

**The Hambidge Center
For
Creative Arts and Sciences, Inc.
Audit of Financial Statements
December 31, 2018 & 2017**

Independent Auditor's Report

To the Board of Directors of
The Hambidge Center For Creative Arts And Sciences, Inc.

I have audited the accompanying financial statements of The Hambidge Center For Creative Arts And Sciences, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2018, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Organization's financial statements for the year ended December 31, 2017 and in my report dated August 9, 2019, I expressed an unqualified opinion Thereon.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluation of the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hambidge Center For Creative Arts And Sciences, Inc. as of December 31, 2018 and 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

J. Lunsford CPA

August 9, 2019

The Hambidge Center For Creative Arts And Sciences, Inc.

Statement of Financial Position December 31,

The Accompanying Notes are an Integral Part of These Financial Statements

	<u>2018</u>	<u>2017</u>
Assets		
Cash and Cash Equivalents	\$ 422,876	\$ 271,380
Accounts Receivable	3,842	19,338
Inventories	5,917	5,748
Investments	771,812	802,917
Buildings, Furniture & Equipment - net of accumulated depreciation of \$378,049	458,280	419,573
Land	29,028	29,028
	<u>1,691,755</u>	<u>1,547,984</u>
Total Assets		
<hr/>		
Liabilities		
Accounts Payable	\$ 69,695	\$ 60,363
	<u>69,695</u>	<u>60,363</u>
Total Liabilities		
<hr/>		
Net Assets		
Without Donor Restrictions	1,449,069	1,355,023
With Donor Restrictions	172,991	132,598
	<u>1,622,060</u>	<u>1,487,621</u>
Total Net Assets		
	<u>\$ 1,691,755</u>	<u>\$ 1,547,984</u>
Total Liabilities and Net Assets		

The Hambidge Center For Creative Arts And Sciences, Inc.

Statement of Activity For the Year Ended December 31, 2018 with Comparative Information for December 31, 2017

The Accompanying Notes are an Integral Part of These Financial Statements

	Without Donor Restrictions	With Donor Restrictions	Total	2017
Revenues, Gains and Other Support				
Support				
Contributions	\$ 365,113	\$ 83,125	\$ 448,238	\$ 582,810
Grants	15,000	19,000	34,000	27,000
Total Support	380,113	102,125	482,238	609,810
Residency Income	102,072	-	102,072	95,707
Workshops	12,486	-	12,486	6,987
Services	13,044	-	13,044	11,502
Special Events	179,042	-	179,042	209,932
Merchandise Sales	17,684	-	17,684	26,542
Mitigation Bank	34,020	-	34,020	121,907
Investment Return	45,358	-	45,358	33,810
Realized / Unrealized Gain (Loss)	(73,596)	-	(73,596)	71,094
Other Revenues and Gains	330,110	-	330,110	577,481
Support Provided by Expiring Time and Purpose Restrictions	61,732	(61,732)	-	-
Total Revenues, Gains and Other Support	771,955	40,393	812,348	1,187,291
Expenses				
Program Services	462,134	-	462,134	602,314
Total Program Services	462,134	-	462,134	602,314
Management and General	133,586	-	133,586	146,006
Fundraising	82,189	-	82,189	68,706
Total Expenses	677,909	-	677,909	817,026
Change in Net Assets	94,046	40,393	134,439	370,265

The Hambidge Center For Creative Arts And Sciences, Inc.

Statement of Functional Expense For the Year Ended December 31, 2018 with Comparative Information for December 31, 2017

