

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

**FINANCIAL STATEMENTS  
JULY 31, 2018 AND 2017**

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## 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 statements of financial position as of July 31, 2018 and 2017, and the related statements of activities and changes in net assets 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.

### **Auditors' 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.

"AN INDEPENDENT MEMBER OF THE BDO ALLIANCE USA"

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## **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, 2018 and 2017, 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.

## **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are 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  
February 26, 2019

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

	<b>July 31, 2018</b>	<b>July 31, 2017</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 62,386	\$ 99,158
Accounts receivable	12,528	9,233
Grants receivable	27,500	-
Inventory	4,066	3,826
	\$ 106,480	\$ 112,217
 <b>Property and Equipment</b>		
Leasehold improvements	\$ 41,657	\$ 41,657
Furniture, fixtures and equipment	124,503	122,192
	\$ 166,160	\$ 163,849
Less accumulated depreciation	110,154	91,647
	\$ 56,006	\$ 72,202
 <b>Total Assets</b>	 \$ 162,486	 \$ 184,419
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 7,372	\$ 14,883
Accrued liabilities	11,897	16,098
Deferred revenue	5,712	3,691
Current portion of long term debt	-	4,737
Current obligations under capital lease	7,613	8,053
	\$ 32,594	\$ 47,462
 <b>Long-Term Liabilities</b>		
Noncurrent portion of long term debt	\$ -	\$ 13,815
Noncurrent obligations under capital lease	-	6,986
	\$ -	\$ 20,801
 <b>Total Liabilities</b>	 \$ 32,594	 \$ 68,263
 <b>Net Assets</b>		
Unrestricted	\$ 129,892	\$ 116,156
<b>Total Net Assets</b>	\$ 129,892	\$ 116,156
 <b>Total Liabilities and Net Assets</b>	 \$ 162,486	 \$ 184,419

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

**The Foundation of Arts for Northeast Arkansas**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended**

	<b>July 31, 2018</b>	<b>July 31, 2017</b>
<b>Changes in Unrestricted Net Assets</b>		
<b>Revenue and Other Support</b>		
Donated materials, services, and facilities	\$ 177,962	\$ 178,191
Education	181,712	170,171
Production	157,294	133,718
Grants and allocations	76,256	71,073
Donations	80,051	78,519
Fundraising	31,540	28,973
Concessions, costumes and other sales	34,252	33,148
Outreach	17,580	13,698
Reimbursements for expenses	1,571	26,458
Rent	11,468	6,480
<b>Total Revenue and Other Support</b>	<b>\$ 769,686</b>	<b>\$ 740,429</b>
<b>Total Net Assets Released from Restrictions</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Unrestricted Revenue and Other Support</b>	<b>\$ 769,686</b>	<b>\$ 740,429</b>
<b>Functional Expenses</b>		
Production costs	\$ 222,874	\$ 250,764
Educational costs	139,296	118,672
Outreach	2,620	7,275
General and administrative	373,727	355,281
Fundraising expenses	17,433	17,337
<b>Total Functional Expenses</b>	<b>\$ 755,950</b>	<b>\$ 749,330</b>
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 13,736</b>	<b>\$ (8,901)</b>
<b>Changes In Temporarily Restricted Net Assets</b>		
Net assets released from restrictions	<b>\$ -</b>	<b>\$ -</b>
<b>Decrease in Temporarily Restricted Net Assets</b>	<b>\$ -</b>	<b>\$ -</b>
Change in Net Assets	<b>\$ 13,736</b>	<b>\$ (8,901)</b>
Beginning Net Assets	<b>\$ 116,156</b>	<b>\$ 125,057</b>
<b>Ending Net Assets</b>	<b>\$ 129,892</b>	<b>\$ 116,156</b>

