

**WALTON ARTS CENTER**

**June 30, 2018 and 2017**

**Combined Financial Statements  
And  
Supplementary Information**

**With**

**Independent Auditor's Report**



**FROST**, PLLC  
Certified Public Accountants

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## **Independent Auditor's Report**

Board of Directors  
Walton Arts Center  
Fayetteville, Arkansas

We have audited the accompanying combined financial statements of the Walton Arts Center (a nonprofit organization), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Combined Financial Statements**

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Walton Arts Center as of June 30, 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.

**Emphasis of Matter**

As discussed in Note 1.a., the Walton Arts Center Council, Inc. operates Walmart Arkansas Music Pavilion through its wholly-owned subsidiary, NWA Entertainment, LLC (“NWA”). NWA has a fiscal year-end of March 31. The results of operations of NWA have been included in the combined financial statements of Walton Arts Center through NWA’s fiscal year-end. During the period of April 1, 2018 through June 30, 2018, NWA had revenues of \$6.3 million and expenses of approximately \$4.3 million.

*Frost, PLLC*

Certified Public Accountants

Little Rock, Arkansas  
September 20, 2018

## Combined Statements of Financial Position

June 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 10,939,214	\$ 7,863,490
Investments	6,281,215	5,460,131
Accounts receivable, net	1,709,614	1,616,862
Promises to give, current portion	7,923,695	3,279,667
Other current assets	<u>2,374,024</u>	<u>2,868,122</u>
Total current assets	<u>29,227,762</u>	<u>21,088,272</u>
Long-term assets		
Accounts receivable, noncurrent	866,500	566,000
Promises to give, net of current portion, discount and allowance	670,596	1,339,040
Restricted investments	8,511,357	8,511,357
Property and equipment, net	34,982,234	35,821,903
Intangible assets, finite-lived, net	17,516	19,752
Goodwill	<u>157,412</u>	<u>157,412</u>
Total long-term assets	<u>45,205,615</u>	<u>46,415,464</u>
Total assets	<u>\$ 74,433,377</u>	<u>\$ 67,503,736</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 402,037	\$ 236,521
Other current liabilities	951,793	894,759
Deferred revenue	13,907,346	11,553,105
Current maturities of long-term debt	<u>147,759</u>	<u>145,091</u>
Total current liabilities	<u>15,408,935</u>	<u>12,829,476</u>
Long-term liabilities		
Deferred revenue, noncurrent	8,844,500	4,101,500
Line of credit	1,078,000	2,253,000
Long-term debt, less current maturities	<u>3,782,466</u>	<u>3,925,732</u>
Total long-term liabilities	<u>13,704,966</u>	<u>10,280,232</u>
Net assets		
Unrestricted		
Net investment in property and equipment	26,474,009	26,269,802
Undesignated	<u>(1,147,105)</u>	<u>652,738</u>
Total unrestricted	<u>25,326,904</u>	<u>26,922,540</u>
Restricted		
Temporarily	11,481,215	8,960,131
Permanently	<u>8,511,357</u>	<u>8,511,357</u>
Total restricted	<u>19,992,572</u>	<u>17,471,488</u>
Total net assets	<u>45,319,476</u>	<u>44,394,028</u>
Total liabilities and net assets	<u>\$ 74,433,377</u>	<u>\$ 67,503,736</u>

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

**WALTON ARTS CENTER**

**Combined Statements of Activities and Changes in Net Assets**

**For the Years Ended June 30, 2018 and 2017**

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue				
Grants	\$ 70,000	\$ 2,345,900	\$ -	\$ 2,415,900
Contributions	2,074,839	-	-	2,074,839
Ticket sales	10,092,844	-	-	10,092,844
Education class fee revenues	32,170	-	-	32,170
Other general sales	5,255,470	-	-	5,255,470
Other income	1,276,047	-	-	1,276,047
Sponsorships/underwriting	3,198,623	-	-	3,198,623
Investment income	95,984	140,232	-	236,216
Realized gains on investments	-	594,152	-	594,152
Unrealized gains on investments	-	619,095	-	619,095
Net assets released from restrictions	<u>1,178,295</u>	<u>(1,178,295)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>23,274,272</u>	<u>2,521,084</u>	<u>-</u>	<u>25,795,356</u>
Expenses				
Program services	20,178,748	-	-	20,178,748
General and administrative	3,291,484	-	-	3,291,484
Fund-raising	<u>1,399,676</u>	<u>-</u>	<u>-</u>	<u>1,399,676</u>
Total expenses	<u>24,869,908</u>	<u>-</u>	<u>-</u>	<u>24,869,908</u>
Changes in net assets	(1,595,636)	2,521,084	-	925,448
Net assets - beginning of year	<u>26,922,540</u>	<u>8,960,131</u>	<u>8,511,357</u>	<u>44,394,028</u>
Net assets - end of year	<u>\$ 25,326,904</u>	<u>\$ 11,481,215</u>	<u>\$ 8,511,357</u>	<u>\$ 45,319,476</u>

2017			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 75,000	\$ 654,480	\$ -	\$ 729,480
1,952,464	-	-	1,952,464
9,308,404	-	-	9,308,404
29,730	-	-	29,730
5,045,165	-	-	5,045,165
974,347	1,217	-	975,564
2,644,270	-	-	2,644,270
162,348	138,635	-	300,983
-	136,146	-	136,146
-	1,639,645	-	1,639,645
<u>7,349,227</u>	<u>(7,349,227)</u>	<u>-</u>	<u>-</u>
<u>27,540,955</u>	<u>(4,779,104)</u>	<u>-</u>	<u>22,761,851</u>
19,038,247	-	-	19,038,247
2,926,418	-	-	2,926,418
<u>1,386,214</u>	<u>-</u>	<u>-</u>	<u>1,386,214</u>
<u>23,350,879</u>	<u>-</u>	<u>-</u>	<u>23,350,879</u>
4,190,076	(4,779,104)	-	(589,028)
<u>22,732,464</u>	<u>13,739,235</u>	<u>8,511,357</u>	<u>44,983,056</u>
<u>\$ 26,922,540</u>	<u>\$ 8,960,131</u>	<u>\$ 8,511,357</u>	<u>\$ 44,394,028</u>

