

GADSDEN CULTURAL ARTS
FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
December 31, 2017

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MDA PROFESSIONAL GROUP, P.C.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Gadsden Cultural Arts Foundation, Inc.
Gadsden, Alabama

We have audited the accompanying financial statements of Gadsden Cultural Arts Foundation, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2017 and 2016, and the related statements of support, revenues, expenses, and changes in net assets – modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 auditors' 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.

Gadsden Cultural Arts Foundation, Inc.

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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 assets, liabilities, and net assets of Gadsden Cultural Arts Foundation, Inc. as of December 31, 2017 and 2016 and its support, revenues, expenses, and changes in net assets for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

MDA Professional Group, P.C.

Gadsden, Alabama

February 20, 2018

STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 94,712	\$ 162,647
Investments - Cash	45,222	20,418
	<u>139,934</u>	<u>183,065</u>
PROPERTY AND EQUIPMENT		
Building and Improvements	2,954,823	2,892,858
Building - Symphony	531,886	522,754
Office Equipment	77,887	66,637
Youth Symphony Orchestra Equipment	109,909	105,180
Furniture	70,427	70,427
Kitchen Equipment	41,000	41,000
Children's Museum	38,633	38,633
Automobiles	26,310	26,310
	<u>3,850,875</u>	<u>3,763,799</u>
Less Accumulated Depreciation	<u>2,471,063</u>	<u>2,361,057</u>
	<u>1,379,812</u>	<u>1,402,742</u>
OTHER ASSETS		
Investments, at Cost	<u>1,840,165</u>	<u>874,264</u>
TOTAL ASSETS	<u><u>\$ 3,359,911</u></u>	<u><u>\$ 2,460,071</u></u>

<u>LIABILITIES AND NET ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Long-Term Debt, Current Maturities	51,102	48,614
Capital Lease Obligation, Current Maturities	1,367	1,719
Payroll Tax Liabilities and Other Withholdings	9,442	9,103
	<u>61,911</u>	<u>59,436</u>
LONG TERM LIABILITIES		
Long-Term Debt	159,194	210,372
Capital Lease Obligation, Less Current Maturities	-	1,367
	<u>159,194</u>	<u>211,739</u>
NET ASSETS		
Unrestricted	<u>3,138,806</u>	<u>2,188,896</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,359,911</u></u>	<u><u>\$ 2,460,071</u></u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

STATEMENTS OF SUPPORT, REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS - MODIFIED CASH BASIS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
SUPPORT AND REVENUE		
Grants	\$ 422,401	\$ 405,021
School	308,417	286,050
Gadsden Arts Tickets	224,007	197,237
Youth Symphony Orchestra	191,219	179,537
Pledges, Fundraising, and Legacy	1,238,401	139,165
Imagination Place and Other Activities	129,812	125,688
Projects	105,304	98,377
Exhibits	69,383	77,688
Restaurant Rental	46,519	45,419
Rental - Other	13,767	41,640
Memberships	38,226	35,470
Miscellaneous	7,440	7,550
	<u>2,794,896</u>	<u>1,638,842</u>
EXPENSES		
Other Programs		
School	245,644	215,743
Youth Symphony Orchestra	232,593	185,868
Imagination Place	129,160	106,118
Exhibits	97,450	64,822
Projects	54,093	55,258
Management and General		
Personnel	431,650	460,311
Building Expenses	134,742	142,597
Operating Expenses	161,130	144,153
Depreciation	111,256	110,174
Gadsden Arts Tickets	212,919	190,541
Fundraising and Legacy	79,718	13,802
	<u>1,890,355</u>	<u>1,689,387</u>
OTHER INCOME (EXPENSES)		
Dividend Income	38,180	19,936
Gain on Investment Securities	19,147	19,245
Interest Income	320	109
Transfers of Assets to City of Gadsden	-	(13,078)
Interest Expense	(12,278)	(15,236)
	<u>45,369</u>	<u>10,976</u>
CHANGES IN NET ASSETS	949,910	(39,569)
NET ASSETS, BEGINNING OF YEAR	<u>2,188,896</u>	<u>2,228,465</u>
NET ASSETS, END OF YEAR	<u>\$ 3,138,806</u>	<u>\$ 2,188,896</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION

The Foundation promotes cultural, educational, and artistic activities in the Etowah County, Alabama area.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting differs from accounting principles generally accepted in the United States of America (U.S. GAAP) in that certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

SUPPORT AND REVENUES

Contributions are recorded as income when received. Gifts of property and equipment are recorded at estimated fair market value. Contributions are considered available for unrestricted use unless specifically restricted by donors or the Board of Directors of the Foundation.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Donated property and equipment are recorded at estimated fair market value at the date of the donation. Additions and improvements that extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged against income. Depreciation is computed by the straight-line method based on the estimated useful lives of the individual assets.

