

JXTA

JUXTAPOSITION ARTS

JUXTAPOSITION ARTS, INC.
(A MINNESOTA NOT-FOR-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS

AUGUST 31, 2017 AND 2016

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Juxtaposition Arts, Inc.
Minneapolis, Minnesota

We have audited the accompanying financial statements of Juxtaposition Arts, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2017 and 2016 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 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 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 Juxtaposition Arts, Inc. as of August 31, 2017 and 2016, 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.

Boyum + Barenscheer PLLP

Boyum & Barenscheer PLLP
Minneapolis, Minnesota
January 26, 2018

JUXTAPOSITION ARTS, INC.
STATEMENTS OF FINANCIAL POSITION

| AUGUST 31, | 2017 | 2016 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 87,168 | \$ 163,892 |
| Contracts receivable | 160,962 | 66,807 |
| Grants receivable | 532,509 | 577,031 |
| Prepaid expenses | 4,668 | 4,667 |
| <i>Total current assets</i> | 785,307 | 812,397 |
| PROPERTY AND EQUIPMENT, net | 756,542 | 1,081,964 |
| <i>Total assets</i> | \$ 1,541,849 | \$ 1,894,361 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 10,937 | \$ 127,200 |
| Accounts payable | 12,718 | 7,594 |
| Accrued payroll | 13,091 | 22,459 |
| Security deposits | 7,057 | 6,925 |
| <i>Total current liabilities</i> | 43,803 | 164,178 |
| LONG-TERM DEBT, net of current maturities | 258,530 | 157,893 |
| <i>Total liabilities</i> | 302,333 | 322,071 |
| NET ASSETS | | |
| Unrestricted | 526,535 | 755,722 |
| Temporarily restricted | 712,981 | 816,568 |
| <i>Total net assets</i> | 1,239,516 | 1,572,290 |
| <i>Total liabilities and net assets</i> | \$ 1,541,849 | \$ 1,894,361 |

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

JUXTAPOSITION ARTS, INC.
STATEMENTS OF ACTIVITIES

YEAR ENDED AUGUST 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| SUPPORT AND OTHER REVENUES | | | |
| Public support | \$ 35,604 | \$ 907,348 | \$ 942,952 |
| Program revenue | 366,009 | - | 366,009 |
| Rental revenue | 14,435 | - | 14,435 |
| Special events, net of expenses of \$17,425 | 35,078 | - | 35,078 |
| <i>Total</i> | 451,126 | 907,348 | 1,358,474 |
| NET ASSETS RELEASED FROM RESTRICTION | | | |
| | 1,010,935 | (1,010,935) | - |
| <i>Total support and other revenues</i> | 1,462,061 | (103,587) | 1,358,474 |
| EXPENSES | | | |
| Program services | 1,047,969 | - | 1,047,969 |
| Management and general | 265,711 | - | 265,711 |
| Fundraising | 84,637 | - | 84,637 |
| Impairment loss | 292,932 | - | 292,932 |
| <i>Total expenses</i> | 1,691,248 | - | 1,691,248 |
| <i>Change in net assets</i> | (229,187) | (103,587) | (332,774) |
| Net assets, beginning of year | 755,722 | 816,568 | 1,572,290 |
| <i>Net assets, end of year</i> | \$ 526,535 | \$ 712,981 | \$ 1,239,516 |