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

**WALTON ARTS CENTER**

**Combined Statements of Functional Expenses**

**For the Years Ended June 30, 2018 and 2017**

	2018			
	Program	General and Administrative	Fund-raising	Total
Artist fees	\$ 7,851,564	\$ -	\$ -	\$ 7,851,564
Artist expense	972,625	-	-	972,625
Salaries and benefits	3,789,161	1,389,762	1,092,822	6,271,745
Accounting and consulting fees	72,271	80,317	-	152,588
Bank fees	400,671	4,632	-	405,303
Bad debt	-	-	23,372	23,372
Bus subsidy	18,957	-	-	18,957
Catering	41,385	-	-	41,385
Concessions	435,711	-	-	435,711
Contract services	1,667,831	115,094	11,620	1,794,545
Depreciation and amortization	1,620,328	246,718	-	1,867,046
Donor cultivations	-	-	52,469	52,469
Dues and subscriptions	29,001	6,124	591	35,716
Equipment rental	251,611	12,448	16,837	280,896
Faculty fees	57,388	-	-	57,388
In-kind donations	551,058	22,500	51,375	624,933
Insurance	33,943	224,192	-	258,135
Interest	-	99,392	-	99,392
Investment fees	-	42,899	-	42,899
Landscaping	-	45,135	-	45,135
Licenses	1,481	102,070	-	103,551
Marketing and advertising	1,031,763	-	-	1,031,763
Meetings	17,021	4,107	2,415	23,543
Miscellaneous	3,186	115,986	1,039	120,211
Postage and shipping	72,525	1,424	10,536	84,485
Printing and copies	24,350	1,426	4,077	29,853
Recruiting expenses	-	15,474	-	15,474
Repairs and maintenance	24,927	125,050	322	150,299
Service contracts	10,535	73,921	1,221	85,677
Small tools and equipment	30,556	37,183	258	67,997
Special events	61,214	370	60,733	122,317
Sponsorship allowance	25,271	-	20,936	46,207
Staff training and travel	117,994	25,380	11,871	155,245
Supplies and stationary	222,857	91,076	31,306	345,239
Telephone	-	54,166	-	54,166
Temporary employees	693,390	-	5,876	699,266
Utilities	48,173	354,638	-	402,811
	<u>\$ 20,178,748</u>	<u>\$ 3,291,484</u>	<u>\$ 1,399,676</u>	<u>\$ 24,869,908</u>



2017			
<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
\$ 7,343,782	\$ -	\$ -	\$ 7,343,782
1,065,168	-	-	1,065,168
3,697,520	1,291,531	1,019,194	6,008,245
106,104	64,648	24	170,776
315,456	5,570	40	321,066
-	-	-	-
19,048	-	-	19,048
39,907	3,700	-	43,607
377,236	-	-	377,236
1,354,242	134,532	51,496	1,540,270
1,291,098	210,593	-	1,501,691
-	-	69,977	69,977
28,047	6,981	2,035	37,063
330,218	10,652	11,572	352,442
69,634	-	-	69,634
529,169	10,584	91,209	630,962
29,579	202,331	-	231,910
-	106,139	-	106,139
-	42,092	-	42,092
-	45,363	-	45,363
311	131,335	-	131,646
955,927	-	-	955,927
14,818	3,315	851	18,984
6,064	145,736	-	151,800
72,416	1,775	10,397	84,588
19,206	-	3,183	22,389
-	19,426	-	19,426
16,492	81,196	200	97,888
24,564	76,251	565	101,380
38,717	42,525	796	82,038
78,653	484	63,503	142,640
62,328	-	13,152	75,480
102,632	40,507	7,503	150,642
230,550	97,730	33,123	361,403
-	65,174	5	65,179
554,250	-	7,389	561,639
265,111	86,248	-	351,359
<u>\$ 19,038,247</u>	<u>\$ 2,926,418</u>	<u>\$ 1,386,214</u>	<u>\$ 23,350,879</u>

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

## Combined Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Changes in net assets	\$ 925,448	\$ (589,028)
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	1,867,046	1,501,691
Accretion of discount on promises to give	(131,524)	(286,675)
Realized gains on investments	(594,152)	(136,147)
Unrealized gains on investments	(619,095)	(1,639,645)
Changes in operating assets and liabilities		
Accounts receivable	(393,252)	141,457
Promises to give	(3,844,060)	4,161,477
Other current assets	494,098	138,879
Accounts payable and other current liabilities	222,550	213,865
Deferred revenue	<u>7,097,241</u>	<u>883,614</u>
Net cash provided by operating activities	<u>5,024,300</u>	<u>4,389,488</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,025,141)	(7,082,953)
Redemptions of certificates of deposit	-	203,492
Purchases of investments	(82,837)	(83,259)
Proceeds from sale of investments	<u>475,000</u>	<u>468,500</u>
Net cash used by investing activities	<u>(632,978)</u>	<u>(6,494,220)</u>
Cash flows from financing activities		
Principal payments of long-term debt	(140,598)	(133,783)
Net borrowings from (repayments on) line of credit	<u>(1,175,000)</u>	<u>2,253,000</u>
Net cash provided (used) by financing activities	<u>(1,315,598)</u>	<u>2,119,217</u>
Net change in cash and cash equivalents	3,075,724	14,485
Cash and cash equivalents - beginning of year	<u>7,863,490</u>	<u>7,849,005</u>
Cash and cash equivalents - end of year	<u>\$ 10,939,214</u>	<u>\$ 7,863,490</u>
<u>Supplementary disclosure of cash flow information</u>		
Cash paid during the year for interest	\$ 99,392	\$ 106,139

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

## Notes to Combined Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

- a. **Organization** – Walton Arts Center (the “Center”) was established for the purpose of bringing together audiences and acclaimed artists in dance, music, theater and visual arts in Northwest Arkansas. The Center opened in 1992 and is located in Fayetteville, Arkansas.

Oversight responsibility for operating the Center is shared by two not-for-profit corporations, the Walton Arts Center Council, Inc. (the “Council”) and the Walton Arts Center Foundation, Inc. (the “Foundation”). The Council staffs and operates the Center, promotes marketing and fund-raising, and maintains membership activities. The Foundation maintains the endowments and other certain funds restricted for the future operations of the Council. Due to this relationship, the Council and the Foundation are combined in these financial statements.

The Council also operates Walmart Arkansas Music Pavilion (the “AMP”) through its wholly-owned subsidiary, NWA Entertainment, LLC (“NWA”). NWA has a fiscal year-end of March 31. The results of the operations of NWA have been included in the combined financial statements of the Center through NWA’s fiscal year-end. During the period of April 1, 2018 through June 30, 2018, NWA had revenues of \$6.3 million and expenses of approximately \$4.3 million.

All material intercompany accounts, transactions, gains and losses have been eliminated.

- b. **Financial statement presentation** – The Center reports information regarding its financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets represent net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center. Temporarily restricted net assets represent net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center. All other net assets are considered to be unrestricted.
- c. **Estimates** – The preparation of combined 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 and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- d. **Public support and revenue** – Annual contributions and grants are generally available for unrestricted use in the related year unless specifically restricted by the donor. Unconditional promises to give are recorded as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (cont.)

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted. Contributions are recognized as revenue in the period received.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. Conditional promises to give are not included as support until the conditions are substantially met.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 combined statements of activities and changes in net assets as net assets released from restrictions.

Gifts of land, buildings and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Total in-kind donations included in revenues and support were \$624,933 and \$630,963 for the years ended June 30, 2018 and 2017, respectively.

Permanently restricted donor endowment contributions and investments are reported as permanently restricted net assets. Investment earnings available for distribution are recorded in temporarily restricted net assets.

- e. **Deferred revenue** – Deferred revenue consists of ticket sales that have occurred prior to the particular show and deferred sponsorships whereby the agreement is for a multi-year sponsorship. This sponsorship revenue is to be recognized in future years.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (cont.)

