

GADSDEN CULTURAL ARTS
FOUNDATION, INC.

AUDITED FINANCIAL STATEMENTS
December 31, 2018 and 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, 2018 and 2017, the related statements of support, revenues, expenses, and changes in net assets – modified cash basis, and the schedules of functional expenses – 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, 2018 and 2017 and its support, revenues, expenses, changes in net assets, and functional expenses 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

March 19, 2019

GADSDEN CULTURAL ARTS FOUNDATION, INC.

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

DECEMBER 31, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 166,240	\$ 94,712
Investments - Cash	87,471	45,222
	<u>253,711</u>	<u>139,934</u>
PROPERTY AND EQUIPMENT		
Building and Improvements	2,976,830	2,954,823
Building - Symphony	542,713	531,886
Office Equipment	76,228	77,887
Youth Symphony Orchestra Equipment	110,401	109,909
Furniture	68,734	70,427
Kitchen Equipment	15,000	41,000
Children's Museum	38,633	38,633
Automobiles	26,310	26,310
	<u>3,854,849</u>	<u>3,850,875</u>
Less Accumulated Depreciation	<u>2,550,567</u>	<u>2,471,063</u>
	<u>1,304,282</u>	<u>1,379,812</u>
OTHER ASSETS		
Investments, at Cost	2,029,235	1,840,165
Deposit on Sculpture	45,000	-
	<u>2,074,235</u>	<u>1,840,165</u>
TOTAL ASSETS	<u><u>\$ 3,632,228</u></u>	<u><u>\$ 3,359,911</u></u>

<u>LIABILITIES AND NET ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Long-Term Debt, Current Maturities	53,716	51,102
Capital Lease Obligation, Current Maturities	-	1,367
Payroll Tax Liabilities and Other Withholdings	9,898	9,442
	<u>63,614</u>	<u>61,911</u>
LONG TERM LIABILITIES		
Long-Term Debt	<u>105,472</u>	<u>159,194</u>
NET ASSETS		
Without Donor Restrictions	<u>3,463,142</u>	<u>3,138,806</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 3,632,228</u></u>	 <u><u>\$ 3,359,911</u></u>

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

GADSDEN CULTURAL ARTS FOUNDATION, INC.

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

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
SUPPORT AND REVENUE		
Grants	\$ 434,353	\$ 422,401
School	321,990	308,417
Gadsden Arts Tickets	196,851	224,007
Youth Symphony Orchestra	159,734	191,219
Pledges, Fundraising, and Legacy	252,762	1,238,401
Imagination Place and Other Activities	111,395	129,812
Projects	106,547	105,304
Exhibits	74,459	69,383
Restaurant Rental	45,731	46,519
Rental - Other	15,010	13,767
Memberships	47,851	38,226
Miscellaneous	6,866	7,440
	<u>1,773,549</u>	<u>2,794,896</u>
EXPENSES		
Program Services		
School	381,593	334,810
Youth Symphony Orchestra	261,547	287,876
Imagination Place	168,221	166,692
Exhibits	55,262	117,508
Projects	71,727	84,538
Gadsden Arts Tickets	186,553	212,919
Management and General		
Personnel	270,464	309,909
Building Expenses	87,642	98,347
Operating Expenses	113,090	118,160
Depreciation	70,713	79,878
Fundraising and Legacy	87,419	79,718
	<u>1,754,231</u>	<u>1,890,355</u>
OTHER INCOME (EXPENSES)		
Dividend Income	45,851	38,180
Gain on Investment Securities	272,202	19,147
Interest Income	1,103	320
Loss on Disposal of Fixed Assets	(4,665)	-
Interest Expense	(9,473)	(12,278)
	<u>305,018</u>	<u>45,369</u>
CHANGES IN NET ASSETS	324,336	949,910
NET ASSETS, BEGINNING OF YEAR	<u>3,138,806</u>	<u>2,188,896</u>
NET ASSETS, END OF YEAR	<u>\$ 3,463,142</u>	<u>\$ 3,138,806</u>

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

GADSDEN CULTURAL ARTS FOUNDATION, INC.

