

THE FOUNDATION OF ARTS
FOR NORTHEAST ARKANSAS, INC.

FINANCIAL STATEMENTS

Years Ended July 31, 2014 and 2013

GOAD & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
JONESBORO, ARKANSAS

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GOAD & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

The Finance Committee and Board of Directors
The Foundation of Arts for Northeast Arkansas, Inc.

We have audited the accompanying financial statements of The Foundation of Arts for Northeast Arkansas, Inc. (a nonprofit corporation), which comprise the statements of financial position as of July 31, 2014 and 2013, and the related statements of activities, functional expenses, 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 express an 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 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 foundation'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

foundation'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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Goad & Company

Goad & Company, PLLC
December 10, 2014

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENTS OF FINANCIAL POSITION

July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 45,219	\$ 8,687
Unconditional promises to give	15,806	44,568
Tuitions receivable	3,443	4,397
Prepaid expenses	0	7,075
Inventory	4,109	2,949
Property, plant, and equipment, net	16,160	15,751
Total Assets	<u>\$ 84,737</u>	<u>\$ 83,427</u>
LIABILITIES		
Accounts payable	\$ 8,362	\$ 12,301
Accrued payroll and liabilities	18,143	15,729
Deferred revenue	1,977	1,807
Total Liabilities	<u>28,482</u>	<u>29,837</u>
NET ASSETS		
Unrestricted	40,449	47,179
Temporarily restricted	15,806	6,411
Total Net Assets	<u>56,255</u>	<u>53,590</u>
Total Liabilities and Net Assets	<u>\$ 84,737</u>	<u>\$ 83,427</u>

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENTS OF ACTIVITIES
Years Ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
UNRESTRICTED NET ASSETS:		
Revenue and Support		
Revenue		
Production	\$ 92,927	\$ 104,897
Education	139,254	166,066
Rent	8,386	6,065
Fundraising	21,275	27,275
Concessions and other support	23,832	40,012
Interest	14	27
Outreach	8,903	10,178
Miscellaneous	2,421	894
Total Revenue	<u>297,012</u>	<u>355,414</u>
Support		
Contributions	1,497	1,171
Grants	500	35,830
Donated materials, services, and facilities	174,577	160,843
Total Support	<u>176,574</u>	<u>197,844</u>
Total Revenue and Support	473,586	553,258
Net Assets Released From Restrictions:		
Satisfaction of purpose restrictions	<u>118,310</u>	<u>74,796</u>
Increase in Unrestricted Net Assets Before Expenses	<u>591,896</u>	<u>628,054</u>
FUNCTIONAL EXPENSES:		
Production costs	254,013	248,781
Educational costs	147,804	178,550
General and administrative	167,827	176,016
Fundraising expenses	28,982	34,800
Total Functional Expenses	<u>598,626</u>	<u>638,147</u>
Change in Unrestricted Net Assets	(6,730)	(10,094)

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENTS OF ACTIVITIES
 Years Ended July 31, 2014 and 2013
 (Continued)

	<u>2014</u>	<u>2013</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	69,899	35,297
Grants	15,806	0
Advertising and promotion	42,000	30,000
United Way	0	15,000
Total Restricted Support	<u>127,705</u>	<u>80,297</u>
Net assets released from restrictions	<u>(118,310)</u>	<u>(74,796)</u>
 Increase in Temporarily Restricted Net Assets	 <u>9,395</u>	 <u>5,501</u>
 Change in Net Assets	 2,665	 (4,593)
 Net Assets, Beginning of year	 <u>53,590</u>	 <u>58,183</u>
 Net Assets, End of year	 <u>\$ 56,255</u>	 <u>\$ 53,590</u>

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended July 31, 2014

	Production Cost	Educational Cost	General & Administrative	Fund- Raising	Total
Audit & legal	\$ 1,500	\$ 1,500	\$ 1,500	\$ 500	\$ 5,000
Bank merchant fees	1,894	5,681	0	0	7,575
Bad Debt	0	0	18,634	0	18,634
Class supplies	0	2,582	0	0	2,582
Concessions and speciality merchandise	3,683	11,663	0	0	15,346
Continuing education	0	0	114	0	114
Contract labor	3,600	0	3,600	0	7,200
Depreciation expense	617	1,850	617	0	3,084
Donated material, services and facilities	148,390	13,966	8,729	3,492	174,577
Dues, memberships, and subscriptions	0	0	1,241	0	1,241
Fundraising expense	184	0	458	7,807	8,449
Gifts	0	0	87	0	87
Insurance	3,377	3,377	1,930	965	9,649
Occupancy expense	2,510	36,399	23,220	628	62,757
Office expense	5,997	5,997	5,997	1,999	19,990
Outreach expense	1,194	1,651	200	0	3,045
Payroll	35,606	62,835	98,441	12,567	209,449
Production costs	45,461	303	3,059	1,024	49,847
Total	<u>\$ 254,013</u>	<u>\$ 147,804</u>	<u>\$ 167,827</u>	<u>\$ 28,982</u>	<u>\$ 598,626</u>