The Accompanying Notes are an Integral Part of These Financial Statements

	Program Services	Management & General	Fundraising	Total	2017
Salaries	\$ 174,714	\$ 88,062	\$ 66,189	\$ 328,965	\$ 325,854
Artist Project & Event Fees	67,538	-	-	67,538	187,085
Consultants	28,089	-	16,000	44,089	39,051
Utilities	38,651	-	-	38,651	36,681
Artist Consignment Payments	33,138	-	-	33,138	32,990
Residency Food	27,923	961	-	28,884	43,251
Office Expense	-	27,158	-	27,158	35,512
Insurance	15,647	5,823	-	21,470	22,051
Depreciation	18,000	-	-	18,000	15,291
Resident Stipends	16,550	-	-	16,550	7,300
Maintenance	10,438	-	-	10,438	14,452
Travel	8,128	-	-	8,128	7,872
Rent	6,780	-	-	6,780	5,980
Printing	6,176	-	-	6,176	11,262
Contract Labor	5,672	-	-	5,672	13,552
Property Taxes	-	5,236	-	5,236	4,888
Advertising	3,887	-	-	3,887	-
Equipment Lease	-	3,499	-	3,499	6,296
Accounting Fees	-	1,657	-	1,657	3,188
Gallery Purchases	803	-	-	803	2,900
Miscellaneous	-	680	-	680	1,170
Conferences & Meetings	-	510	-	510	400
	\$ 462,134	\$ 133,586	\$ 82,189	\$ 677,909	\$ 817,026

The Hambidge Center For Creative Arts And Sciences, Inc.

Statement of Cash Flows For the Years Ended December 31, 2018 and 2017

The Accompanying Notes are an Integral Part of These Financial Statements

	<u>2018</u>	<u>2017</u>
Operating Activities:		
Cash Inflows for Operations:		
Support	\$ 497,734	\$ 590,472
Residency Income	102,072	95,707
Workshops	12,486	6,987
Services	13,044	11,502
Special Events	179,042	209,932
Merchandise Sales	17,684	26,542
Mitigation Bank	34,020	121,907
Investment Return	45,358	33,810
Cash Outflows for Operations:		
Payments for Salaries, Benefits, and Payroll Taxes	(328,965)	(325,854)
Payments to Vendors	(313,441)	(467,829)
Net Cash Provided by Operating Activities	259,034	303,176
Investing Activities:		
Realized Gain on Sale of Securities	8,844	32,683
Purchase of Investments	(60,214)	(192,851)
Purchase of Fixed Assets	(56,168)	(122,270)
Net Cash Used by Investing Activities	(107,538)	(282,438)
Change in Cash and Cash Equivalents	151,496	20,918
Cash and Cash Equivalents at Beginning of Year	271,380	250,462
Cash and Cash Equivalents at End of Year	\$ 422,876	\$ 271,380

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 1: Description of Organization

Mission

The Hambidge Center for Creative Arts and Sciences, Inc. (The Hambidge Center) provides a residency program that empowers talented individuals to explore, develop, and express their creative voices. Situated on 600 acres in the mountains of north Georgia, The Hambidge Center is a sanctuary of time and space that inspires individuals working in a broad range of disciplines to create works of the highest caliber.

The Hambidge Center pledges to offer a nurturing retreat, preserve its pristine natural environment, and provide public educational programming.

History

As one of the first artist communities in the U.S., the Hambidge Center has a distinguished history of supporting individual artists in a residency program. The Center also continues to act as a steward of its extraordinary 600-acre setting in the foothills of the Blue Ridge Mountains.

The Center was created in 1934 by Mary Hambidge, who established the artist enclave and sustainable farm in memory of her artist partner, Jay Hambidge (1867–1924). After a brief career as a performer on vaudeville stages (Mary was a world-class whistler who appeared with her pet mockingbird Jimmy), she discovered weaving and eventually found her home among Appalachian weavers in the North Georgia mountains.

In the early days of The Hambidge Center, she employed local women to create exceptional weavings that would one day be featured in many exhibits including the Smithsonian and MOMA. Later she broadened the scope of The Hambidge Center by inviting artists for extended stays. After her death in 1973, The Hambidge Center evolved into a formal and competitive residency program open to creative individuals from all walks of life.

The Hambidge Center is a member of the Alliance of Artist's Communities and was recognized with the 1996 Cultural Olympiad Regional Designation Award in the Arts.

Note 2: Summary of Significant Accounting Policies

The organization prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America (U.S. GAAP) for not-for-profit entities. The significant accounting and reporting policies used by the organization are described subsequently to enhance the usefulness and understandability of the financial statements.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the organization's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The organization's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 2: Summary of Significant Accounting Policies - continued

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use, that are placed by its donors, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

The organization's unspent contributions are included in this class if the donor limited their use.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

Donated Services

The Hambidge Center has numerous unpaid volunteers. The value of the services provided by these volunteers has not been determined or recognized in these financial statements since the criteria for recognition under ASC No. 958 have not been met.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible into cash and have a maturity of ninety days or less when purchased. At times, cash and cash equivalents may exceed federally insured amounts. The Hambidge Center believes that it mitigates risks by depositing cash and investing in cash equivalents with major financial institutions.