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

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

	<b>July 31, 2018</b>	<b>July 31, 2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 13,736	\$ (8,901)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	18,506	17,424
(Increase) decrease in:		
Accounts receivable	(3,295)	(351)
Promises to give	-	2,930
Grants receivable	(27,500)	1,250
Inventory	(240)	(1,449)
Increase (decrease) in:		
Accounts payable	(7,511)	9,450
Accrued expenses	(4,201)	2,652
Deferred revenue	2,021	1,747
Net cash provided by operating activities	\$ (8,484)	\$ 24,752
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for the purchase of property	\$ (2,310)	\$ (9,677)
Net cash used for investing activities	\$ (2,310)	\$ (9,677)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on capital leases	\$ (7,426)	\$ (7,242)
Principal payments on note payable	(18,552)	539
Net cash used for financing activities	\$ (25,978)	\$ (6,703)
<b>NET INCREASE IN CASH</b>	\$ (36,772)	\$ 8,372
Beginning cash	99,158	90,786
<b>Ending Cash</b>	\$ 62,386	\$ 99,158
<b><i>Supplemental Disclosures for Cash Flows</i></b>		
Cash paid for interest	292	1,012
Non-cash activities		
Advertising and marketing	52,586	60,136
Rent	96,000	96,000
Utilities & facilities maintenance	21,576	21,776
Note payable utilized to purchase property and equipment	-	-
Purchase of property and equipment via note payable	-	-
	-	-

*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 years ended July 31, 2018 and 2017, was \$55,036 and \$65,334, respectively.

**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. When the restrictions on contributions are met in the same period that the contribution is received, the contribution is reported in the statements of activities as temporarily restricted revenues and as net assets released from restrictions.

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



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

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

**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.

**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 6 for further disclosure.

**Date of Management Review**

The FOA has evaluated events and transactions for potential recognition or disclosure in the financial statements through February 26, 2019, the date the financial statements were available to be issued. No subsequent events have been recognized or disclosed.

**Deferred Revenue**

Deferred revenue represents the 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, 2018 and 2017 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 2015.

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

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

**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. During the years ended July 31, 2018 and 2017, there were not any impairment losses recognized for long-lived assets.

**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.

**Liquidity**

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

**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 \$18,506 and \$17,424 for the years ended July 31, 2018 and 2017, respectively. 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.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. These reclassifications had no effect on the FOA's change in net assets.

**Tuition and Grants Receivables**

The FOA considers all grants billed for, but not received as a receivable. 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.

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

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

**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) 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		28,987
		7,247
	\$	7,247

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, 2018:

Fiscal year ending July 31,		
2019	\$	7,716
Total minimum lease payments	\$	7,716
Less: Amount representing interest <sup>(a)</sup>		(103)
Present value of net minimum lease payments <sup>(b)</sup>	\$	7,613

(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 \$7,613 and \$0, respectively.

**4) OPERATING LEASES**

The FOA leases a portion of its facilities under two leases. The first lease expired June 30, 2017 and the second lease expired August 31, 2017. The second was 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. Both leases are now on a month to month basis and any new terms are being negotiated. Rent expense for the operating leases for the years ended July 31, 2018 and 2017 amounted to \$36,000.

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

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**5) 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 schedule of functional expenses. The following table summarizes the donated services and facilities for the years ended July 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Advertising and marketing	\$ 52,586	\$ 60,136
Facilities	96,000	96,000
Utilities	21,576	21,776
	<u>\$ 170,162</u>	<u>\$ 177,912</u>

**6) 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.

**7) CONCENTRATIONS**

For the years ended July 31, 2018 and 2017 the FOA received approximately 20% and 20% of its revenue and other support from one donor.

**8) RECLASSIFICATION**

At various times, donations and other restricted funds will be reclassified at the request of the donors. These reclassifications are reflected in the statements of activities.

**9) NEW ACCOUNTING PRONOUNCEMENT**

On August 18, 2016, the Financial Accounting Standards Board issued an Accounting Standard Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the Organization for the year ending July 30, 2019, focusses on improving the current net asset classification requirements and information presented in the financial statements and related footnotes for assessing a not-for-profit's liquidity, financial performance, and cash flows. The Organization is in the process of evaluating the impact the standard will have on future financial statements.