- f. **Cash and cash equivalents** – For purposes of the combined statements of cash flows, the Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
- g. **Investments** – Marketable securities are reported at their fair values in the combined statements of financial position. The Center has invested funds with the University of Arkansas Investment Pool, which pools funds from several affiliated organizations together in order to maximize the returns on investments. The current fair value of the pooled investments, along with investment income and realized losses, are allocated to the participants in the pool based on their ownership interest. Changes in the pooled investments are shown as realized or unrealized gains and losses in the accompanying combined statements of activities and changes in net assets and combined statements of cash flows. Investment income includes dividend, interest and other investment income. Investment management fees are included in general and administrative expenses.
- h. **Accounts receivable** – Accounts receivable, which consists primarily of sponsorships, are stated at the amount the Center expects to collect. The Center uses the allowance method to determine uncollectible accounts. The allowance is based on the Center's historical experience and management's analysis of the account. Accounts are charged off to the allowance when management deems the account will not be collectible. Past due status is based on how recently payments have been made on the account. There was no allowance at June 30, 2018 or 2017.
- i. **Promises to give** – Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. Conditional promises to give are not included as support until the conditions are substantially met. The allowance was \$38,067 and \$14,695 at June 30, 2018 and 2017, respectively.
- j. **Property and equipment** – Property and equipment is stated at cost or fair market value of donated assets. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 50 years, except for the cost of art collections, which are not depreciated. Acquisitions of property and equipment in excess of \$5,000 and a useful life over one year are capitalized. Amortization of leasehold improvements is included in depreciation expense. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining lease term.

Cost of purchasing collection items, proceeds from sale and proceeds from insurance recoveries are recognized in the year of acquisition, sale or loss. Donations of collection items are recorded at fair market value. There were no significant increases in collection items during the years ended June 30, 2018 or 2017.

- k. **Intangible assets, finite-lived** – Finite-lived intangible assets consist of a noncompete agreement and a trade name. The noncompete agreement is amortized over the contractual term of five years, using the straight-line method. The trade name is being amortized over 15 years, using the straight-line method.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (cont.)

- l. **Goodwill** – Goodwill represents the excess of cost of business acquisitions over the fair value of the identifiable net assets acquired. Goodwill is reviewed at least annually for impairment by assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is, more likely than not, that the fair value of a reporting unit is less than its carrying amount. After assessing the totality of events or circumstances, if the Center determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount; then the Center will not perform additional quantitative tests to determine the magnitude of any impairment. Based upon management assessment of qualitative factors, goodwill was not considered impaired.
- m. **Impairment of long-lived assets** – The Center reviews the carrying value of long-lived assets for impairment whenever certain triggering events or changes in circumstances indicate the carrying amounts of any 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 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 excess of the carrying amount over the fair value of the assets. Based on management’s review, no triggering events or changes in circumstances occurred resulting in impairment during June 30, 2018 or 2017.
- n. **Functional expenses** – Expenses are charged to programs based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to programs based on management’s estimate of time spent.
- o. **Advertising** – The Center expenses advertising costs the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Approximately \$103,000 and \$55,000 of prepaid advertising was included in other current assets for the years ended June 30, 2018 and 2017, respectively. Advertising expense was \$1,031,763 and \$955,927 for the years ended June 30, 2018 and 2017, respectively.
- p. **Income taxes** – The Council (including NWA) and the Foundation were incorporated under Arkansas law and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code (the “IRC”) and similar statutes of the State of Arkansas, and are classified as other than private foundations. The IRC further defines the Council under Section 509(a)(1) which means that it is a publicly supported organization. The IRC further defines the Foundation under Section 509(a)(3) which means that its purpose is to assist publicly supported organizations. Income determined to be unrelated business income is taxable.

The Center’s policy with respect to evaluating uncertain tax positions is based upon whether management believes it is more likely than not the uncertain tax positions will be sustained upon review by the taxing authorities, then the Center shall initially and subsequently measure the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The tax positions must meet the more-likely-than-not recognition threshold with consideration given to the amounts and probabilities of the outcomes that could be realized upon settlement using the

## Notes to Combined Financial Statements

June 30, 2018 and 2017

1. **Summary of Significant Accounting Policies (cont.)**

facts, circumstances and information at the reporting date. The Center will reflect only the portion of the tax benefit that will be sustained upon resolution of the position and applicable interest on the portion of the tax benefit not recognized. Based upon management's assessment, there are no uncertain tax positions expected to have a material impact on the Center's combined financial statements.

The Center is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2014. The Center's federal and state tax returns are not currently under examination. The Center recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended June 30, 2018 and 2017, the Center did not recognize any interest or penalties. The Center did not have any interest or penalties accrued at June 30, 2018 or 2017.

- q. **Recent accounting pronouncements** – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 is the product of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue. ASU 2014-09 amends the Accounting Standards Codification ("ASC") and creates a new Topic 606, "Revenue from Contracts with Customers." This new topic describes a step by step process to achieve the FASB's core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new topic also adds improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," issued in August 2015, defers the implementation of ASU 2014-09 for nonpublic entities to annual reporting periods beginning after December 15, 2018. Early adoption is permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. The Center is evaluating the application of ASU 2014-09 and the effect it is expected to have on its combined financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." Accounting by lessors is largely unchanged from existing standards. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The guidance requires all leases to be recorded as assets and liabilities on the financial statements of the lessee. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under this standard, leases are considered to either be finance leases or operating leases. This consideration determines the financial statement classification of payments on lease liabilities during the lease term but assets and liabilities are required to be recorded for both. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Entities have the option of applying the provisions of ASU 2016-02 using either a modified retrospective approach or, alternatively, at the adoption date, with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Center is currently evaluating the impact of ASU 2016-02 on its combined financial statements.

**Notes to Combined Financial Statements****June 30, 2018 and 2017****1. Summary of Significant Accounting Policies (cont.)**

In August 2016, the FASB issued ASU 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.” ASU 2016-14 is a project of the FASB to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 amends ASC Topic 958. The amendments in this update make several improvements to current reporting requirements that address the following: complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent; deficiencies in the transparency and utility of information useful in assessing an entity’s liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards affect an entity’s liquidity, classes of net assets, and financial performance; inconsistencies in the type of information provided about expenses of the period; and impediment of preparing the indirect method reconciliation if a not-for-profit chooses to use the direct method of presenting operating cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. The Center is evaluating the application of ASU 2016-14 and the effect it will have on its future combined financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 was issued to simplify subsequent measurements of goodwill and goodwill impairment. Under existing general accepted accounting principles, the impairment test includes two steps: (1) comparing the fair value of the reporting unit with its carrying amount, including goodwill; and (2) comparing the implied fair value of reporting unit goodwill with the carrying amount of goodwill. ASU 2017-04 eliminates step two from the impairment test. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2021. Application of ASU 2017-04 will be applied prospectively. The Center does not expect the implementation of ASU 2017-04 to have a material effect on its combined financial statements.

In June 2018, the FASB issued ASU 2018-08, “Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction under Topic 606 guidance. In addition, the amendments provide additional guidance about how to determine whether a contribution is conditional and may include a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. For nonpublic entities this guidance is effective for contributions received for fiscal years beginning after December 15, 2018 with early adoption permitted. For contributions made this guidance is effective for fiscal years beginning after December 15, 2019. ASU 2018-08 may be applied either retrospectively or through the use of a modified-retrospective method. The Center is evaluating the application of ASU 2018-08 and the effect it is expected to have on its combined financial statements.