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

JUXTAPOSITION ARTS, INC.
STATEMENTS OF ACTIVITIES

YEAR ENDED AUGUST 31, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|-----------------------------------|---------------------|
| SUPPORT AND OTHER REVENUES | | | |
| Public support | \$ 67,002 | \$ 1,503,384 | \$ 1,570,386 |
| Program revenue | 180,259 | - | 180,259 |
| Rental revenue | 10,745 | - | 10,745 |
| <i>Total</i> | 258,006 | 1,503,384 | 1,761,390 |
| NET ASSETS RELEASED FROM RESTRICTION | | | |
| | 958,422 | (958,422) | - |
| <i>Total support and other revenues</i> | 1,216,428 | 544,962 | 1,761,390 |
| EXPENSES | | | |
| Program services | 971,730 | - | 971,730 |
| Management and general | 180,976 | - | 180,976 |
| Fundraising | 77,070 | - | 77,070 |
| <i>Total expenses</i> | 1,229,776 | - | 1,229,776 |
| <i>Change in net assets</i> | (13,348) | 544,962 | 531,614 |
| Net assets, beginning of year | 769,070 | 271,606 | 1,040,676 |
| <i>Net assets, end of year</i> | \$ 755,722 | \$ 816,568 | \$ 1,572,290 |

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

JUXTAPOSITION ARTS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2017

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|------------------------------|---------------------|
| Advertising and marketing | \$ 3,845 | \$ - | \$ - | \$ 3,845 |
| Artist contracts | 221,054 | - | - | 221,054 |
| Artist youth wages and payroll taxes | 181,163 | - | - | 181,163 |
| Bank charges | 5,545 | 1,948 | - | 7,493 |
| Benefits | 34,508 | 18,404 | 4,601 | 57,513 |
| Depreciation | 31,747 | 11,154 | - | 42,901 |
| Dues and subscriptions | 2,893 | 1,016 | - | 3,909 |
| Food service | 15,679 | 6,194 | 511 | 22,384 |
| Insurance | 11,685 | 4,105 | - | 15,790 |
| Interest expense | 14,413 | 5,064 | - | 19,477 |
| Office expense | 8,104 | 16,277 | 5,969 | 30,350 |
| Payroll taxes | 31,734 | 14,570 | 3,642 | 49,946 |
| Postage/shipping/delivery | 1,243 | 437 | - | 1,680 |
| Printing | 7,869 | 4,668 | - | 12,537 |
| Professional fees | 42,804 | 10,180 | 21,662 | 74,646 |
| Program supplies | 85,258 | - | - | 85,258 |
| Property taxes | 3,506 | 1,232 | - | 4,738 |
| Repair and maintenance | 31,075 | 10,918 | - | 41,993 |
| Salaries | 262,406 | 139,157 | 39,226 | 440,789 |
| Telephone | 6,478 | 2,276 | - | 8,754 |
| Training | 450 | 775 | 75 | 1,300 |
| Travel | 9,628 | 5,132 | 8,950 | 23,710 |
| Utilities | 14,676 | 5,104 | - | 19,780 |
| Website | 11,170 | 3,925 | - | 15,095 |
| Fiscal agent projects | 9,036 | 3,175 | - | 12,211 |
| <i>Total functional expenses</i> | \$ 1,047,969 | \$ 265,711 | \$ 84,637 | 1,398,316 |
| | | | Impairment loss | 292,932 |
| | | | <i>Total expenses</i> | \$ 1,691,248 |

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

JUXTAPOSITION ARTS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED AUGUST 31, 2016

| | <u>Program</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------|-------------------|-----------------------------------|--------------------|--------------------|
| Advertising and marketing | \$ 410 | \$ - | \$ - | \$ 410 |
| Artist | 227,595 | - | - | 227,595 |
| Artists - youth stipends | 172,815 | - | - | 172,815 |
| Artists - artwork sales | 4,002 | 1,398 | - | 5,400 |
| Bad debt | 30,479 | 8,440 | 2,702 | 41,621 |
| Benefits | 31,273 | 10,920 | - | 42,193 |
| Depreciation | 2,934 | 1,024 | - | 3,958 |
| Dues and subscriptions | 10,366 | 8,248 | 51 | 18,665 |
| Food service | 6,843 | 2,389 | - | 9,232 |
| Insurance | 11,089 | 3,872 | - | 14,961 |
| Interest expense | 21,577 | 7,534 | - | 29,111 |
| Office expense | 38,832 | 8,439 | 2,248 | 49,519 |
| Payroll taxes | 993 | 347 | - | 1,340 |
| Postage/shipping/delivery | 3,091 | 1,079 | - | 4,170 |
| Printing | 13,604 | 2,394 | 36,267 | 52,265 |
| Professional fees | 75,234 | - | - | 75,234 |
| Program supplies | 753 | 2,156 | - | 2,909 |
| Property taxes | 13,890 | 39,781 | - | 53,671 |
| Repair and maintenance | 246,912 | 67,965 | 21,760 | 336,637 |
| Salaries | 8,504 | 2,970 | - | 11,474 |
| Telephone | - | 360 | 1,800 | 2,160 |
| Training | 9,223 | 3,672 | 12,242 | 25,137 |
| Travel | 15,722 | 5,490 | - | 21,212 |
| Utilities | 7,155 | 2,498 | - | 9,653 |
| Fiscal agent projects | 18,434 | - | - | 18,434 |
| <i>Total expenses</i> | \$ 971,730 | \$ 180,976 | \$ 77,070 | \$1,229,776 |