SCHEDULES OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Functional Expenses	2018										
	Program Activities						Supporting Activities				
	School	Youth Symphony Orchestra	Imagination Place	Exhibits	Projects	Gadsden Arts Tickets	Programs Subtotal	General and Administrative	Fund- Raising	Supporting Subtotal	Total
Payroll and Related Benefits	\$ 66,602	\$ 189,669	\$ 118,903	\$ 15,402	\$ 22,039	\$ -	\$ 412,615	\$ 270,464	\$ 61,250	\$ 331,714	\$ 744,329
Supplies and Program Services	166,454	25,869	22,694	25,288	28,838	-	269,143	-	-	-	269,143
Gadsden Arts Tickets	-	-	-	-	-	186,553	186,553	-	-	-	186,553
Utilities	18,460	9,158	6,386	4,269	6,109	-	44,382	74,965	-	74,965	119,347
Depreciation	17,413	8,638	6,024	4,027	5,762	-	41,864	70,713	-	70,713	112,577
Contract Labor	84,828	-	-	-	-	-	84,828	-	-	-	84,828
Insurance	5,847	2,900	2,023	1,352	1,935	-	14,057	23,742	-	23,742	37,799
Fundraising	-	-	-	-	-	-	-	-	26,169	26,169	26,169
Repairs and Maintenance	3,122	1,549	5,906	722	1,033	-	12,332	12,677	-	12,677	25,009
Investment Fees	3,652	1,812	1,264	845	1,209	-	8,782	14,832	-	14,832	23,614
Advertising	2,482	1,231	859	574	821	-	5,967	10,077	-	10,077	16,044
Service Contracts	2,319	1,150	802	536	767	-	5,574	9,417	-	9,417	14,991
Bank Charges	2,317	1,150	802	536	767	-	5,572	9,410	-	9,410	14,982
Membership Expenses	-	-	-	-	-	-	-	15,584	-	15,584	15,584
Travel and Training	1,746	866	604	404	578	-	4,198	7,089	-	7,089	11,287
Professional Fees	1,734	860	600	401	574	-	4,169	7,042	-	7,042	11,211
Office Expense	1,136	2,428	393	263	376	-	4,596	4,612	-	4,612	9,208
Dues and Subscriptions	1,107	2,086	383	256	366	-	4,198	4,495	-	4,495	8,693
Printing	726	3,750	251	168	240	-	5,135	2,949	-	2,949	8,084
Miscellaneous	961	2,048	89	60	86	-	3,244	1,050	-	1,050	4,294
Postage	687	341	238	159	227	-	1,652	2,791	-	2,791	4,443
Small Tools and Equipment	-	4,355	-	-	-	-	4,355	-	-	-	4,355
Telephone	-	1,687	-	-	-	-	1,687	-	-	-	1,687
Total Functional Expenses	\$ 381,593	\$ 261,547	\$ 168,221	\$ 55,262	\$ 71,727	186,553	\$ 1,124,903	\$ 541,909	\$ 87,419	\$ 629,328	\$ 1,754,231