## Notes to Combined Financial Statements

June 30, 2018 and 2017

2. Financial Instruments With Risk of Accounting Loss

Deposits in financial institutions are financial instruments that could potentially subject the Center to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. All deposits of the Center are in financial institutions and are carried at cost. The amounts of deposits are displayed on the combined statements of financial position as “cash and cash equivalents.”

	2018		2017	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured ("FDIC")	\$ 10,458,164	\$ 10,374,668	\$ 7,472,431	\$ 7,765,294
Uninsured/uncollateralized	<u>481,050</u>	<u>604,117</u>	<u>391,059</u>	<u>103,062</u>
Total deposits	<u>\$ 10,939,214</u>	<u>\$ 10,978,785</u>	<u>\$ 7,863,490</u>	<u>\$ 7,868,356</u>

3. Investments

Investments are composed of the following:

	<u>2018</u>	<u>2017</u>
Fair market value		
University of Arkansas Investment Pool		
Money market	\$ 192,303	\$ 265,458
Equity securities		
U.S.	3,002,892	3,003,870
International	2,085,753	1,858,208
Emerging markets	1,153,821	1,285,377
Global managers	828,384	1,117,719
Natural resources	1,005,895	782,403
Hedge funds	2,781,004	2,766,355
Venture capital/private equity	2,307,641	1,858,208
Fixed income	<u>1,434,879</u>	<u>1,033,890</u>
Total fair market value	<u>\$ 14,792,572</u>	<u>\$ 13,971,488</u>
Total cost	<u>\$ 9,963,860</u>	<u>\$ 9,761,873</u>

## Notes to Combined Financial Statements

June 30, 2018 and 2017

4. Promises to Give

Unconditional promises to give, net of discount to present value, are as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in		
Less than one year	\$ 7,923,695	\$ 3,279,667
One to five years	<u>756,000</u>	<u>1,485,259</u>
Unconditional promises to give before unamortized discount	8,679,695	4,764,926
Less unamortized discount (4.5%)	47,337	131,524
Less allowance	<u>38,067</u>	<u>14,695</u>
Net unconditional promises to give	<u>\$ 8,594,291</u>	<u>\$ 4,618,707</u>

The Center has a conditional grant with a remaining balance of \$2,900,000 to support the Center's art education and free student programs. This conditional grant is contingent upon the Center meeting specified project and financial goals established by the grantee for fiscal years 2019 and 2020 and, therefore, the Center has not recognized this conditional grant in the accompanying combined financial statements.

5. Property and Equipment

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,505,000	\$ 3,505,000
Building	12,204,507	11,692,232
Leasehold improvements	23,596,660	23,508,403
Equipment and furniture	3,381,052	3,220,070
Computer hardware and software	1,759,564	1,924,120
Artwork	184,628	184,628
Construction in progress	<u>-</u>	<u>520,967</u>
	44,631,411	44,555,420
Less accumulated depreciation	<u>9,649,177</u>	<u>8,733,517</u>
Property and equipment, net	<u>\$ 34,982,234</u>	<u>\$ 35,821,903</u>

Depreciation expense was \$1,864,810 and \$1,499,354 for the years ended June 30, 2018 and 2017, respectively.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

6. Intangible Assets

The components of the Center's intangible assets, finite-lived and the related accumulated amortization are as follows:

	<u>2018</u>	<u>2017</u>
Cost	\$ 42,588	\$ 42,588
Less accumulated amortization	<u>25,072</u>	<u>22,836</u>
Intangible assets, finite-lived, net	<u>\$ 17,516</u>	<u>\$ 19,752</u>

Total amortization expense for intangible assets was \$2,236 and \$2,337 for the years ended June 30, 2018 and 2017, respectively.

Estimated amortization expense is as follows:

2019	\$ 2,236
2020	2,236
2021	2,236
2022	2,236
2023	2,236
Thereafter	<u>6,336</u>
	<u>\$ 17,516</u>

7. Lines of Credit

The Center has a \$6,000,000 line of credit with a bank with a fixed interest rate of 3.4% and is subject to certain borrowing base restrictions. The line of credit is secured by a security interest in pledged donations, promises to give to support the Center's 2016 capital campaign for the Fayetteville facility expansion and a guarantee by NWA and matures August 2022. As of June 30, 2018 and 2017, the outstanding balance on this line of credit was \$1,078,000 and \$2,253,000, respectively.

The above line of credit agreement with the bank contains certain financial covenants that require, among other things, a minimum debt service coverage ratio not less than 1:1 and maximum debt to equity ratio not to exceed 1:1. At June 30, 2018, the Center was in compliance with all covenants.

In addition, the Center has a \$1,000,000 unsecured line of credit with a bank with a variable rate that was at 4.75%. The line of credit matures in December 2019. The Center had no outstanding balance on this line of credit at June 30, 2018 or 2017.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

8. Long-Term Debt

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Note payable to a private entity, no stated interest, in-kind interest imputed at 6.50%, monthly payments of \$25,000 beginning on November 3, 2023, matures October 2033, unsecured.	\$ 3,000,000	\$ 3,000,000
Note payable with a certain financial institution, bearing interest at 4.91%, monthly payments of \$15,894, matures January 2024, secured by pledges, rents and lease.	<u>930,225</u>	<u>1,070,823</u>
	3,930,225	4,070,823
Less current maturities	<u>147,759</u>	<u>145,091</u>
Long-term debt, less current maturities	<u>\$ 3,782,466</u>	<u>\$ 3,925,732</u>

Annual aggregate maturities of long-term debt are as follows:

2019	\$ 147,759
2020	155,191
2021	163,180
2022	171,501
2023	180,236
Thereafter	<u>3,112,358</u>
	<u>\$ 3,930,225</u>

## Notes to Combined Financial Statements

June 30, 2018 and 2017

9. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Council		
Restricted land	\$ 3,500,000	\$ 3,500,000
Grant	1,700,000	-
Foundation		
Education	763,100	652,995
Long-term maintenance	1,746,715	1,547,156
Maintenance	1,772,631	1,564,427
Operations	1,443,963	1,280,025
Program	<u>554,806</u>	<u>415,528</u>
Total temporarily restricted net assets	<u>\$ 11,481,215</u>	<u>\$ 8,960,131</u>

Permanently restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Endowments		
Education	\$ 1,300,000	\$ 1,300,000
Long-term maintenance	2,000,000	2,000,000
Maintenance	2,128,179	2,128,179
Operations	1,658,178	1,658,178
Program	<u>1,425,000</u>	<u>1,425,000</u>
Total permanently restricted net assets	<u>\$ 8,511,357</u>	<u>\$ 8,511,357</u>

The Center owns land that is restricted to use that will remain in effect for a period of 20 years, which expires on October 2, 2033.

The Foundation's permanently restricted net assets consist of gifts received from donors with the stipulation the principal be invested and the income be used for various purposes of the Center.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

10. Employee Benefit Plan

The Center maintains a 403(b) defined contribution plan which covers all full-time employees who have completed six months of service and have reached age 21. Eligible employees may choose to contribute to the plan in amounts up to the maximum allowed by law. The Center contributed \$171,358 and \$149,750 to the plan for the years ended June 30, 2018 and 2017, respectively.