**SUPPLEMENTAL INFORMATION**

**The Foundation of Arts for Northeast Arkansas  
Schedule of Functional Expenses  
For the Year Ended July 31, 2018**

	Production Costs	Educational Costs	Outreach	General & Administration	Fundraising	Total
Advertising and marketing	\$ -	\$ -	\$ -	\$ 2,450	\$ -	\$ 2,450
Bad debt expense	-	-	-	5,944	-	5,944
Banking and merchant fees	5,455	6,302	-	-	-	11,757
Continuing education	-	-	-	1,592	-	1,592
Contract labor	31,885	4,264	-	7,198	-	43,347
Cost of sales	-	20,629	-	-	-	20,629
Depreciation	1,812	1,812	-	13,070	1,812	18,506
Dues, memberships and subscriptions	-	-	-	14,710	-	14,710
Education						
- Supplies	-	273	-	-	-	273
- Spring showcase costumes and other	-	7,399	-	-	-	7,399
- Other	-	7,782	-	-	-	7,782
Facilities upkeep, taxes and utilities	-	-	-	26,897	-	26,897
Fundraising	-	-	-	-	15,548	15,548
In-kind expenses						
- Advertising and marketing	42,069	10,517	-	-	-	52,586
- Rent	86,400	-	-	9,600	-	96,000
- Utilities & facilities maintenance	19,418	-	-	2,158	-	21,576
Insurance	-	-	-	16,611	-	16,611
Interest expense	73	73	-	73	73	292
Miscellaneous	-	-	-	7,555	-	7,555
Office supplies, equipment and copier	-	-	-	19,995	-	19,995
Outreach	-	-	471	-	-	471
Production	35,762	-	-	-	-	35,762
Professional fees	-	-	-	12,750	-	12,750
Rent	-	18,300	-	21,577	-	39,877
Salaries, employee benefits, and employer expense	-	61,945	2,149	211,547	-	275,641
	<u>\$ 222,874</u>	<u>\$ 139,296</u>	<u>\$ 2,620</u>	<u>\$ 373,727</u>	<u>\$ 17,433</u>	<u>\$ 755,950</u>

*See independent auditors' report.*

**The Foundation of Arts for Northeast Arkansas  
Schedule of Functional Expenses  
For the Year Ended July 31, 2017**

	Production Costs	Educational Costs	Outreach	General & Administration	Fundraising	Total
Advertising and marketing	\$ 66	\$ -	\$ -	\$ 5,132	\$ -	\$ 5,198
Bad debt expense	-	-	-	1,895	-	1,895
Banking and merchant fees	5,172	6,583	-	-	-	11,755
Continuing education	-	-	-	7,457	-	7,457
Contract labor	31,062	18	-	3,910	-	34,990
Cost of sales	498	17,832	-	-	-	18,330
Depreciation	1,812	1,812	-	11,988	1,812	17,424
Dues, memberships and subscriptions	-	-	-	9,187	-	9,187
Education						
- Supplies	-	578	-	-	-	578
- Spring showcase costumes and other	-	8,749	-	-	-	8,749
- Other	-	4,080	-	-	-	4,080
Facilities upkeep, taxes and utilities	-	-	-	27,563	-	27,563
Fundraising	-	-	-	-	15,272	15,272
In-kind expenses						
- Advertising and marketing	48,109	12,027	-	-	-	60,136
- Rent	86,400	-	-	9,600	-	96,000
- Utilities & facilities maintenance	19,598	-	-	2,178	-	21,776
Insurance	-	-	-	16,351	-	16,351
Interest expense	254	253	-	253	253	1,013
Loss on disposal of fixed assets	-	-	-	-	-	-
Miscellaneous	585	-	-	25,634	-	26,219
Office supplies, equipment and copier	-	-	-	17,140	-	17,140
Outreach	-	-	2,278	-	-	2,278
Production	57,208	-	-	-	-	57,208
Professional fees	-	-	-	11,500	-	11,500
Rent	-	18,300	-	22,177	-	40,477
Salaries, employee benefits, and employer expense	-	48,441	4,997	183,317	-	236,755
	<u>\$ 250,764</u>	<u>\$ 118,672</u>	<u>\$ 7,275</u>	<u>\$ 355,281</u>	<u>\$ 17,337</u>	<u>\$ 749,330</u>

*See independent auditors' report.*