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 2: Summary of Significant Accounting Policies - continued

Property and Equipment

Property and equipment are recorded at cost and depreciated over the estimated useful lives of three to forty years using the straight-line method. Depreciation expense for the year ended December 31, 2018 and 2017 totaled \$18,000 and \$15,291, respectively.

Revenue Recognition and Expenses

Contributions are recorded in the year they are received or pledged. Program services include expenses incurred in line with the purpose of The Hambidge Center.

Income Taxes

The Hambidge Center is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code (the Code). The Hambidge Center had no significant unrelated business taxable income during 2018. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying consolidated financial

The Hambidge Center applies the provisions of accounting standards for income taxes. These standards require that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The Hambidge Center does not believe its financial statements include any material uncertain tax positions. The Hambidge Center is no longer subject to Federal or State income tax examination by tax authorities for years prior to 2015.

Investments

On January 21, 2014 The Board of The Hambidge Center created four Board Designated Endowment Funds and entered into Designated Fund Agreements with the North Georgia Community Foundation on September 8, 2014 to manage the funds. The purpose of the Board Designated Endowment Funds is to generate annual income for the Hambidge Center to finance, sustain, and initiate designated programs for The Hambidge Center. These funds are as follows:

The Nellie Mae Rowe Scholarship Fund - Distributions from the fund shall be spent only for the purpose of funding the annual Nellie Mae Rowe Scholarship for a Hambidge Fellow.

The Fisher & Brena Capital Fund - Distributions from the fund shall be spent only for the purpose of funding the maintenance and capital improvements and expenditures related to the upkeep of the Fisher House and the Brena House.

The Hambidge Center General Endowment Fund - Distributions from the fund shall be spent only for the purpose of funding general needs of The Hambidge Center as approved by the Board of Directors.

The Mitigation Bank Fund - Distributions from the fund shall be spent only for the purpose of funding the costs related to the creation and preservation of the mitigation banks.

Annual Distributions from The Nellie Mae Rowe Scholarship Fund, The Fisher & Brena Capital Fund and The Hambidge Center General Endowment Fund are to be calculated as follows:

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 2: Summary of Significant Accounting Policies - continued

Investments - continued

Annual distributions shall not exceed 5% of the average of the value of the fund for the four calendar quarters preceding December 31.

Annual Distributions from The Mitigation Bank Fund are to be made at the discretion of the Board of Directors.

Net income of the funds shall be paid and distributed (as discussed above) to The Hambidge Center at least annually or more or less frequently. It is contemplated that from time to time a certain portion of the net income shall be left undistributed so that the earning capacity of the Fund will not be eroded by inflation.

Distributions in excess of the net income of the Fund (including principal up to the entire amount of the fund) may be made to The Hambidge Center in any year as determined by the Board of Directors.

Pursuant to the Designated Fund Agreement the asset mix for the long-term portion of Funds are 65% equity and 35% fixed income.

Change in Accounting Principles

The organization implemented FASB ASU No. 2016-14 during the year ended December 31, 2017, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

- * The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- * The unrestricted net asset class had been renamed net assets without donor restrictions.
- * The format of the statement of cash flows has changed to the direct method of reporting cash flows from operations, which we believe to be more understandable for users of our financial statements.
- * The financial statements include a disclosure about liquidity and availability of resources.

The changes have the following effect on net assets at January 1, 2017:

Net Asset Class	As Originally Presented	After Adoption of ASU 2016-14
Unrestricted net assets	\$ 1,117,355	\$ -
Temporarily restricted net assets	-	
Permanently restricted	-	
Net assets without donor restrictions		1,117,355
Net assets with donor restrictions		-
Total net assets	\$ 1,117,355	\$ 1,117,355

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 3: Operating Lease Obligation

The Hambidge Center leases residence space under a month to month lease at \$100 per week. Rental Expense for the year ended December 31, 2018 and 2017 was \$6,780 and \$5,980, respectively.