11. Commitments and Contingencies

The Center's leasing operations consist primarily of leasing building space to an unrelated entity and leasing stage time and related building space for local artists to promote the arts in the local community. The following is a schedule by year of future minimum rental receipts required under the operating lease agreements:

2019	\$ 112,945
2020	<u>8,318</u>
	<u>\$ 121,263</u>

In addition, the Center has entered into certain leases for use of its facilities whereby the lease income is based upon future contingent events. The future leasing income is not included in the above future minimum rental receipts because of their contingent nature.

The Center leases certain real property and premises from the City of Fayetteville. Through this lease agreement, the Center paid rent to the City of Fayetteville for the use of the real property and premises for \$1 for the first year of the primary term, with no further rental fees chargeable or payable during the remainder of the term or any renewal term. The lease was executed in April 1992 and has been amended and restated whereby it has been extended to August 2039. The agreement may be automatically renewed an additional term of 25 years, unless either party gives written notice of termination to the other party at least 365 days prior to the expiration of the lease agreement. Total estimated benefit to the Center is currently undeterminable and, therefore, has not been recorded in the accompanying combined statements of activities and changes in net assets.

The Center is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business. The ultimate outcome of any current litigation cannot presently be determined. Management believes that any liability, if any, that might ultimately result from the resolution of these matters will not have a material adverse effect on the combined financial statements of the Center.

**Notes to Combined Financial Statements****June 30, 2018 and 2017****12. Concentrations of Risk**

The majority of the Center's revenue and support is derived from ticket sales, contributions and support from individuals and businesses located in Northwest Arkansas. The Center is exposed to the risk of fluctuations in the area in which it operates.

During fiscal 2014, the Center entered into a 10-year sponsorship agreement for the AMP. During fiscal 2018, a new agreement was made to extend the term for an additional 26 years. Included in deferred revenue at June 30, 2018 and 2017 was approximately \$6.5 million and \$1.8 million, respectively, of unrecognized revenue, which will be recognized into revenue over the sponsorship period.

The Center had one major contributor that accounted for 38% of total contribution and grant revenue during fiscal 2018. The Center received no significant contributions during fiscal 2017.

At June 30, 2018, the Center had significant promises to give by three donors that represented 58%, 20% and 14%, respectively, of total promises to give balances. At June 30, 2017, the Center had significant promises to give by two donors that represented 38% and 31%, respectively, of total promises to give balances.

**13. Endowments**

The Center's endowments consist of five individual donor-restricted funds established for a variety of purposes. There are no funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Center has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by SPMIFA.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

13. Endowments (cont.)

In accordance with SPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Center and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Center
- (7) The investment policies of the Center

Endowment net asset and activity is as follows:

<u>Donor-restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at July 1, 2016	\$ 4,069,580	\$ 8,511,357	\$ 12,580,937
Distributions	(468,500)	-	(468,500)
Expenses	(56,590)	-	(56,590)
Investment income, net	<u>1,915,641</u>	<u>-</u>	<u>1,915,641</u>
Endowment net assets at June 30, 2017	5,460,131	8,511,357	13,971,488
Distributions	(475,000)	-	(475,000)
Expenses	(57,395)	-	(57,395)
Investment income, net	<u>1,353,479</u>	<u>-</u>	<u>1,353,479</u>
Endowment net assets at June 30, 2018	<u>\$ 6,281,215</u>	<u>\$ 8,511,357</u>	<u>\$ 14,792,572</u>

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Center to retain as a fund of perpetual duration. There were no deficiencies reported as of June 30, 2018 or 2017.

*Return Objectives and Risk Parameters*

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results for certificates of deposit while assuming a moderate level of investment risk. The Center expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.



## Notes to Combined Financial Statements

June 30, 2018 and 2017

13. **Endowments (cont.)***Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints as managed by the University of Arkansas Total Return Pool.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Center has a policy of appropriating for distribution each year based upon a portion of the prior year's investment earnings of the related endowment. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long term, the Center expects the current spending policy to allow its endowment to grow at a moderate rate. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

14. **Fair Value Measurements**

The carrying amounts of cash and cash equivalents, accounts receivable, promises to give, accounts payable, accrued liabilities and certain other liabilities approximates fair value due to the short-term maturities of these assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Center utilizes market data or assumptions that the Center believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.
- **Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

## Notes to Combined Financial Statements

June 30, 2018 and 2017

14. Fair Value Measurements (cont.)

- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>June 30, 2018</u>				
Investment pool funds held by the University of Arkansas Investment Pool	\$ -	\$ 14,792,572	\$ -	\$ 14,792,572
<u>June 30, 2017</u>				
Investment pool funds held by the University of Arkansas Investment Pool	\$ -	\$ 13,971,488	\$ -	\$ 13,971,488

For investment securities traded in a market that is not active, fair value is determined using unobservable inputs or value drivers and is generally determined using expected cash flow and appropriate risk-adjusted discount rates. Expected cash flows are based primarily on the contractual cash flows of the instrument, and the risk-adjusted discount rate is typically the contractual coupon rate of the instrument on the measurement date, adjusted for changes in interest rate spreads of the yields on comparable corporate or municipal bonds and yields on U.S. treasuries between the date of purchase and the measurement date.

The Center has utilized information provided by the University of Arkansas Investment Pool to value its investment and determined that the pool investments are managed by the University of Arkansas Foundation and are considered a Level 2 asset, which is the expected cash flow if the pooled investments were liquidated. At June 30, 2018, the asset allocation of the investment pool consisted of approximately (47.8%) investment in equities with the remaining allocation invested in natural resources (6.8%), hedge funds (18.8%), fixed income notes and bonds (9.7%), private equity, venture capital and partnerships (15.6%), along with cash and cash equivalents (1.3%). At June 30, 2017, the asset allocation of the investment pool consisted of approximately (52.0%) investment in equities with the remaining allocation invested in natural resources (5.6%), hedge funds (19.8%), fixed income notes and bonds (7.4%), private equity, venture capital and partnerships (13.3%), along with cash and cash equivalents (1.9%).

Notes to Combined Financial Statements

June 30, 2018 and 2017

15. **Subsequent Events Evaluation Date**

The Center evaluated the events and transactions to its June 30, 2018 combined statement of financial position date and determined there were no significant events to report through September 20, 2018, which is the date of the Center issued its combined financial statements.

**Independent Auditor's Report on Supplementary Information**

Board of Directors  
Walton Arts Center  
Fayetteville, Arkansas

We have audited the combined financial statements of Walton Arts Center (a nonprofit organization) as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated September 20, 2018, which contained an unmodified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.