INCOME TAXES

There is no provision for income taxes for charitable purpose income since the Foundation is a not-for-profit institution exempt from both federal and state income taxes. The Foundation has received an exemption letter from the Internal Revenue Service granting it tax-exempt status under Internal Revenue Code Section 501(c)(3).

The Foundation's income tax filings are subject to audit by various taxing authorities. The Foundation's open audit periods are 2014 – 2016. In evaluating the Foundation's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Foundation believes its estimates are appropriate based on current facts and circumstances.

ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. Effective January 1, 2008, the Foundation adopted the provisions of ASC 740-10 "Accounting for Uncertainty in Income Taxes" as required. As a result of implementing ASC 740-10, there has been no adjustment to the Foundation's financial statements for the years ending December 31, 2017 and 2016.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

USE OF ESTIMATES

The preparation of financial statements 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.

FINANCIAL STATEMENT PRESENTATION

The Foundation has adopted FASB ASC 958-205, "Financial Statements of Not-for-Profit Organizations." Under FASB ASC 958-205, the Foundation 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. In addition, the Foundation is required to present a statement of cash flows.

Unrestricted Net Assets - Unrestricted net assets are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - These are net assets subject to donor-imposed stipulations that may, or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenues and expenses - modified cash basis, as net assets released from donor restrictions. The Foundation had no temporarily restricted net assets as of December 31, 2017 and 2016.

Permanently Restricted Net Assets - These are net assets subject to donor-imposed stipulations that may be maintained permanently by the Foundation. Generally, donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. The Foundation had no permanently restricted net assets as of December 31, 2017 and 2016.

DEPOSITS

The Foundation maintains its cash balances at several financial institutions located in Gadsden, Alabama. The balances are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2017 and 2016, all of the Foundation's cash balances were insured.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2016 Financial Statements to conform to the 2017 presentation.

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through February 20, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Investments are shown on the statements of assets, liabilities, and net assets – modified cash basis at cost. The market value at December 31, 2017 and 2016 was \$2,216,517 and \$963,712, respectively.

	<u>December 31, 2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and Money Funds	\$ 45,222	\$ 45,222	\$ -
Equities	<u>1,840,165</u>	<u>2,171,295</u>	<u>331,130</u>
	<u>\$ 1,885,387</u>	<u>\$ 2,216,517</u>	<u>\$ 331,130</u>
	 <u>December 31, 2016</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and Money Funds	\$ 20,418	\$ 20,418	\$ -
Equities	<u>874,264</u>	<u>943,294</u>	<u>69,030</u>
	<u>\$ 894,682</u>	<u>\$ 963,712</u>	<u>\$ 69,030</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest Income	\$ 320	\$ 109
Dividend Income	38,180	19,936
Gain on Investment Securities	<u>19,147</u>	<u>19,245</u>
	<u>\$ 57,647</u>	<u>\$ 39,290</u>

NOTE 3 – CAPITAL LEASES

The Capital Lease Obligation of the Gadsden Cultural Arts Foundation, Inc. can be summarized as follows as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital lease obligation dated October 7, 2013, to Marlin Leasing Corporation, payable in monthly installments of \$185 through August 7, 2018, including interest imputed at 21.51%.	<u>1,367</u>	<u>3,086</u>
	<u>\$ 1,367</u>	<u>\$ 3,086</u>

(Continued)

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 3 – CAPITAL LEASES (Continued)

Future minimum lease payments under the capital leases and the present value of the net minimum lease payments as of December 31, 2017 and 2016 are as follows:

<u>Years Ending December 31</u>	
2018	<u>1,480</u>
Total Minimum Lease Payments	1,480
Less: Amount Representing Interest	<u>113</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 1,367</u></u>

