

STAUNTON CREATIVE COMMUNITY FUND, INC.

FINANCIAL REPORT

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Staunton Creative Community Fund, Inc.
Staunton, Virginia

We have audited the accompanying financial statements of the Staunton Creative Community Fund, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Staunton Creative Community Fund, Inc. as of June 30, 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.

Emphasis of Matter

As discussed in Note 1, the Financial Accounting Standards Board recently issued ASU No, 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which supersedes accounting standards that currently exist under GAAP. The statement aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors, and other users. Major components of this standard include changes to net asset classifications, disclosures regarding liquidity and availability of resources, and improved expense reporting. Net asset classification will be reduced from three classes (unrestricted, temporarily restricted, and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements are presented regarding liquidity and availability of resources for short-term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard is effective for years beginning after December 15, 2017, and early adoption is permitted. The Organization has elected to early adopt ASU 2016-14 for the year ended June 30, 2017. There was no impact on the total net assets as a result of the adoption of ASU 2016-14.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia

May 24, 2018

FINANCIAL STATEMENTS

STAUNTON CREATIVE COMMUNITY FUND, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 379,171
Restricted cash (Note 2)	261,906
Contribution receivable	29,375
Grants receivable	15,088
Loans receivable, current portion (Note 3)	55,080
Accrued interest receivable	7,309
Security deposits	500
Prepaid expenses	1,423
	<hr/>
Total current assets	749,852

LONG-TERM ASSETS

Loans receivable, net (Note 3)	123,238
Property and equipment, net (Note 4)	2,250
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Total long-term assets	125,488
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Total assets	\$ 875,340

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 4,435
Accrued expenses	10,726
Agency funds liability	4,870
Current portion of notes payable (Note 5)	63,512
Unapplied loan payments received	2,805
	<hr/>
Total current liabilities	86,348

LONG-TERM DEBT, net of current portion (Note 5)

	194,518
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Total liabilities	280,866

NET ASSETS (Note 6)

Without donor restrictions	167,427
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With donor restrictions	427,047
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Total net assets	594,474
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Total liabilities and net assets	\$ 875,340

The Notes to Financial Statements are an integral part of this statement.

STAUNTON CREATIVE COMMUNITY FUND, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT			
Contributions			
Corporate and business	\$ 10,500	\$ -	\$ 10,500
Individual	4,786	-	4,786
In-kind	421	-	421
Grants			
Government	126,478	70,000	196,478
Nonprofit	15,500	9,375	24,875
Loan program interest income	-	17,055	17,055
Training fees	14,065	-	14,065
Interest income	454	-	454
Other	3,035	-	3,035
Net assets released from restrictions	94,561	(94,561)	-
Total revenues and support	269,800	1,869	271,669
EXPENSES			
Program activities	199,823	-	199,823
Supporting activities	58,565	-	58,565
Total expenses	258,388	-	258,388
Total change in net assets	11,412	1,869	13,281
NET ASSETS			
Beginning, as restated (Note 8)	156,015	425,178	581,193
Ending	\$ 167,427	\$ 427,047	\$ 594,474

The Notes to Financial Statements are an integral part of this statement.

STAUNTON CREATIVE COMMUNITY FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

	Supporting Activities				Total
	Program Activities	Management and General	Fund Raising	Subtotal	
Salaries and wages	\$ 126,347	\$ 18,985	\$ 14,331	\$ 33,316	\$ 159,663
Legal and professional fees	21,272	9,136	-	9,136	30,408
Health insurance	11,239	1,689	1,275	2,964	14,203
Grants	13,281	-	-	-	13,281
Rent	7,200	1,800	-	1,800	9,000
Office	7,178	1,794	-	1,794	8,972
Training, travel, and meetings	-	3,260	3,260	6,520	6,520
Utilities	2,511	628	-	628	3,139
Marketing and outreach	3,107	-	-	-	3,107
Provision for uncollectible loan	3,000	-	-	-	3,000
Insurance	1,898	475	-	475	2,373
Depreciation	1,145	286	-	286	1,431
Interest	1,205	-	-	-	1,205
Meals and refreshments	-	273	273	546	546
Registration and filing fees	-	453	-	453	453
Miscellaneous	-	350	-	350	350
Training supplies	313	-	-	-	313
Bank fees	-	190	-	190	190
Telephone	127	32	-	32	159
Donated services	-	75	-	75	75
	\$ 199,823	\$ 39,426	\$ 19,139	\$ 58,565	\$ 258,388

The Notes to Financial Statements are an integral part of this statement.

STAUNTON CREATIVE COMMUNITY FUND, INC.