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

JUXTAPOSITION ARTS, INC.
STATEMENTS OF CASH FLOWS

| YEARS ENDED AUGUST 31, | 2017 | 2016 |
|--|------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (332,774) | \$ 531,614 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 42,901 | 42,193 |
| Amortization of debt issuance costs | 3,543 | 7,000 |
| Debt and interest forgiveness | (8,250) | (8,250) |
| Impairment loss (see Note 11) | 292,932 | - |
| Net change in operating asset and liabilities: | | |
| Contracts receivable | (94,155) | 6,479 |
| Grants receivable | 44,522 | (304,966) |
| Prepaid expenses | (1) | (2,613) |
| Accounts payable | 5,124 | (20,381) |
| Accrued payroll | (9,368) | 22,459 |
| Security deposits | 132 | - |
| <i>Net cash provided (used) by operating activities</i> | (55,394) | 273,535 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (10,411) | (33,983) |
| <i>Net cash used by investing activities</i> | (10,411) | (33,983) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on notes payable | (10,919) | (87,028) |
| <i>Net cash used by financing activities</i> | (10,919) | (87,028) |
| <i>Net increase (decrease) in cash</i> | (76,724) | 152,524 |
| Cash, beginning of year | 163,892 | 11,368 |
| <i>Cash, end of year</i> | \$ 87,168 | \$ 163,892 |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid | \$ 18,406 | \$ 14,961 |
| SUPPLEMENTAL DISCLOSURES ON NON CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Debt and interest forgiveness | \$ 8,250 | \$ 8,250 |

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

JUXTAPOSITION ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization description:

Founded in 1995, Juxtaposition Arts, Inc. (the “Organization”) supports the youth of North Minneapolis and other areas of the city to develop the confidence, skills, experiences, and connections they need to enter the creative workforce as dynamic innovators and problem-solvers. Youth who participate at the Organization increase their potential to accomplish their life goals and contribute to revitalizing the communities where they live and work.

The Organization currently offers contemporary and public art, graphic design, screen printing, fashion design, environmental design and community engagement programs for youth eight to twenty-one years old. Programs are generally led by a team of two professional artist designers who are paid contractors. Youth to adult artist ratios are limited to ten to one. All the Organization’s programs are provided at no cost to youth participants or their families.

The Organization’s core program begins with “Visual Arts Literary Training” and progresses to employment in “JXTALab” -- a full service youth staffed design firm which opened in 2010. Investments from individuals have helped to fund the wages of 305 part-time youth workers at “JXTALab” in six years. During fiscal year 2017, “JXTALab” generated more than \$300,000 in revenues from clients. The Organization’s long term goal is to be one of the largest year round employers of youth in Minneapolis.

In addition to these core programs, the Organization connects with hundreds of youth each year through residencies led by our teaching artists in schools and other agencies. JXTA offers a range of introductory workshops and public events in collaboration with partners and clients. The Organization is rooted in North Minneapolis on West Broadway Avenue, the area’s main commercial street. JXTA and its partners rally around a shared goal to develop opportunities and artists centered spaces that can spurn a locally owned art-based movement as the catalyst for equitable redevelopment in its neighborhood and city.