Certified Public Accountants

Little Rock, Arkansas  
September 20, 2018

# WALTON ARTS CENTER

## Combining Statement of Financial Position

June 30, 2018

<u>Assets</u>	Walton Arts Center Council, <u>Inc.</u>	NWA Entertainment, <u>LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>	Walton Arts Center Foundation, <u>Inc.</u>	<u>Combined</u>
Current assets						
Cash and cash equivalents	\$ 10,752,679	\$ 186,535	\$ -	\$ 10,939,214	\$ -	\$ 10,939,214
Investments	-	-	-	-	6,281,215	6,281,215
Accounts receivable, net	556,664	1,152,950	-	1,709,614	-	1,709,614
Promises to give, current portion	7,923,695	-	-	7,923,695	-	7,923,695
Other current assets	<u>181,597</u>	<u>241,952</u>	<u>1,950,475</u>	<u>2,374,024</u>	<u>-</u>	<u>2,374,024</u>
Total current assets	<u>19,414,635</u>	<u>1,581,437</u>	<u>1,950,475</u>	<u>22,946,547</u>	<u>6,281,215</u>	<u>29,227,762</u>
Long-term assets						
Accounts receivable, noncurrent	11,500	855,000	-	866,500	-	866,500
Promises to give, net of current portion, discount and allowance	670,596	-	-	670,596	-	670,596
Restricted investments	-	-	-	-	8,511,357	8,511,357
Property and equipment, net	34,254,019	728,215	-	34,982,234	-	34,982,234
Investment in subsidiary	2,511,184	-	(2,511,184)	-	-	-
Intangible assets, finite-lived, net	-	17,516	-	17,516	-	17,516
Goodwill	<u>-</u>	<u>157,412</u>	<u>-</u>	<u>157,412</u>	<u>-</u>	<u>157,412</u>
Total long-term assets	<u>37,447,299</u>	<u>1,758,143</u>	<u>(2,511,184)</u>	<u>36,694,258</u>	<u>8,511,357</u>	<u>45,205,615</u>
Total assets	<u>\$ 56,861,934</u>	<u>\$ 3,339,580</u>	<u>\$ (560,709)</u>	<u>\$ 59,640,805</u>	<u>\$ 14,792,572</u>	<u>\$ 74,433,377</u>

<u>Liabilities and Net Assets</u>	Walton Arts Center Council, <u>Inc.</u>	NWA Entertainment, <u>LLC</u>	<u>Eliminations</u>	<u>Consolidated</u>	Walton Arts Center Foundation, <u>Inc.</u>	<u>Combined</u>
Current liabilities						
Accounts payable	\$ 397,670	\$ 4,367	\$ -	\$ 402,037	\$ -	\$ 402,037
Other current liabilities	681,211	572,332	(301,750)	951,793	-	951,793
Deferred revenue	2,651,658	7,711,247	3,544,441	13,907,346	-	13,907,346
Current maturities of long-term debt	<u>147,759</u>	<u>-</u>	<u>-</u>	<u>147,759</u>	<u>-</u>	<u>147,759</u>
Total current liabilities	<u>3,878,298</u>	<u>8,287,946</u>	<u>3,242,691</u>	<u>15,408,935</u>	<u>-</u>	<u>15,408,935</u>
Long-term liabilities						
Deferred revenue, noncurrent	7,069,500	1,775,000	-	8,844,500	-	8,844,500
Line of credit	1,078,000	-	-	1,078,000	-	1,078,000
Long-term debt, less current maturities	<u>3,782,466</u>	<u>-</u>	<u>-</u>	<u>3,782,466</u>	<u>-</u>	<u>3,782,466</u>
Total long-term liabilities	<u>11,929,966</u>	<u>1,775,000</u>	<u>-</u>	<u>13,704,966</u>	<u>-</u>	<u>13,704,966</u>
Due to (from)	<u>10,526,766</u>	<u>(9,234,550)</u>	<u>(1,292,216)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets						
Unrestricted						
Net investment in property and equipment	25,745,794	-	728,215	26,474,009	-	26,474,009
Undesignated	<u>(418,890)</u>	<u>-</u>	<u>(728,215)</u>	<u>(1,147,105)</u>	<u>-</u>	<u>(1,147,105)</u>
Total unrestricted	<u>25,326,904</u>	<u>-</u>	<u>-</u>	<u>25,326,904</u>	<u>-</u>	<u>25,326,904</u>
Restricted						
Temporarily	5,200,000	-	-	5,200,000	6,281,215	11,481,215
Permanently	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,511,357</u>	<u>8,511,357</u>
Total restricted	<u>5,200,000</u>	<u>-</u>	<u>-</u>	<u>5,200,000</u>	<u>14,792,572</u>	<u>19,992,572</u>
Members' equity	<u>-</u>	<u>2,511,184</u>	<u>(2,511,184)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets	<u>30,526,904</u>	<u>2,511,184</u>	<u>(2,511,184)</u>	<u>30,526,904</u>	<u>14,792,572</u>	<u>45,319,476</u>
Total liabilities and net assets	<u>\$ 56,861,934</u>	<u>\$ 3,339,580</u>	<u>\$ (560,709)</u>	<u>\$ 59,640,805</u>	<u>\$ 14,792,572</u>	<u>\$ 74,433,377</u>

See independent auditor's report on supplementary information.

# WALTON ARTS CENTER

## Combining Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2018

	Walton Arts Center Council, Inc.				NWA	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Support and revenue						
Grants	\$ -	\$ 2,345,900	\$ -	\$ 2,345,900	\$ 70,000	\$ -
Contributions	1,430,642	-	-	1,430,642	644,197	-
Ticket sales	4,460,383	-	-	4,460,383	5,632,461	-
Education class fee revenues	32,170	-	-	32,170	-	-
Other general sales	1,676,608	-	-	1,676,608	3,578,862	-
Other income	1,548,975	-	-	1,548,975	227,072	-
Sponsorships/underwriting	1,515,650	-	-	1,515,650	1,682,973	-
Investment income	95,984	-	-	95,984	-	-
Realized gains on investments	-	-	-	-	-	-
Unrealized gains on investments	-	-	-	-	-	-
Transfers from the Foundation	475,000	-	-	475,000	-	-
Net assets released from restrictions	645,900	(645,900)	-	-	-	-
Total support and revenue	<u>11,881,312</u>	<u>1,700,000</u>	<u>-</u>	<u>13,581,312</u>	<u>11,835,565</u>	<u>-</u>
Expenses						
Program services	11,161,120	-	-	11,161,120	9,517,628	-
General and administrative	2,616,758	-	-	2,616,758	617,331	-
Fund-raising	1,187,575	-	-	1,187,575	212,101	-
Total expenses	<u>14,965,453</u>	<u>-</u>	<u>-</u>	<u>14,965,453</u>	<u>10,347,060</u>	<u>-</u>
Changes in net assets from operations	<u>(3,084,141)</u>	<u>1,700,000</u>	<u>-</u>	<u>(1,384,141)</u>	<u>1,488,505</u>	<u>-</u>
Other changes						
Distribution to member	-	-	-	-	(1,200,000)	-
Equity in earnings of subsidiary	1,488,505	-	-	1,488,505	-	-
Total other changes	<u>1,488,505</u>	<u>-</u>	<u>-</u>	<u>1,488,505</u>	<u>(1,200,000)</u>	<u>-</u>
Changes in net assets	(1,595,636)	1,700,000	-	104,364	288,505	-
Net assets - beginning of year	<u>26,922,540</u>	<u>3,500,000</u>	<u>-</u>	<u>30,422,540</u>	<u>2,222,679</u>	<u>-</u>
Net assets - end of year	<u>\$ 25,326,904</u>	<u>\$ 5,200,000</u>	<u>\$ -</u>	<u>\$ 30,526,904</u>	<u>\$ 2,511,184</u>	<u>\$ -</u>

