

**THE FOUNDATION OF ARTS  
FOR NORTHEAST ARKANSAS, INC.  
JONESBORO, ARKANSAS**

**FINANCIAL STATEMENTS  
JULY 31, 2015**

Table of Contents

Independent Auditors' Report.....	1 - 2
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	6 – 10
Schedule of Functional Expenses.....	11

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INSTITUTE OF CERTIFIED  
PUBLIC ACCOUNTANTS

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ARKANSAS SOCIETY  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
The Foundation of Arts for Northeast Arkansas, Inc.  
Jonesboro, Arkansas

We have audited the accompanying financial statements of The Foundation of Arts for Northeast Arkansas, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2015, and the related statements of activities 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foundation of Arts for Northeast Arkansas, Inc. as of July 31, 2015, 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.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Jones & Company LTD". The signature is written in a cursive, flowing style.

Jones & Company, Ltd.  
Jonesboro, Arkansas  
December 29, 2015

**The Foundation of Arts for Northeast Arkansas  
Statement of Financial Position**

**July 31,  
2015**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	84,800
Tuition receivable		1,883
Grants receivable		1,500
Inventory		3,305
		3,305
	\$	91,488

**Property and Equipment**

Leasehold improvements	\$	18,313
Furniture, fixtures and equipment		92,781
Less accumulated depreciation		61,443
		49,651
	\$	49,651

**Other Assets**

Capital campaign contributions received	\$	5,300
		5,300

**Total Assets**

\$ 146,439

**LIABILITIES AND NET ASSETS**

**Liabilities**

Accounts payable	\$	7,370
Accrued liabilities		28,344
Deferred revenue		2,128
Current obligations under capital lease		7,064
		7,064
	\$	44,906

**Long-Term Liabilities**

Noncurrent obligations under capital lease	\$	22,281
		22,281

**Total Liabilities**

\$ 67,187

**Net Assets**

Unrestricted	\$	72,452
Temporarily restricted		6,800
		79,252
<b>Total Net Assets</b>	\$	79,252

**Total Liabilities and Net Assets**

\$ 146,439

*The accompanying notes are an integral part of these financial statements.*

**The Foundation of Arts for Northeast Arkansas  
Statements of Activities  
For the Year Ended**

	<b>July 31, 2015</b>
<b>Changes in Unrestricted Net Assets</b>	
<b>Revenue and Other Support</b>	
Donated materials, services, and facilities	\$ 169,806
Education	144,100
Production	130,106
Grants and allocations	55,283
Donations	49,776
Fundraising	44,107
Concessions, costumes and other sales	37,229
Outreach	9,297
Reimbursements for custodial expenses	7,200
Rent	6,433
<b>Total Revenue and Other Support</b>	<b>\$ 653,337</b>
<b>Total Net Assets Released from Restrictions</b>	<b>\$ 15,806</b>
<b>Total Unrestricted Revenue and Other Support</b>	<b>\$ 669,143</b>
<b>Functional Expenses</b>	
Production costs	\$ 234,451
Educational costs	146,159
General and administrative	229,947
Fundraising expenses	26,583
<b>Total Functional Expenses</b>	<b>\$ 637,140</b>
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 32,003</b>
<b>Changes In Temporarily Restricted Net Assets</b>	
Capital campaign contributions	\$ 5,300
Circa 1859, Inc. grant	1,500
Net assets released from restrictions	(15,806)
<b>Decrease in Temporarily Restricted Net Assets</b>	<b>\$ (9,006)</b>
Change in Net Assets	<b>\$ 22,997</b>
Beginning Net Assets	56,255
<b>Ending Net Assets</b>	<b>\$ 79,252</b>

*The accompanying notes are an integral part of these financial statements.*

**The Foundation of Arts for Northeast Arkansas**  
**Statement of Cash Flows**  
**For the Year Ended**

	<b>July 31, 2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 22,997
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	12,104
Loss on disposal of property	1,548
(Increase) decrease in:	
Accounts receivable	1,560
Grants receivable	14,306
Inventory	1,125
Increase (decrease) in:	
Accounts payable	(976)
Accrued expenses	10,185
Deferred revenue	151
Net cash provided by operating activities	<u>\$ 63,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Payments for the purchase of property	\$ (10,909)
Net cash used for investing activities	<u>\$ (10,909)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capital campaign contributions received	\$ (5,300)
Principal payments on capital leases	(6,889)
Net cash used for financing activities	<u>\$ (12,189)</u>
<b>NET INCREASE IN CASH</b>	<b>\$ 39,902</b>
Beginning cash	<u>44,898</u>
<b>Ending Cash</b>	<b><u>\$ 84,800</u></b>
<b><i>Supplemental Disclosures for Cash Flows</i></b>	
Cash paid for interest	\$ 829
Non-cash activities	
Advertising and marketing	\$ 45,834
Rent	96,000
Utilities & facilities maintenance	27,972
Capital lease utilized to purchase property and equipment	\$ 36,234
Purchase of property and equipment via capital lease	(36,234)
	<u>\$ -</u>