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended July 31, 2013

	Production Cost	Educational Cost	General & Administrative	Fund- Raising	Total
Advertising	\$ 0	\$ 0	\$ 507	\$ 0	\$ 507
Audit & legal	1,876	1,876	1,876	626	6,254
Bank merchant fees	1,633	4,898	0	0	6,531
Class supplies	0	14,779	0	0	14,779
Concessions and speciality merchandise	6,416	20,314	0	0	26,730
Continuing education	45	145	12	0	202
Contract labor	3,650	0	3,650	0	7,300
Depreciation expense	633	1,899	633	0	3,165
Donated material, services and facilities	136,271	13,485	7,871	3,216	160,843
Dues, memberships, and subscriptions	0	0	2,036	0	2,036
Fundraising expense	135	0	1,015	7,225	8,375
Gifts	73	0	352	27	452
Insurance	7,296	7,296	4,170	2,085	20,847
Miscellaneous	0	0	1,237	0	1,237
Occupancy expense	2,160	31,829	20,437	720	55,146
Office expense	7,181	7,181	7,181	2,394	23,937
Outreach expense	2,933	197	126	0	3,256
Payroll	41,535	73,333	115,057	15,483	245,408
Production costs	36,944	1,318	9,856	3,024	51,142
Total	<u>\$ 248,781</u>	<u>\$ 178,550</u>	<u>\$ 176,016</u>	<u>\$ 34,800</u>	<u>\$ 638,147</u>

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC.

STATEMENTS OF CASH FLOWS
Years Ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,665	\$ (4,593)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,084	3,165
Bad debt expense	18,634	0
(Increase) decrease in current assets:		
Unconditional promises to give	10,128	(27,255)
Tuitions receivable	954	(178)
Prepaid expenses	7,075	(4,892)
Inventory	(1,160)	1,065
Decrease (increase) in current liabilities:		
Accounts payable	(3,939)	4,473
Accrued payroll and liabilities	2,414	2,627
Deferred revenue	170	1,807
Net Cash Provided By (Used In) Operating Activities	<u>40,025</u>	<u>(23,781)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	<u>(3,493)</u>	<u>(2,169)</u>
Net Cash Used In Investing Activities	<u>(3,493)</u>	<u>(2,169)</u>
Net Change in Cash and Cash Equivalents	36,532	(25,950)
Cash and Cash Equivalents, Beginning of Year	<u>8,687</u>	<u>34,637</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 45,219</u></u>	<u><u>\$ 8,687</u></u>

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

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Foundation of Arts of Northeast Arkansas, Inc. (the Foundation) is a nonprofit corporation that promotes music, theater, dance and visual art events in Northeast Arkansas. The Foundation operates free of rent expense in the offices located in the Forum, which is owned by the City of Jonesboro; however, it does pay rent for the space used for administrative and educational facilities. The Foundation is eligible to apply for hotel/motel tax collection by the City of Jonesboro.

Basis of Accounting

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

Financial Statement Presentation

The Foundation has adopted FASB Accounting Standards Codification 958-205, *Presentation of Financial Statements* which requires reporting information regarding its financial position and activities in three classes of net assets: unrestricted net assets, which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets, which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets, which represents resources whose use by the foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the foundation.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable

The Foundation uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and managements' analysis of specific promises made.

Contributions

The Foundation has also adopted FASB Accounting Standards Codification 958-605, *Revenue Recognition*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional Promises to Give

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Tuitions Receivable

Tuitions receivable represents registration fees due the Foundation for classes attended. When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged directly against earnings. Subsequent recoveries of amounts previously written off are credited directly to earnings. Management believes that all receivable balances are fully collectible at July 31, 2014 and 2013.

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

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

Property, Plant and Equipment

Property, plant and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Donated equipment is recorded at fair value at the date of the donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives of the related assets ranging from three to twenty years.

Deferred Revenue

Deferred revenue represents that portion of total revenue from ticket sales or tuition fees received by the Foundation that have not yet been earned. There were no deferred revenues from ticket sales as of July 31, 2014 and 2013.

Donated Materials, Facilities, and Services

Donated materials, facilities, and services are recorded at fair market value if the contribution meets the requirements for recognition in the financial statements. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services and have not been recorded. See Note 6 for further disclosure.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision has been made for federal income taxes in the accompanying financial statements. There was no unrelated business income for the years ended July 31, 2014 or 2013.