Note 4: Commitments and Contingencies

Certain grants and contracts often require the fulfillment of certain conditions as set forth in the instrument or agreement. Failure to fulfill the conditions could result in the return of funds to the grantors. Although the return of funds is a possibility, management of The Hambidge Center deems the contingency to be unlikely. The grants and contracts are subject to audit by the grantor. They have the authority to determine liabilities or limits or suspend participation in the various sponsored programs.

Note 5: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 and 2017 are:

	2018	2017
Financial assets:		
Cash and cash equivalents	\$ 422,876	\$ 271,380
Accounts receivable	3,842	19,338
Investments	771,812	802,917
Total financial assets	1,198,530	1,093,635
Less financial assets held to meet donor-imposed restrictions	(172,991)	(132,598)
Amount available for general expenditures within one year	\$ 1,025,539	\$ 961,037

Note 6: Net Assets With Donor Restrictions

Purpose/Donor	2018	2017
Distinguished Fellowships	\$ 36,635	\$ 26,590
Anagama Pottery Programs	4,627	6,568
Antinori Village	71,458	99,440
Deferred Maintenance	30,000	-
Pottery Studio Upgrades	27,974	-
Happy Trails Fund	2,297	-
	\$ 172,991	\$ 132,598

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 7: Subsequent Events

The Hambidge Center has evaluated subsequent events through August 9, 2019 which is the date the financial statements were prepared. No subsequent events were identified that required adjustment to or disclosure within the financial statements.

Note 8: Fair Value Measurements

The Hambidge Center reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used are

Level 1 - Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

Level 2 - Inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly, or indirectly.

Level 2 inputs include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets in markets that are not active
- observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
- inputs derived principally from, or corroborated by, observable market data by correlation or by other means

Level 3 - Unobservable inputs for the asset or liability. These should be used to measure the fair value to the extent that observable inputs are unavailable.

When available, The Hambidge Center measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for all of the assets and liabilities that The Hambidge Center may be required to measure fair value (for example, in-kind contributions). The primary use of fair value measures in these financial statements are in the determination of Fair Market Value of Investments.

Note 9: Investment Summary

Investments at December 31, 2018 are summarized as follows:

	Fair Value	Unrealized Loss
Fisher & Brena Capital Fund	\$ 118,185	\$ (12,626)
The Hambidge Center General Endowment Fund	231,978	(24,768)
The Mitigation Bank Fund	317,101	(33,877)
Nellie Mae Rowe Scholarship Fund	104,548	(11,169)
	\$ 771,812	\$ (82,440)

The Hambidge Center For Creative Arts And Sciences, Inc.

Notes to Financial Statements December 31, 2018 and 2017

Note 9: Investment Summary - continued

Investments at December 31, 2017 are summarized as follows:

	Fair Value	Unrealized Loss
Fisher & Brena Capital Fund	\$ 122,949	\$ 4,840
The Hambidge Center General Endowment Fund	241,323	9,494
The Mitigation Bank Fund	329,883	12,281
Nellie Mae Rowe Scholarship Fund	108,762	5,969
	\$ 802,917	\$ 32,584

As of December 31, 2018 and 2017 The Hambidge Center elected to leave the net income of the funds undistributed in order to enhance the future earning capacities of the Funds.

Note 10: Mitigation Bank

The Hambidge Center completed a bottomland and stream restoration and preservation project to restore 54 acres of its land through an agreement overseen by the USACE (U.S. Army Corps of Engineers). The work earns mitigation credits from USACE. These credits can be sold to entities that must mitigate impacts to wetlands and streams from their construction projects in north Georgia.

Note 11: Fair Market Value Land

As noted in Note 1, The Hambidge Center is situated on approximately 600 acres in Rabun County Georgia located in the North Georgia Mountains.

Mary Hambidge acquired the approximately 600 acres when she established The Hambidge Center in 1934 at an approximate cost of \$4,500. The approximately 600 acres and improvements made to the property over the ensuing years are currently valued at \$5,019,769 by Rabun County, Georgia for property tax purposes.

End of Footnotes