*The accompanying notes are an integral part of these financial statements.*

**The Foundation of Arts for Northeast Arkansas, Inc.**  
**Notes to the Financial Statements**

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**1) NATURE OF BUSINESS**

The Foundation of Arts for Northeast Arkansas, Inc. (the “FOA”) is a nonprofit corporation that offers community enrichment through arts education, community theatre, and mission outreach. The FOA has been serving Jonesboro, Arkansas and surrounding communities since 1986.

**2) SIGNIFICANT ACCOUNTING POLICIES**

**Advertising and Marketing**

The FOA expenses advertising and marketing costs as incurred. Advertising expense, including donated advertising, for the year end July 31, 2015 was \$46,688.

**Basis of Accounting**

The financial statements of the FOA are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized when earned and when the amount and timing of the revenue can be reasonably estimated. Expenses are recognized as they occur.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-210, *Presentation of Statements of Not-For-Profit Entities*. Under FASB ASC 958-210, the FOA is required to report 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.

*Permanently restricted net assets* – net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the FOA. Generally, the donors of these assets permit the FOA to use all or part of the income earned on related investments for general or specific purposes in support of the FOA.

*Temporarily restricted net assets* – net assets subject to donor-imposed stipulations that may or will be met by actions of the FOA and/or passage of time.

*Unrestricted net assets* – net assets which represent resources generated from operations or that are not subject to donor-imposed stipulations.

**Contributions**

The FOA has adopted the provision of FASB ASC 958-605, *Revenue Recognition for Contributions*; whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of the restriction. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Contributions are recorded at their fair market value at the date of their receipt.

**The Foundation of Arts for Northeast Arkansas, Inc.**  
**Notes to the Financial Statements**

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**2) SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Donated Non-Cash Assets, Donated Facilities, and Donated Services**

Donated noncash assets and donated facilities are recorded at their fair values in the period received. The FOA recognizes the fair value of contributed services it receives if such services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. The FOA also receives a significant amount of donated services from unpaid volunteers who assist in various programs and fundraising which do not meet the criteria for financial statement recognition in accordance with FASB ASC 958-605 *Not-for-Profit Entities Revenue Recognition*. Refer to Note 7 for further disclosure.

**Date of Management Review**

The FOA has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 29, 2015, the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

**Deferred Revenue**

Deferred revenue represents that portion of total revenue from ticket sales or tuition fees received by the FOA that have not yet been earned. All deferred revenues as of July 31, 2015 were from tuition fees.

**Income Taxes**

The FOA is exempt from federal income tax under the provisions of Internal Revenue Code Section 501(c)(3). Therefore, no provision for federal or state income taxes has been made.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the FOA and recognize a tax liability (or asset) if the FOA has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The FOA has analyzed all tax positions and does not feel any meet the requirements for reporting under the standard. The FOA is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The FOA believes it is no longer subject to income tax examinations for years prior to 2012.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

**Inventory**

Inventory consists of dance attire and is stated at the lower of cost or market. Cost is determined using the first in, first-out method.

**The Foundation of Arts for Northeast Arkansas, Inc.**  
**Notes to the Financial Statements**

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**2) SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and Equipment**

Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation and are depreciated using the straight-line method over estimated lives as follows:

Leasehold improvements	10 – 40 years
Furniture, fixtures and equipment	3 – 10 years

Depreciation expense was \$12,104 for the year ended July 31, 2015. Additions that extend the lives of the assets are capitalized while repairs and maintenance costs are expensed as incurred. When property and equipment are retired, the related cost and accumulated depreciation is removed from the statement of financial position and the resultant gain or loss is recorded.

**Tuition and Grants Receivables**

Tuition and grants receivables are reported at the amount the FOA expects to collect on balances outstanding at year end. If necessary, the FOA provides for an allowance for doubtful accounts receivable. Accounts are written off against the allowance when deemed to be uncollectible. The receivables have been adjusted for all known uncollectible accounts, and no reserve was considered necessary.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

**3) GRANTS RECEIVABLE**

The FOA had grant funds receivable as of July 31, 2015 of the following:

Circa 1859, Inc.	\$ 1,500
	<u>\$ 1,500</u>

The FOA considers all grants billed for, but not received as a receivable. No allowance is deemed necessary.