Basis of presentation:

Financial statement presentation follows the recommendations of ASC 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of August 31, 2017 and 2016, there were no permanently restricted net assets.

Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

JUXTAPOSITION ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

Recently issued accounting pronouncements:

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for companies to use in accounting for revenue from contracts with customers. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will not have a material impact on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. It is to be adopted using a modified retrospective approach. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will not have a significant impact on its financial statements as the Organization does not carry any leases currently.

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958), which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires not-for-profits to include a number of changes in their financial presentation including presenting two classes of net assets, enhanced disclosures on board designations, management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017, and for interim financial statements for periods after that date with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the NFP has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Organization is currently evaluating the impact that the adoption of this guidance will have on the Organization's financial statements and anticipates the new guidance will significantly impact its financial statements

Cash and cash equivalents:

For purposes of the statement of cash flows, the Organization considers short-term, highly liquid investments and investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its accounts in one commercial bank. At times, the amounts on deposit in the bank might exceed the insurance limit of the Federal Deposit Insurance Corporation.

JUXTAPOSITION ARTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

Receivables:

Unconditional promises to give made to the Organization are recorded in the year the pledge is made. Contract receivables are amounts due on fee-for-service contracts. An allowance for uncollectible contributions receivable is determined based on historical experience. No allowance was considered necessary by management for the years ended August 31, 2017 and 2016.

Property and equipment:

Property and equipment are recorded at acquisition cost or fair market value at date of receipt for donated assets. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Improvements and betterments exceeding \$1,000 are capitalized, while repairs and maintenance expenditures are expensed in the statements of activities.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

| | |
|----------------------------|--------------|
| Buildings and improvements | 5 - 40 years |
| Furniture and equipment | 3 - 10 years |

Impairment of long-lived assets:

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. See Note 11 for further detail.

Revenues:

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Reclassifications:

Certain amounts in the 2016 financial statements have been reclassified for comparative purposes to conform to the presentation in 2017.

JUXTAPOSITION ARTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. (CONTINUED)

Non-cash donations of facilities, merchandise and services:

Non-cash donations of facilities, merchandise and services are recorded as contributions at their estimated fair market value at the date of donation.

Contributions of donated services that create or enhance non-financial 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 year received. No such services were received for the years ended August 31, 2017 and 2016, respectively.

In addition, individuals volunteer their time, performing a variety of tasks that assist the Organization with its program, administration, grant solicitation and fundraising. This volunteer time does not meet the above definition of donated services that need to be recorded. The Organization does not keep track of the hours donated.

Functional allocation of expenses:

Expenses have been allocated by function among program and supporting services classifications based upon direct expenditures, square footage and estimates of how employees spend their time made by the Organization's management.

Advertising:

Advertising costs are expensed as incurred. Advertising expense was \$3,845 and \$410 for the years ended August 31, 2017 and 2016, respectively.

Income taxes:

Juxtaposition Arts, Inc. is exempt from federal and Minnesota taxation pursuant to the provisions of Section 501(c) (3) of the Internal Revenue Code and Section 290.05 of the Minnesota Statutes and is only subject to federal and state income taxes on net unrelated business income. The Organization's rental income has been determined to be unrelated business activity for which a federal Form 990-T and state Form M-4NP must be filed and taxes paid on any net profits. At August 31, 2017, the Organization has a net operating loss carry forward of approximately \$83,000 that expires on August 31, 2030. This carry forward can be used to reduce future unrelated business taxable income if the then existing laws permit.

The Company has not been audited by the Internal Revenue Service, and accordingly the tax returns for the past three and one-half years are open to examination. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in ASC 740.

JUXTAPOSITION ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. CONTINGENCY

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantor. Although that is a possibility, management deems the contingency remote, since by accepting the grants and their terms; it has accommodated the objectives of the Organization to the provisions of the grant.