Entertainment, LLC		Eliminations		Consolidated		
Permanently Restricted	Total	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ -	\$ 70,000	\$ -	\$ 70,000	\$ 2,345,900	\$ -	\$ 2,415,900
-	644,197	-	2,074,839	-	-	2,074,839
-	5,632,461	-	10,092,844	-	-	10,092,844
-	-	-	32,170	-	-	32,170
-	3,578,862	-	5,255,470	-	-	5,255,470
-	227,072	(500,000)	1,276,047	-	-	1,276,047
-	1,682,973	-	3,198,623	-	-	3,198,623
-	-	-	95,984	-	-	95,984
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	475,000	-	-	475,000
-	-	-	645,900	(645,900)	-	-
-	11,835,565	(500,000)	23,216,877	1,700,000	-	24,916,877
-	9,517,628	(500,000)	20,178,748	-	-	20,178,748
-	617,331	-	3,234,089	-	-	3,234,089
-	212,101	-	1,399,676	-	-	1,399,676
-	10,347,060	(500,000)	24,812,513	-	-	24,812,513
-	1,488,505	-	(1,595,636)	1,700,000	-	104,364
-	(1,200,000)	1,200,000	-	-	-	-
-	-	(1,488,505)	-	-	-	-
-	(1,200,000)	(288,505)	-	-	-	-
-	288,505	(288,505)	(1,595,636)	1,700,000	-	104,364
-	2,222,679	(2,222,679)	26,922,540	3,500,000	-	30,422,540
\$ -	\$ 2,511,184	\$ (2,511,184)	\$ 25,326,904	\$ 5,200,000	\$ -	\$ 30,526,904

See independent auditor's report on supplementary information.



**WALTON ARTS CENTER**

**Combining Statement of Activities and Changes in Net Assets (cont.)**

**For the Year Ended June 30, 2018**

	Walton Arts Center Foundation, Inc.			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Grants	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-
Ticket sales	-	-	-	-
Education class fee revenues	-	-	-	-
Other general sales	-	-	-	-
Other income	-	-	-	-
Sponsorships/underwriting	-	-	-	-
Investment income	-	140,232	-	140,232
Realized gains on investments	-	594,152	-	594,152
Unrealized gains on investments	-	619,095	-	619,095
Transfers from the Foundation	-	-	-	-
Net assets released from restrictions	532,395	(532,395)	-	-
Total support and revenue	532,395	821,084	-	1,353,479
Expenses				
Program services	475,000	-	-	475,000
General and administrative	57,395	-	-	57,395
Fund-raising	-	-	-	-
Total expenses	532,395	-	-	532,395
Changes in net assets from operations	-	821,084	-	821,084
Other changes				
Distribution to member	-	-	-	-
Equity in earnings of subsidiary	-	-	-	-
Total other changes	-	-	-	-
Changes in net assets	-	821,084	-	821,084
Net assets - beginning of year	-	5,460,131	8,511,357	13,971,488
Net assets - end of year	\$ -	\$ 6,281,215	\$ 8,511,357	\$ 14,792,572

Eliminations		Combined		
<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ -	\$ 70,000	\$ 2,345,900	\$ -	\$ 2,415,900
-	2,074,839	-	-	2,074,839
-	10,092,844	-	-	10,092,844
-	32,170	-	-	32,170
-	5,255,470	-	-	5,255,470
-	1,276,047	-	-	1,276,047
-	3,198,623	-	-	3,198,623
-	95,984	140,232	-	236,216
-	-	594,152	-	594,152
-	-	619,095	-	619,095
(475,000)	-	-	-	-
-	1,178,295	(1,178,295)	-	-
<u>(475,000)</u>	<u>23,274,272</u>	<u>2,521,084</u>	<u>-</u>	<u>25,795,356</u>
(475,000)	20,178,748	-	-	20,178,748
-	3,291,484	-	-	3,291,484
-	1,399,676	-	-	1,399,676
<u>(475,000)</u>	<u>24,869,908</u>	<u>-</u>	<u>-</u>	<u>24,869,908</u>
-	(1,595,636)	2,521,084	-	925,448
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	(1,595,636)	2,521,084	-	925,448
<u>(1,245,635)</u>	<u>26,922,540</u>	<u>8,960,131</u>	<u>8,511,357</u>	<u>44,394,028</u>
<u>\$ (1,245,635)</u>	<u>\$ 25,326,904</u>	<u>\$ 11,481,215</u>	<u>\$ 8,511,357</u>	<u>\$ 45,319,476</u>

See independent auditor's report on supplementary information.

# WALTON ARTS CENTER

## Combining Statement of Functional Expenses

For the Year Ended June 30, 2018

	Walton Arts Center Council, Inc.				NWA	
	<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>	<u>Program</u>	<u>General and Administrative</u>
Artist fees	\$ 3,827,388	\$ -	\$ -	\$ 3,827,388	\$ 4,024,176	\$ -
Artist expense	247,440	-	-	247,440	725,185	-
Salaries and benefits	2,779,921	1,064,050	891,649	4,735,620	1,009,240	325,712
Accounting and consulting fees	72,271	65,821	-	138,092	-	-
Bank fees	235,427	3,244	-	238,671	165,244	1,388
Bad debt	-	-	23,372	23,372	-	-
Bus subsidy	18,957	-	-	18,957	-	-
Catering	-	-	-	-	41,385	-
Concessions	148,088	-	-	148,088	287,623	-
Contract services	419,333	92,222	11,620	523,175	1,248,498	22,872
Depreciation and amortization	1,479,869	244,482	-	1,724,351	140,459	2,236
Donor cultivations	-	-	45,613	45,613	-	-
Dues and subscriptions	27,631	6,124	591	34,346	1,370	-
Equipment rental	141,154	7,314	16,837	165,305	610,457	5,134
Faculty fees	57,388	-	-	57,388	-	-
In-kind donations	210,203	22,500	51,375	284,078	340,855	-
Insurance	-	115,784	-	115,784	33,943	108,408
Interest	-	99,392	-	99,392	-	-
Investment fees	-	-	-	-	-	-
Landscaping	-	21,178	-	21,178	-	23,957
Licenses	1,481	92,676	-	94,157	-	9,394
Marketing and advertising	735,142	-	-	735,142	296,621	-
Meetings	14,284	3,900	2,178	20,362	2,737	207
Miscellaneous	3,186	106,052	390	109,628	-	9,934
Postage and shipping	54,605	1,412	10,536	66,553	17,920	12
Printing and copies	22,244	1,426	3,688	27,358	2,106	-
Recruiting expenses	-	15,474	-	15,474	-	-
Repairs and maintenance	13,233	73,461	322	87,016	11,694	51,589
Service contracts	10,535	71,492	1,221	83,248	-	2,429
Small tools and equipment	10,759	26,755	258	37,772	19,797	10,428
Special events	61,214	370	60,733	122,317	-	-
Sponsorship allowance	-	-	20,936	20,936	25,271	-
Staff training and travel	91,163	23,111	9,331	123,605	26,831	2,269
Supplies and stationary	118,315	89,901	31,049	239,265	104,542	1,175
Telephone	-	46,094	-	46,094	-	8,072
Temporary employees	359,889	-	5,876	365,765	333,501	-
Transfers to the Council	-	-	-	-	-	-
Utilities	-	322,523	-	322,523	48,173	32,115
	<u>\$ 11,161,120</u>	<u>\$ 2,616,758</u>	<u>\$ 1,187,575</u>	<u>\$ 14,965,453</u>	<u>\$ 9,517,628</u>	<u>\$ 617,331</u>

