Harris & Co. PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Sun Valley Center for the Arts, Inc.
(a nonprofit organization)

Statements of Financial Position
Years Ended May 31, 2017 and 2016

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CERTIFIED PUBLIC ACCOUNTANTS

Helping our clients make sense of a changing and complex world

INDEPENDENT AUDITIORS' REPORT

To the Board of Trustees
Sun Valley Center for the Arts, Inc.
Sun Valley, Idaho

We have audited the accompanying Statements of Financial Position of Sun Valley Center for the Arts, Inc. (a nonprofit organization) as of May 31, 2017 and 2016 , and the related notes to the statements of financial position.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the statements of financial position 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 a statement of financial position that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the statements of financial position 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 statement of financial position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statements of financial position. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the statement of financial position, 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 statement of financial position 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 estimated made by management, as well as evaluating the overall presentation of the statement of financial position.

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 Statements of Financial Position referred to above present fairly, in all material respects, the financial position of Sun Valley Center for the Arts, Inc. as of May 31, 2017 and 2016 in accordance with accounting principles generally accepted in the United States of America.

Harris & Co. PLLC

Meridian, Idaho
November 7, 2017

SUN VALLEY CENTER FOR THE ARTS, INC.

STATEMENTS OF FINANCIAL POSITION

May 31

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalent	$ 638,977	$ 192,734
Accounts receivable	46,497	53,180
Prepaid expenses and other current assets	139,700	167,039
Total Current Assets	825,174	412,953
OTHER LONG-TERM ASSETS – ENDOWMENT		
Cash	7,626	153,183
Investments	618,145	779,145
	625,771	932,328
PROPERTY AND EQUIPMENT, net	5,169,723	3,976,110
Total Assets	$ 6,620,668	$ 5,321,391
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	$ 25,103	$ 0
Accounts payable	25,072	136,936
Accrued liabilities	45,542	53,509
Deferred income	522,706	395,061
Total Liabilities	618,423	585,506
NET ASSETS		
Unrestricted		
Undesignated	4,924,607	3,724,557
Designated for endowment fund	625,711	932,328
Designated for capital projects	291,112	0
Total Unrestricted net assets	5,841,430	4,656,885
Temporarily restricted	155,815	54,000
Permanently restricted	5,000	25,000
Total Net Assets	6,002,245	4,735,885
Total Liabilities and Net Assets	$ 6,620,668	$ 5,321,391

See notes to statement of financial position.

SUN VALLEY CENTER FOR THE ARTS, INC.

NOTES TO STATEMENT OF FINANCIAL POSITION

May 31, 2017 and 2016

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Sun Valley Center for the Arts, Inc., (the Center) is a not-for-profit center dedicated to enrich the community through transformative arts and educational experiences. The Center provides educational and cultural programming for the citizens of Blaine County, Idaho.

Basis of Accounting

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

Basis of Presentation

The Center 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.

Use of Estimates

The Center uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Center considers all unrestricted, short-term, highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Center to significant concentrations of credit risk consist principally of cash and investments. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation for up to $250,000 and the Securities Investor Protection Incorporation for up to $500,000. At May 31, 2017 and 2016, the Center's uninsured balances totaled $513,632 and $599,373, respectively.

Receivables

Unconditional promises to give are recognized as revenues in the period received as assets, decreases of liabilities, or expenses, depending on the form of the benefit received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Receivables are not collateralized and, as a result, management continually monitors the financial condition and payment history of its income sources to reduce the risk of loss. As of May 31, 2016, the Center had decided to reposition its capital campaign. As a result, all remaining pledge receivables were cancelled and written off. The Center plans on seeking new pledges for the revamped capital campaign in the future.

Receivables are stated at the amount management expects to collect from outstanding balances. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end.

Investments

Investments with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value

The Center uses fair value for reporting financial assets and liabilities. A hierarchy for reporting the reliability of input measurements is used to assess fair value for all assets and liabilities. Fair value is defined as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. Certain financial instruments are carried at cost on the statement of financial position, which approximates fair value due to their short term, highly liquid nature.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from five to forty years. The Center capitalizes all property and equipment with a cost in excess of $1,000 and a useful life longer than one year.

Compensated Absences

Accrued liabilities include amounts for vacation days, which are earned ratably during the year based upon length of employment. Accrued liabilities at May 31, 2017 and 2016 was $45,542 and $53,509, respectively.

Deferred Revenue

Ticket sales pertaining to future events are deferred until the performance occurs. For the years ended May 31, 2017 and 2016, the balances for deferred revenue were $522,706 and $395,061, respectively.