STATEMENT OF CASH FLOWS

Years Ended June 30, 2017

OPERATING ACTIVITIES

Increase in net assets	\$ 13,281
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,431
Allowance for loan losses	3,000
Change in current assets and liabilities:	
Decrease (increase):	
Grants receivable	103,298
Contributions receivable	(29,375)
Loans receivable	(29,900)
Accrued interest receivable	(2,374)
Other receivables	1,100
Other assets	1,950
(Increase) decrease:	
Accounts payable	3,327
Accrued expenses	1,734
Deferred revenue	(28,695)
Other liabilities	120
Net cash provided by operating activities	<u>38,897</u>

INVESTING ACTIVITIES

Loan payments received	<u>83,523</u>
Net cash provided by investing activities	<u>83,523</u>

FINANCING ACTIVITIES

Payments on long-term debt	<u>(63,254)</u>
Net cash used in financing activities	<u>(63,254)</u>
Increase in cash and cash equivalents	59,166

CASH AND CASH EQUIVALENTS

Beginning	<u>581,911</u>
Ending	<u>\$ 641,077</u>
As reported on the statement of financial position:	
Cash	\$ 379,171
Restricted cash	<u>261,906</u>
	<u>\$ 641,077</u>

**SUPPLEMENTAL DISCLOSURE FOR CASH FLOW
AND NONCASH TRANSACTIONS**

Cash paid for interest	<u>\$ 1,205</u>
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The Notes to Financial Statements are an integral part of this statement.

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 1. Nature of Business and Significant Accounting Policies

Staunton Creative Community Fund, Inc. was incorporated in 2008 as a not-for-profit Virginia corporation with a mission of connecting people, cultivating ideas and providing access to community resources and capital. The Organization was initially capitalized via a grant from the City of Staunton. As the organization has grown it has received funding from many other federal, state and local entities, corporations, and individual donors.

The Organization's service area includes the Central Shenandoah Valley Region. The region is comprised of five counties (Augusta, Bath, Highland, Rockbridge, and Rockingham) and five independent cities (Buena Vista, Harrisonburg, Lexington, Staunton, and Waynesboro). The region also has 11 incorporated towns including Bridgewater, Broadway, Craigsville, Dayton, Elkton, Glasgow, Goshen, Grottoes, Monterey, Mt. Crawford, and Timberville.

The Organization sees the support it offers to local entrepreneurs and small business owners as a critical economic development strategy. Its services include:

- providing loans ranging from **\$500 to \$50,000** to entrepreneurs and startup or existing small businesses. These loan funds can be used to support vocational endeavors including start-up costs, create jobs, enhance marketing, and to provide working capital to low- and moderate-income households
- offering continuous technical assistance support to loan clients throughout the life of the loan
- providing community-based training classes and workshops in a wide variety of topics relevant to entrepreneurs and small business owners
- coordinating events to connect new entrepreneurs with community support resources

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligation is incurred.

Recent accounting pronouncements

The Organization has elected to early adopt Financial Accounting Standards Board ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The statement aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors, and other users. Major components of this standard include changes to net asset classifications, disclosures regarding liquidity and availability of resources, and improved expense reporting. Net asset classification are reduced from three classes (unrestricted, temporarily restricted, and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements are presented regarding liquidity and availability of resources for short-term use. Expenses are reported by both their natural and functional classification to aid in the usefulness of financial statements. There was no impact on the total net assets as a result of the adoption of ASU 2016-14.

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Classification of net assets

The Organization reports information regarding its financial position and activities according to two classes of net asset based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions category consists of net assets available for use in general operations and not subject to donor restrictions. Contributions and grants with donor-imposed restriction met in the same period in which the contributions and grants are recognized and are reported as changes in net assets without donor restrictions.

Net Assets With Donor Restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and report in the statement of activities as net assets released from restrictions.

Liquidity and availability

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the balance sheet date, consist of the following:

Financial assets at year end	\$ 873,090
Less those unavailable for general expenditure within one year:	
Cash restricted by terms of grants	(261,906)
Loans required to be reloaned by terms of grant	(85,766)
Loan loss reserves included in cash	(19,358)
Loans receivable expected beyond one year	<u>(54,836)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 451,224</u>

Cash and cash equivalents

For purposes of reporting cash flows, the Organization considers all checking and savings accounts to be cash and cash equivalents.

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Credit risk concentrations

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization maintains cash balances at several financial institutions located in Virginia and PayPal. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The PayPal account is considered uninsured and the balance was \$513 as of June 30.

Contributions receivable

Contributions receivable have not been discounted, since all will be received within twelve months.

Grants receivable

Grants receivable result from agreements with federal, state, and local governments or agencies. All amounts are expected to be collected in less than one year and are deemed collectible by management and an allowance is not deemed necessary.

Property and equipment

The Organization capitalizes all expenditures in excess of \$5,000. Property and equipment is carried at cost. Donated property and equipment is carried at fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years.

Contributions

Contributions, including unconditional promises to give, are recognized as being with or without restrictions depending on the existence and/or nature of any donor restrictions, in the period the donor's commitment is received. All donor restricted contributions are reported as increases in net assets with restrictions depending on the nature of the restrictions. When a restriction expires, net assets with restrictions are reclassified to net assets without restrictions.

Functional allocation of expenses

The costs of providing the Organization's program and support services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated between program and support services benefited.

Compensated absences

The Organization accrues accumulated unpaid annual leave when earned by the employee. Hours are earned monthly based on length of service. The maximum carryover amount to the following fiscal year is limited to 144 hours, unless specifically approved. Compensated absences amounted to \$6,846 at year end and is included with accrued expenses on the statement of financial position.

