176		(7,176)
Oil Partnerships being liquidated	<u>3,110</u>	<u> </u>	<u>(3,110)</u>
	<u>\$ 11,523</u>	<u>\$ 1,372</u>	<u>\$(10,151)</u>
JUNE 30, 2015			
REIT Operating Partnership	\$ 1,237	\$ 1,185	\$(52)
Oil and Gas Limited Partnerships	7,176	2,188	(4,988)
Oil Partnerships being liquidated	<u>3,110</u>	<u>285</u>	<u>(2,825)</u>
	<u>\$ 11,523</u>	<u>\$ 3,658</u>	<u>\$(7,865)</u>

During 2016, three of the four partnerships went bankrupt or became worthless. The investments in these partnerships were written off.

Investments represent board designated amounts set aside in prior years for the purpose of providing an income stream for annual operations.

Investment return is summarized as follows:

	2016	2015
Interest and investment income (loss)	\$ 374	\$ 710
Realized loss	(2,473)	
Net unrealized gain (loss)	<u>187</u>	<u>(440)</u>
Total restricted investment income (loss)	<u>\$(1,912)</u>	<u>\$ 270</u>

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2016 AND 2015

NOTE 9: **FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (FASB ASC 820-10) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Fair Value Measurements: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Gallery has the ability to access.

Level 2 Fair Value Measurements: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. These valuation methodologies have been consistently applied.

Corporate Equities: Valued at the closing price of publicly traded stocks on various markets.

Partnerships: Valued using an income approach.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Gallery believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

LANSING ART GALLERY, INC.

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2016 AND 2015

NOTE 9: **FAIR VALUE MEASUREMENTS** - Concluded

The following table sets forth by level, with the fair value hierarchy, the Gallery's assets at fair value.

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
2016				
Corporate equities	\$ 1,372	\$	\$	\$ 1,372
Partnerships	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 1,372</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,372</u>
2015				
Corporate equities	\$ 1,185	\$	\$	\$ 1,185
Partnerships	<u> </u>	<u> </u>	<u>2,473</u>	<u>2,473</u>
	<u>\$ 1,185</u>	<u>\$</u>	<u>\$ 2,473</u>	<u>\$ 3,658</u>

The following is a reconciliation of the opening and closing balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended June 30:

	2016	2015
Opening balance	\$ 2,473	\$ 2,738
Total gain (loss) for the period	<u>(2,473)</u>	<u>(265)</u>
Ending balance	<u>\$</u>	<u>\$ 2,473</u>



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Directors
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Lansing, Michigan

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In planning and performing our audit of the financial statements of Lansing Art Gallery, Inc., as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Lansing Art Gallery, Inc.'s internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the Plan's internal control in our letter dated October 10, 2016. This letter does not affect our report dated October 10, 2016, on the financial statements of Lansing Art Gallery, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Lansing Art Gallery, Inc.'s personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, Lansing Art Gallery, Inc., and others within the Corporation, and is not intended to be, and should not be, used by anyone other than those specified parties.

Certified Public Accountants

East Lansing, Michigan
October 10, 2016

MEMORANDUM

PRIOR YEARS' RECOMMENDATIONS

CASH RECEIPTS

We noted a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of the Gallery's personnel. We recommend the following procedures be enacted to ensure efficient internal control:

- One employee should open the mail, make a log of all receipts, and restrictively endorse all items received "For Deposit Only." This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Current year status: This recommendation has been implemented.

CASH DRAWER

We noted all office personnel have access to the cash drawer and there is no single custodian responsible for disbursements and receipts. Also, we noticed the cash drawer is unable to be securely locked. We recommend one employee be responsible for keeping the cash drawer securely maintained on an imprest basis at all times. This procedure will enhance controls over cash. **Current year status: This recommendation has been implemented.**

CAPITALIZATION POLICY

We noted during our audit there is no capitalization policy in place with regard to fixed assets. We recommend a policy be approved by the Board in order to better determine depreciable asset purchases from other expenses via a dollar threshold. **Current year status: This recommendation has been implemented.**

JOURNAL ENTRIES

We noted the Gallery currently does not have a method of recordkeeping in place to document journal entries made in the QuickBooks accounting system. We recommend a copy of the journal entry and relevant supporting documentation be signed to indicate approval by the Executive Director and kept on file. This will strengthen internal controls over the initiation, authorization, and documentation of journal entries. **As of June 30, 2016, they were not approved but supporting documentation existed.**

DEBIT CARDS

We noted during the audit that the Gallery has authorized the use of a debit card by the Executive Director. We recommend this practice be substantially discouraged to prevent theft or loss of assets. All transactions, with regard to debit cards, have a direct impact on the Gallery's operating bank account. Credit cards, on the other hand, provide a shield against risk of loss because charges through credit cards will be billed to the Gallery for payment. **Current year status: This recommendation has not been implemented. Management's Response: The Organization looked into this and they only way to get a credit card was to put it in the name of the Executive Director. The Board decided against this option.**

PRIOR YEARS' RECOMMENDATIONS - Concluded

PAYROLL

Timesheets currently do not have any indication of their approval. We recommend the Executive Director initial each timesheet to document her review and approval. **Current year status: This recommendation has been implemented.**

CONFLICTS OF INTEREST POLICY NEEDED

We noted Lansing Art Gallery, Inc. does not have a formal policy regarding employee conflicts of interest. In recent years, issues of conflicts have become much more visible and many companies have elected to develop or formalize such a policy. We recommend adopting a formal policy covering potential conflict-of-interest situations. This policy should identify all business relationships and other dealings between Lansing Art Gallery, Inc. and its officers, directors, key employees, and other such parties with whom Lansing Art Gallery, Inc. conducts business. This policy should include obtaining written conflict-of interest statements from all officers, directors, and key employees on an annual basis. This written statement should identify all business relationships and other dealings between Lansing Art Gallery, Inc. and such parties. We strongly recommend this policy be implemented and followed through to ensure Lansing Art Gallery, Inc. is practicing acceptable methods of protecting itself from potential self-dealing issues. **Current year status: This recommendation has been implemented.**

CURRENT YEAR RECOMMENDATIONS

BANK RECONCILIATION REVIEW

Accounting personnel perform the bank reconciliation function. However, there is currently no procedure in place to review the bank reconciliation after it is completed. This practice would greatly enforce the checks and balances necessary for strong controls over cash. We suggest that someone independent of cash receipts and cash disbursements review the bank reconciliations for any unusual items, investigate and fully resolve any such items, and document his or her approval by initialing the form.

MINUTES

During our audit, it came to our attention board minutes are not being signed by the Board Secretary. Minutes should be signed by the Board Secretary to serve as an authentication of them.

BANK DEPOSITS

While someone independent of the preparation of the deposit slip is making the deposit, there is not review after the deposit is made to the point of sale receipts to ensure that was figured to be deposited was actually deposited. We recommend someone who does not deposit the money review the original backup and deposit slip to the date stamped bank issued deposit receipt.