**The Foundation of Arts for Northeast Arkansas, Inc.**  
**Notes to the Financial Statements**

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**4) CAPITAL LEASE**

The FOA leases a copier under a non-cancelable lease agreement expiring July 31, 2019. The lease contains a base amount with additional cost for usage over the allowed maximum amount. The following is an analysis of the leased property under the capital lease.

Furniture, fixtures and equipment	\$	36,234
Less accumulated depreciation		7,247
		28,987
	\$	28,987

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of July 31, 2015.

Fiscal year ending July 31,		
2016	\$	7,716
2017		7,716
2018		7,716
2019		7,716
Total minimum lease payments	\$	30,864
Less: Amount representing interest <sup>(a)</sup>		(1,519)
Present value of net minimum lease payments <sup>(b)</sup>	\$	29,345

- (a) Amount necessary to reduce net minimum lease payments to present value calculated at the FOA's incremental borrowing rate at lease inception.
- (b) Reflected in the statement of financial position as current and noncurrent obligations under capital lease of \$7,064 and \$22,281, respectively.

**5) OPERATING LEASES**

The FOA leases a portion of its facilities under two leases expiring June 30, 2017 and August 31, 2017. The first lease is for five years and has an option to renew with a ten percent increase in rent for an additional five year period. The second is a triple net lease for five years and has an option to renew with a \$200 increase in monthly rent for an additional one year period.

Rent expense for the operating leases for the year ended July 31, 2015 amounted to \$36,000.

The following is a schedule by year of future minimum rental payments required under the operating leases in effect as of July 31, 2015.

2016	\$	36,000
2017		34,800
2018		1,800
		72,600
	\$	72,600

**The Foundation of Arts for Northeast Arkansas, Inc.**  
**Notes to the Financial Statements**

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**6) TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of July 31, 2015 consist of the following:

Capital campaign contributions	\$ 5,300
Circa 1859, Inc. grant receivable	1,500
	<u>\$ 6,800</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose for restriction accomplished:	
General and administrative expenses	\$ 15,806
	<u>\$ 15,806</u>

**7) DONATED SERVICES AND FACILITIES**

Donated services and facilities have been included in the financial statements at fair market value and are reflected as production, general and administrative, or fundraising expenses as applicable in the statement of functional expenses. The following table summarizes the donated services and facilities for the year ended July 31, 2015.

Advertising and marketing	\$ 45,834
Facilities	96,000
Utilities	25,172
Other services	2,800
	<u>\$ 169,806</u>

**8) FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among program and supporting services benefited, based upon various subjective factors including, but not limited to, an estimate of employees' time dedicated to program services and physical location space utilized.

**9) CONCENTRATIONS**

For the year ended July 31, 2015 the FOA received approximately 21% of its revenue and other support from one donor.

**The Foundation of Arts for Northeast Arkansas**  
**Schedule of Functional Expenses**  
**For the Year Ended July 31, 2015**

	Production Costs	Educational Costs	General & Administration	Fundraising	Total
	\$	\$	\$	\$	\$
Advertising and marketing	367	487	-	-	854
Bad debt expense	-	3,817	-	-	3,817
Banking and merchant fees	992	8,486	-	136	9,614
Cost of sales	3,798	6,217	-	391	10,406
Depreciation	1,812	1,812	6,668	1,812	12,104
Dues, memberships and subscriptions	-	-	4,254	-	4,254
Education					
- Supplies	-	2,164	-	-	2,164
- Spring showcase costumes and other	-	12,436	-	-	12,436
- Other	-	312	-	-	312
Facilities upkeep, taxes and utilities	6,480	7,823	15,640	-	29,943
Fundraising	2,512	-	-	20,913	23,425
In-kind expenses					
- Advertising and marketing	36,667	9,167	-	-	45,834
- Rent	86,400	-	9,600	-	96,000
- Utilities & facilities maintenance	24,055	-	3,917	-	27,972
Insurance	-	-	16,418	-	16,418
Interest expense	207	207	208	207	829
Loss on disposal of fixed assets	-	-	1,548	-	1,548
Miscellaneous	81	5	1,659	199	1,944
Office supplies, equipment and copier	2,829	3,019	2,907	2,836	11,591
Outreach	-	2,143	-	-	2,143
Production	68,251	-	433	89	68,773
Professional fees	-	-	9,600	-	9,600
Rent	-	18,300	17,700	-	36,000
Salaries, employee benefits, and employer expense	-	69,764	139,395	-	209,159
	<u>\$ 234,451</u>	<u>\$ 146,159</u>	<u>\$ 229,947</u>	<u>\$ 26,583</u>	<u>\$ 637,140</u>

*See independent auditors' report.*