NOTE 4 – LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Note payable to The Exchange Bank of Alabama, payable in monthly installments of \$5,039 including interest at a fixed rate of 5.00% through October 2021; collateralized by real property, certain accounts, and other future payments.	<u>\$ 210,296</u>	<u>\$ 258,986</u>

Principal maturities for the years ended December 31 are as follows:

2018	\$ 51,102
2019	53,716
2020	56,464
2021	<u>49,014</u>
	<u><u>\$ 210,296</u></u>

NOTES TO THE FINANCIAL STATEMENTS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

DECEMBER 31, 2017 AND 2016

NOTE 5 – OPERATING LEASE INCOME

The Foundation leased restaurant space to tenants under a noncancelable operating lease that expired in June 2017 and required monthly payments of \$1,900 plus reimbursement of a percentage of utilities used by the tenant to the Foundation. During the June 2017, the lease was renewed and requires monthly payments of \$2,000 plus reimbursement of a percentage of utilities used by the tenant to the Foundation. This lease is initially for one year, with the option to renew the lease for four additional one year terms under the same terms. The Foundation received rent in the amounts of \$23,400 and \$22,800 for the years ended December 31, 2017 and 2016, respectively. The Foundation also received reimbursement of utilities in the amounts of \$23,119 and \$22,619 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease revenues under this lease agreement are:

<u>Years Ending December 31</u>	
2018	\$ <u>12,000</u>

NOTE 6 – COMMITMENT

The Foundation had a contract with a cleaning service that provided janitorial services to the Foundation. The Foundation ended the contract during the year ended 2016. The contract was for \$35,000 per year plus certain expenses. Expenses under the contract were \$6,508 for the year ended December 31, 2016.

NOTE 7 - RETIREMENT PLAN

The Foundation established a retirement plan effective as of January 1, 2011. Employees who are age 21 and over and have completed one year of service are allowed to contribute to the plan. The Foundation made contributions of \$26,307 and \$27,647 to the plan during the years ended December 31, 2017 and 2016.

SUPPLEMENTARY SCHEDULES

MDA PROFESSIONAL GROUP, P.C.

Certified Public Accountants and Business Consultants

125 NORTH THIRD STREET, GADSDEN, ALABAMA 35901 • PHONE 256.546.3371 • FAX 256.546.3373

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors
Gadsden Cultural Arts Foundation, Inc.
Gadsden, Alabama

We have audited the financial statements of Gadsden Cultural Arts Foundation, Inc. as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated February 20, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statement as a whole.

The Schedules of Functional Expenses – Modified Cash Basis is presented for the 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.

MDA Professional Group, P.C.

Gadsden, Alabama
February 20, 2018

SCHEDULES OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

GADSDEN CULTURAL ARTS FOUNDATION, INC.

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
MANAGEMENT AND GENERAL		
Personnel		
Salaries	\$ 288,303	\$ 331,563
Employee Benefits	80,761	68,048
Payroll Taxes	36,279	33,053
Retirement Plan Contributions	<u>26,307</u>	<u>27,647</u>
Total Personnel	<u>\$ 431,650</u>	<u>\$ 460,311</u>
Building Expenses		
Utilities	\$ 119,131	\$ 119,733
Repairs and Maintenance	<u>15,611</u>	<u>22,864</u>
Total Building Expenses	<u>\$ 134,742</u>	<u>\$ 142,597</u>
Operating Expenses		
Insurance	\$ 34,240	\$ 35,346
Advertising	21,887	15,357
Investment Fees	21,563	10,888
Service Contracts	14,875	15,195
Bank Charges	12,464	13,129
Membership	11,270	495
Accounting	11,239	13,066
Travel and Training	10,469	9,234
Dues and Subscriptions	5,384	3,545
Office Supplies	4,543	5,062
Postage	4,483	4,271
Chairman Expenses	3,204	2,356
Rent Expense	2,239	13,759
Miscellaneous	1,640	930
Printing	<u>1,630</u>	<u>1,520</u>
Total Operating Expenses	<u>\$ 161,130</u>	<u>\$ 144,153</u>
Depreciation	<u>\$ 111,256</u>	<u>\$ 110,174</u>

See Independent Auditors' Report