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the *Internal Revenue Code*.

Concentrations

For the year ended June 30, four grantors accounted for 86% of grant revenues. As of June 30, two grantors accounted for 76% of grants receivable.

Note 2. Restricted Cash

The Organization's restricted cash represents the portion of net assets with restrictions that are perpetual in nature and are not in the form of loans receivable.

Note 3. Loans Receivable and Allowance for Credit Losses

The Organization offers loans ranging from \$1,000 to \$50,000 to new and existing small businesses through its microloan fund programs. Microloans outstanding have varying interest rates and maturity dates. All loans are personally guaranteed and collateralized by such other things as contract rights, inventory, receivables, accounts, supplies, and equipment. In certain circumstances, a cosigner may be required. The Organization's Loan Review Committee (LRC) analyzes the feasibility of all completed loan applications, with the exception of Lightning Loans (see Note 7). In addition, the Organization is to keep a loss reserve equal to 15% of the outstanding loans. The LRC has authority to approve up to a cumulative amount of \$20,000 for each applicant, taking into account all current outstanding loans. All requests exceeding \$20,000 are presented to the Board of Directors for a final decision. The Organization is a member of the Credit Builders Alliance, which allows reporting of delinquent and timely payment history of a borrower and cosigner.

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 3. Loans Receivable and Allowance for Credit Losses (Continued)

Loans receivable by funding source:

SBA Microloan Funds	\$ 129,055
USDA RBEG Microloan Funds	71,394
SPARC PLUG Microloan Fund	14,372
SCCF Microloan Fund	<u>8,497</u>
Total loans receivable	223,318
Less current portion	(55,080)
Less allowance for credit losses	<u>(45,000)</u>
Loans receivable, net	<u><u>\$ 123,238</u></u>

Aggregate maturities for the next five years ending June 30:

2018	\$ 55,080
2019	49,502
2020	39,388
2021	22,519
2022	14,016
Thereafter	<u>42,813</u>
	<u><u>\$ 223,318</u></u>

Management's estimate of loan receivable allowance is based on the consideration of past payment history and overall collectability of outstanding loans. As of June 30, approximately \$28,500 of the outstanding loans receivable were in excess of 120 days delinquent. The allowance is calculated based on 20% of the outstanding loans receivable at year end.

Allowance for credit losses activity is as follows:

Beginning balance	\$ 42,000
Current period provision	<u>3,000</u>
Ending balance	<u><u>\$ 45,000</u></u>

Note 4. Property and Equipment

Property and equipment summary:

Furniture and fixtures	\$ 17,833
Less accumulated depreciation	<u>(15,583)</u>
	<u><u>\$ 2,250</u></u>

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 5. Long-Term Debt

The Organization's notes payable consist of the following:

\$250,000 ten year note payable to the U.S. Small Business Administration dated December 9, 2009 – payments monthly of \$2,612, including interest at 1.25%, due December 2019.	\$ 75,872
\$250,000 ten year note payable to the U.S. Small Business Administration dated December 17, 2012 – payments monthly of \$2,760, including interest at -0-%, due December 2022.	<u>182,158</u>
Total notes payable	258,030
Less current portion	<u>(63,512)</u>
	<u><u>\$ 194,518</u></u>

Interest may be adjusted based on the average size of microloans made by the Organization. The loans are secured by SBA outstanding loans receivable, the SBA microloan fund cash account, and the SBA loan loss reserve cash account.

The principal maturities of long-term debt are scheduled as follows for the years ended June 30:

2018	\$ 63,512
2019	63,891
2020	47,829
2021	33,120
2022	33,120
2023	<u>16,558</u>
	<u><u>\$ 258,030</u></u>

Note 6. Net Assets

Net assets consist of the following at year end:

With donor restriction	
Time restrictions	\$ 29,375
Purpose restricted lending, Community Loan Fund	50,000
Perpetual in nature – USDA RBEG 1 & 2, SPARC PLUG	<u>347,672</u>
Total net assets with donor restrictions	<u>427,047</u>
Without donor restrictions	
Undesignated	<u>167,427</u>
Total net assets	<u><u>\$ 594,474</u></u>

(Continued)

STAUNTON CREATIVE COMMUNITY FUND, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 7. Subsequent Events

Beginning in fiscal year 2018, the Organization will offer Lightning Loans, which range from \$500 to \$3,000 with a maximum one year term. Lightning Loans may be approved by two staff members, including the Executive Director.

Subsequent events were considered through May 24, 2018 the date the financial statements were available to be issued.

Note 8. Prior Period Adjustment

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2016, as originally stated \$	215,209	\$ 273,923	\$ 489,132
Adjustment to properly classify net assets	(59,194)	59,194	-
Adjustment to recognize donor restricted revenues in the proper period	-	92,061	92,061
Balance, June 30, 2017, as restated	<u>\$ 156,015</u>	<u>\$ 425,178</u>	<u>\$ 581,193</u>

The change in net assets for the year ending June 30, 2016 would have been increased to \$95,646 as a result of this prior period adjustment.