Donated Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributed services are reflected in the financial statements at the fair value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center also has many individuals who volunteer their time and perform a variety of tasks that assist the organization with its fund-raising and program services. No amounts have been reflected in the financial statements for these donated services.

Income Tax Status

The Center is classified as a Section 501(c)(3) Organization that is exempt from income taxes under the Federal Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Center may recognize tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2017 or 2016.

The Center files Form 990 in the U.S. federal jurisdiction. The Center is generally no longer subject to examination by the Internal Revenue Service for years before 2013.

Reclassifications

Certain amounts at May 31, 2016 have been reclassified to conform to the current year presentation. These reclassifications did not have any effect on net assets for the year ended May 31, 2016.

Subsequent Events

The Center has evaluated subsequent events through November 7, 2017, which is the date the financial statements were available to be issued.

NOTE B - INVESTMENTS

Investments as of May 31, are summarized as follows:

	2017	2016
Cost	$ 584,002	$ 903,276
Unrealized gain	41,769	29,052
Fair value	$ 625,771	$ 932,328

NOTE C - FAIR VALUE OF ASSETS AND LIABILITIES

The fair value hierarchy 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 below:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Center measures its investments using Level 1 inputs.

NOTE C - FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The following table sets forth by level, within the fair value hierarchy, the Center's investments at fair value as of May 31:

		Fair Value Measurements Using		
	Fair Value	Level 1	Level 2	Level 3
May 31, 2017				
Mutual funds	$ 618,146	$ 618,146	$ 0	$ 0
May 31, 2016				
Mutual funds	$ 779,145	$ 779,145	$ 0	$ 0

NOTE D - PROPERTY AND EQUIPMENT

	2017	2016
Buildings and land	$ 4,841,210	$ 3,594,426
Improvements	507,353	507,353
Furniture, fixtures and equipment	645,333	625,433
Construction in progress	284,099	279,181
	6,277,995	5,006,393
Less accumulated depreciation	1,108,272	1,030,283
	$ 5,169,723	$ 3,976,110

During the year ended May 31, 2017, a patron donated the Liberty Theater, which was valued at $1,247,000. The theater is included in buildings and land totals above.

NOTE E - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. During 2017, $20,000 was released to unrestricted assets. The income from the assets is to be used to cover maintenance costs on a new facility that is yet to be completed. The endowment does not generate any significant amount of income and is just held in corpus by the organization.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

As of May 31, temporarily restricted net assets were being held for the following purpose:

	2017	2016
Liberty Theater	$ 2,500	$ 0
Scholarship	15,000	6,000
21st & 22nd Theater Seasons	71,020	44,000
Performing Arts Equipment	0	2,500
Education	34,500	1,500
Night Watch Exhibition	20,350	0
Summer Concert Series	12,445	0
	$ 155,815	$ 54,000

NOTE G - ENDOWMENT FUNDS

The Center's endowment consists of one board designated fund and one donor-restricted endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Since the board designated endowment amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

The Board of Trustees of the Center has interpreted the Idaho Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restriction endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net

NOTE G - ENDOWMENT FUNDS (Continued)

assets until those amounts are paid out of the Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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 Center, and (7) the Center's investment policies.

The Center has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk.

Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Center has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value as determined on the last day of the four most previous quarters preceding the determination of the corporation's budget for the forthcoming year. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Center expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 7% annually. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

During 2017, the center released $300,000 of board designated endowment for short term operational needs. The center's board intends for this amount to be replaced into the fund in the near future.

NOTE G - ENDOWMENT FUNDS (Continued)

Endowment Net Asset Composition by Type of Fund

May 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 625,771	$ 0	$ 0	$ 625,771
Donor restricted endowment funds			5,000	5,000
Total	$ 625,771	$ 0	$ 5,000	$ 630,771

May 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 932,328	$ 0	$ 0	$ 932,328
Donor restricted endowment funds			25,000	25,000
Total	$ 932,328	$ 0	$ 25,000	$ 957,328

NOTE G - ENDOWMENT FUNDS (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets. As of May 31, 2017 there were no such deficiencies.

NOTE H - DEFINED CONTRIBUTION PLAN

The Center has a defined contribution plan for eligible employees. Employee participation in this plan is voluntary and subject to certain minimum eligibility requirements. Under the plan, authorized and funded employer contributions for the years ended May 31, 2017 and 2016 were $29,893 and $30,249, respectively.