2017

Functional Expenses	Program Activities						Supporting Activities				Total Expenses
	School	Youth Symphony Orchestra	Imagination Place	Exhibits	Projects	Gadsden Arts Tickets	Programs Subtotal	General and Administrative	Fund-Raising	Supporting Subtotal	
	Payroll and Related Benefits	\$ 46,693	\$ 175,629	\$ 124,750	\$ 10,504	\$ 15,943	\$ -	\$ 373,519	\$ 309,909	\$ 61,250	
Supplies and Program Services	163,869	74,846	18,435	97,450	54,093	-	408,693	-	-	-	408,693
Gadsden Arts Tickets	-	-	-	-	-	212,919	212,919	-	-	-	212,919
Utilities	12,887	7,990	5,424	2,899	4,400	-	33,600	85,531	-	85,531	119,131
Depreciation	12,035	7,462	5,065	2,707	4,109	-	31,378	79,878	-	79,878	111,256
Contract Labor	79,557	-	-	-	-	-	79,557	-	-	-	79,557
Insurance	3,704	2,296	1,559	833	1,265	-	9,657	24,583	-	24,583	34,240
Repairs and Maintenance	1,931	1,197	6,442	434	659	-	10,663	12,816	-	12,816	23,479
Advertising	2,368	1,468	997	533	808	-	6,174	15,714	-	15,714	21,888
Investment Fees	2,332	1,446	982	525	796	-	6,081	15,481	-	15,481	21,562
Fundraising	-	-	-	-	-	-	-	-	18,468	18,468	18,468
Service Contracts	1,609	998	677	362	549	-	4,195	10,680	-	10,680	14,875
Membership Expenses	-	-	-	-	-	-	-	14,474	-	14,474	14,474
Bank Charges	1,348	836	567	303	460	-	3,514	8,949	-	8,949	12,463
Professional Fees	1,216	754	512	273	415	-	3,170	8,069	-	8,069	11,239
Travel and Training	1,132	702	477	255	387	-	2,953	7,516	-	7,516	10,469
Dues and Subscriptions	582	1,552	245	131	199	-	2,709	3,866	-	3,866	6,575
Office Expense	491	1,476	207	110	168	-	2,452	3,262	-	3,262	5,714
Printing	176	3,553	74	40	60	-	3,903	1,170	-	1,170	5,073
Postage	485	312	204	109	166	-	1,276	3,219	-	3,219	4,495
Small Tools and Equipment	-	3,889	-	-	-	-	3,889	-	-	-	3,889
Miscellaneous	2,395	224	75	40	61	-	2,795	1,177	-	1,177	3,972
Telephone	-	1,246	-	-	-	-	1,246	-	-	-	1,246
Total Functional Expenses	\$ 334,810	\$ 287,876	\$ 166,692	\$ 117,508	\$ 84,538	\$ 212,919	\$ 1,204,343	\$ 606,294	\$ 79,718	\$ 686,012	\$ 1,890,355

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

GADSDEN CULTURAL ARTS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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).

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, 2018 and 2017.

(Continued)

GADSDEN CULTURAL ARTS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. General and administrative expenses are allocated to each program based on the percentage of total revenue that each program generates.

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, “Presentation of Financial Statements for Not-for-Profit Entities.” Under FASB ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

Net Assets with Donor Restrictions – The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions. There were no net assets with donor restrictions as of December 31, 2018 and 2017.

Net Assets without Donor Restrictions – The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions.

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, 2018 and 2017, all of the Foundation's cash balances were insured.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2017 Financial Statements to conform to the 2018 presentation.

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 March 19, 2019, which is the date the financial statements were available to be issued.

(Continued)

GADSDEN CULTURAL ARTS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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, 2018 and 2017 was \$2,066,531 and \$2,216,517, respectively.

	<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and Money Funds	\$ 87,471	\$ 87,471	\$ -
Equities	<u>2,029,235</u>	<u>1,979,060</u>	<u>(50,175)</u>
	<u>\$ 2,116,706</u>	<u>\$ 2,066,531</u>	<u>\$ (50,175)</u>

	<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>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest Income	\$ 1,103	\$ 320
Dividend Income	45,851	38,180
Gain on Investment Securities	<u>272,202</u>	<u>19,147</u>
	<u>\$ 319,156</u>	<u>\$ 57,647</u>

GADSDEN CULTURAL ARTS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 3 – CAPITAL LEASES

The Capital Lease Obligation of the Gadsden Cultural Arts Foundation, Inc. can be summarized as follows as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</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%. This lease obligation was paid in full during 2018.	-	1,367
	<u>\$ -</u>	<u>\$ 1,367</u>

NOTE 4 – LONG-TERM DEBT

Long-term debt at December 31, 2018 and 2017, consists of the following:

	<u>2018</u>	<u>2017</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.	\$ 159,188	\$ 210,296

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

2018	\$ 53,716
2019	56,464
2020	<u>49,008</u>
	<u>\$ 159,188</u>

GADSDEN CULTURAL ARTS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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. In June 2017 and 2018, 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 \$24,000 and \$23,400 for the years ended December 31, 2018 and 2017, respectively. The Foundation also received reimbursement of utilities in the amounts of \$21,731 and \$23,119 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease revenues under this lease agreement are:

<u>Years Ending December 31</u>	
2019	\$ <u>12,000</u>

NOTE 6 - 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 \$30,083 and \$26,307 to the plan during the years ended December 31, 2018 and 2017.

NOTE 7 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the balance sheet date for general expenditures are as follows:

Cash	\$ 166,240
Investments - Cash	<u>87,471</u>
Total	<u>\$ 253,711</u>