Uncertain Tax Positions

Management of the Foundation considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements. The Foundation's 2010 through 2012 tax returns remain subject to examination by taxing authorities, generally for three years.

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Foundation expenses advertising costs as incurred. No advertising expense was incurred for the year ended July 31, 2014 and expenses totaled \$507 for the year ended July 31, 2013.

Compensated Absences

Employees are entitled to paid vacations and sick days depending on job classification, length of service, and other factors. The Foundation estimates the amount of compensation for future absences, and accordingly, a liability has been recorded in the accompanying financial statements.

NOTE 2 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, which are receivable in less than one year, are as follows at July 31, 2014 and 2013:

	2014	2013
Pledges receivable	\$ 0	\$ 1,900
Grants receivable	15,806	42,668
	<u>\$ 15,806</u>	<u>\$ 44,568</u>

The unconditional promises to give are temporarily restricted funds which management considers fully collectable at July 31, 2014 and 2013.

NOTE 3 – TUITIONS RECEIVABLE

Accounts receivable from students for class tuition consists of the following at July 31, 2014 and 2013:

	2014	2013
Tuitions receivable	\$ 3,443	\$ 4,397

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

The following is a summary of property, plant, and equipment, less accumulated depreciation, at July 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 16,613	\$ 16,613
Machinery and equipment	81,512	78,019
	<u>98,125</u>	<u>94,632</u>
Less accumulated depreciation	(81,965)	(78,881)
	<u>\$ 16,160</u>	<u>\$ 15,751</u>

Depreciation expense for the years ended July 31, 2014 and 2013 totaled \$3,084 and \$3,165, respectively.

NOTE 5 – OPERATING LEASES

The Foundation has an equipment operating lease that will expire December 2014. This lease contains a base amount of \$667 per month beginning January 2013 with additional cost for usage over the allowed maximum amount.

On June 10, 2012 the Foundation entered into a five year triple net lease for a portion of its facilities for \$1,200 per month beginning July 1, 2012 and ending June 30, 2017. The landlord grants the option to lease the space for an additional five years with a ten percent increase.

On August 6, 2012 the Foundation entered into a triple net lease agreement for a portion of its facilities for \$1,800 per month for period September 1, 2012 through August 31, 2017 with a one year renewal option for \$2,000 per month.

Rental expense was \$36,000 and \$35,450 for the years ended July 31, 2014 and 2013, respectively.

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 5 – OPERATING LEASES (Continued)

Future minimum lease payments under the operating leases as of July 31, 2014 are:

<u>Year Ending July 31:</u>	
2015	\$ 39,335
2016	36,000
2017	34,800
2018	1,800
	<u>\$ 111,935</u>

NOTE 6 – DONATED MATERIALS, SERVICES, AND FACILITIES

A number of volunteers have donated significant amounts of their time to the Foundation’s program services and in its fund raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services are not professional in nature, and, as such, do not meet the criteria for recognition as contributed services. The Foundation estimates the total hours of service to be 26,000 and 13,000 for the years ending July 31, 2014 and 2013, respectively.

Donated materials, services and facilities for special events have been included in the financial statements at fair market value and are reflected as production, general and administrative, or fundraising expenses in the statement of functional expenses. The following items totaling \$174,577 and \$160,843 were donated for the years ended July 31, 2014 and 2013, respectively.

	<u>2014</u>	<u>2013</u>
Advertising	\$ 41,432	\$ 37,329
Materials and facilities	96,000	96,000
Services	37,145	27,514
	<u>\$ 174,577</u>	<u>\$ 160,843</u>

THE FOUNDATION OF ARTS FOR NORTHEAST ARKANSAS, INC

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

(Continued)

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation's financial instruments are cash, unconditional promises to give, tuitions receivable, prepaid expenses, inventory, accounts payable, accrued liabilities and deferred revenue. The fair value of the instruments approximate their carrying values, either because of their short-term nature, or because their terms are similar to market terms.

NOTE 8 – CONCENTRATIONS OF RISK

The Foundation maintains cash at a local bank, which is insured by the Federal Deposit Insurance Corporation up to \$250,000. At July 31, 2014 and 2013, the Foundation's cash was fully insured with federal depository insurance.

The Foundation receives a significant portion of its funding from various grantors and donors; thus, its funding is vulnerable to changes in their priorities. Management does not expect that the support from these sources will be lost in the near term.

The Foundation conducts operations solely in Northeast Arkansas and, therefore, is subject to risks from changes in local economic conditions.

NOTE 9 – SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through December 10, 2014 the date the financial statements were available to be issued.