Entertainment, LLC		Eliminations		Consolidated		
<u>Fund-raising</u>	<u>Total</u>	<u>Total</u>	<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
\$ -	\$ 4,024,176	\$ -	\$ 7,851,564	\$ -	\$ -	\$ 7,851,564
-	725,185	-	972,625	-	-	972,625
201,173	1,536,125	-	3,789,161	1,389,762	1,092,822	6,271,745
-	-	-	72,271	65,821	-	138,092
-	166,632	-	400,671	4,632	-	405,303
-	-	-	-	-	23,372	23,372
-	-	-	18,957	-	-	18,957
-	41,385	-	41,385	-	-	41,385
-	287,623	-	435,711	-	-	435,711
-	1,271,370	-	1,667,831	115,094	11,620	1,794,545
-	142,695	-	1,620,328	246,718	-	1,867,046
6,856	6,856	-	-	-	52,469	52,469
-	1,370	-	29,001	6,124	591	35,716
-	615,591	(500,000)	251,611	12,448	16,837	280,896
-	-	-	57,388	-	-	57,388
-	340,855	-	551,058	22,500	51,375	624,933
-	142,351	-	33,943	224,192	-	258,135
-	-	-	-	99,392	-	99,392
-	-	-	-	-	-	-
-	23,957	-	-	45,135	-	45,135
-	9,394	-	1,481	102,070	-	103,551
-	296,621	-	1,031,763	-	-	1,031,763
237	3,181	-	17,021	4,107	2,415	23,543
649	10,583	-	3,186	115,986	1,039	120,211
-	17,932	-	72,525	1,424	10,536	84,485
389	2,495	-	24,350	1,426	4,077	29,853
-	-	-	-	15,474	-	15,474
-	63,283	-	24,927	125,050	322	150,299
-	2,429	-	10,535	73,921	1,221	85,677
-	30,225	-	30,556	37,183	258	67,997
-	-	-	61,214	370	60,733	122,317
-	25,271	-	25,271	-	20,936	46,207
2,540	31,640	-	117,994	25,380	11,871	155,245
257	105,974	-	222,857	91,076	31,306	345,239
-	8,072	-	-	54,166	-	54,166
-	333,501	-	693,390	-	5,876	699,266
-	-	-	-	-	-	-
-	80,288	-	48,173	354,638	-	402,811
<u>\$ 212,101</u>	<u>\$ 10,347,060</u>	<u>\$ (500,000)</u>	<u>\$ 20,178,748</u>	<u>\$ 3,234,089</u>	<u>\$ 1,399,676</u>	<u>\$ 24,812,513</u>

See independent auditor's report on supplementary information.

**WALTON ARTS CENTER**

**Combining Statement of Functional Expenses (cont.)**

**For the Year Ended June 30, 2018**

	Walton Arts Center Foundation, Inc.			
	<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
Artist fees	\$ -	\$ -	\$ -	\$ -
Artist expense	-	-	-	-
Salaries and benefits	-	-	-	-
Accounting and consulting fees	-	14,496	-	14,496
Bank fees	-	-	-	-
Bad debt	-	-	-	-
Bus subsidy	-	-	-	-
Catering	-	-	-	-
Concessions	-	-	-	-
Contract services	-	-	-	-
Depreciation and amortization	-	-	-	-
Donor cultivations	-	-	-	-
Dues and subscriptions	-	-	-	-
Equipment rental	-	-	-	-
Faculty fees	-	-	-	-
In-kind donations	-	-	-	-
Insurance	-	-	-	-
Interest	-	-	-	-
Investment fees	-	42,899	-	42,899
Landscaping	-	-	-	-
Licenses	-	-	-	-
Marketing and advertising	-	-	-	-
Meetings	-	-	-	-
Miscellaneous	-	-	-	-
Postage and shipping	-	-	-	-
Printing and copies	-	-	-	-
Recruiting expenses	-	-	-	-
Repairs and maintenance	-	-	-	-
Service contracts	-	-	-	-
Small tools and equipment	-	-	-	-
Special events	-	-	-	-
Sponsorship allowance	-	-	-	-
Staff training and travel	-	-	-	-
Supplies and stationary	-	-	-	-
Telephone	-	-	-	-
Temporary employees	-	-	-	-
Transfers to the Council	475,000	-	-	475,000
Utilities	-	-	-	-
	<u>\$ 475,000</u>	<u>\$ 57,395</u>	<u>\$ -</u>	<u>\$ 532,395</u>

Eliminations		Combined		
<u>Total</u>	<u>Program</u>	<u>General and Administrative</u>	<u>Fund-raising</u>	<u>Total</u>
\$ -	\$ 7,851,564	\$ -	\$ -	\$ 7,851,564
-	972,625	-	-	972,625
-	3,789,161	1,389,762	1,092,822	6,271,745
-	72,271	80,317	-	152,588
-	400,671	4,632	-	405,303
-	-	-	23,372	23,372
-	18,957	-	-	18,957
-	41,385	-	-	41,385
-	435,711	-	-	435,711
-	1,667,831	115,094	11,620	1,794,545
-	1,620,328	246,718	-	1,867,046
-	-	-	52,469	52,469
-	29,001	6,124	591	35,716
-	251,611	12,448	16,837	280,896
-	57,388	-	-	57,388
-	551,058	22,500	51,375	624,933
-	33,943	224,192	-	258,135
-	-	99,392	-	99,392
-	-	42,899	-	42,899
-	-	45,135	-	45,135
-	1,481	102,070	-	103,551
-	1,031,763	-	-	1,031,763
-	17,021	4,107	2,415	23,543
-	3,186	115,986	1,039	120,211
-	72,525	1,424	10,536	84,485
-	24,350	1,426	4,077	29,853
-	-	15,474	-	15,474
-	24,927	125,050	322	150,299
-	10,535	73,921	1,221	85,677
-	30,556	37,183	258	67,997
-	61,214	370	60,733	122,317
-	25,271	-	20,936	46,207
-	117,994	25,380	11,871	155,245
-	222,857	91,076	31,306	345,239
-	-	54,166	-	54,166
-	693,390	-	5,876	699,266
(475,000)	-	-	-	-
-	48,173	354,638	-	402,811
<u>\$ (475,000)</u>	<u>\$ 20,178,748</u>	<u>\$ 3,291,484</u>	<u>\$ 1,399,676</u>	<u>\$ 24,869,908</u>

See independent auditor's report on supplementary information.