NOTE 3. GRANTS RECEIVABLE

Grants receivable include the following:

| AUGUST 31, | 2017 | 2016 |
|--|-------------------|-------------------|
| Temporarily restricted grants - operations | \$ 177,040 | \$ 477,031 |
| Temporarily restricted grants - programs | 355,469 | 100,000 |
| <i>Total grants receivable</i> | \$ 532,509 | \$ 577,031 |

The receivables are expected to be received during the following periods:

| AUGUST 31, 2017 | | |
|--------------------------------|--|-------------------|
| Receivable in less than 1 year | | \$ 382,509 |
| Receivable in 1 to 5 years | | 150,000 |
| <i>Total</i> | | \$ 532,509 |

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| AUGUST 31, | 2017 | 2016 |
|--|-------------------|---------------------|
| Buildings and improvements | \$ 981,343 | 1,313,218 |
| Furniture and equipment | 77,062 | 76,013 |
| <i>Total property and equipment</i> | 1,058,405 | 1,389,231 |
| Less accumulated depreciation | (301,863) | (307,267) |
| <i>Net property and equipment</i> | \$ 756,542 | \$ 1,081,964 |

Depreciation expense was \$42,901 and \$42,193 for the years ended August 31, 2017 and 2016, respectively.

JUXTAPOSITION ARTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes in subsequent periods:

| AUGUST 31, | 2017 | 2016 |
|---|-------------------|-------------------|
| National Endowment for Arts, general operations | \$ 30,000 | \$ - |
| MN State Arts Board, general operations | 53,040 | 52,748 |
| Surdna Foundation, programs | 300,000 | - |
| McKnight Foundation, general operations | - | 75,000 |
| Blue Cross Blue Shield, programs | - | 100,000 |
| Kresge Foundation, general operations | 329,941 | 572,220 |
| KaBOOM!, general operations | - | 15,000 |
| U of M CURA, general operations | - | 1,600 |
| <i>Total temporarily restricted net assets</i> | \$ 712,981 | \$ 816,568 |

NOTE 6. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended August 31, 2017 and 2016 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

| AUGUST 31, | 2017 | 2016 |
|---|---------------------|-------------------|
| Grants receivable for general operations | \$ 645,935 | \$ 768,422 |
| Grants receivable for programs | 365,000 | 180,000 |
| Grants receivable for capital improvements | - | 10,000 |
| <i>Total net assets released from restrictions</i> | \$ 1,010,935 | \$ 958,422 |

NOTE 7. MAJOR FUNDING SOURCES

Significant funding was received or receivable from the funders as follows:

| YEARS ENDED AUGUST 31, | 2017 | 2016 |
|-------------------------------|-------------|-------------|
| <u>Funders</u> | | |
| Kresge Foundation | \$ - | \$ 700,000 |
| Blue Cross Blue Shield | \$ - | \$ 200,000 |
| McKnight Foundation | \$ - | \$ 150,000 |
| Surdna | \$ 550,000 | \$ - |

JUXTAPOSITION ARTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT

Long-term debt consisted of the following:

| AUGUST 31, | 2017 | 2016 |
|--|-------------------|-------------------|
| Note payable to Propel Nonprofits, with monthly installments of \$1,265, including interest at 6.0%. Refinanced November 9, 2017, with monthly payments of \$1,265 at 6.00% and balance due on December 31, 2020. The note is secured by the real estate mortgage and business assets. | \$ 107,707 | \$ 115,332 |
| Note payable to Land Bank Twin Cities, Inc., with monthly interest-only payments at 5.0%, with principal balance due September 2018. The note is secured by the building. | 100,000 | 100,000 |
| Note payable to City of Minneapolis of \$165,000. Of this amount, \$82,500 is payable in monthly installments of \$567, including interest of 4.0%, commencing January 1, 2010. The remaining \$82,500 of the loan is non-interest bearing and is forgivable contingent upon the Organization maintaining certain levels of youth served with balance due January 2030. Upon the filing of required reports for the years 2008 through 2017, \$82,500 of the debt was forgiven in 2017. The loan is secured by business assets and the building. | 61,760 | 73,304 |
| | 269,467 | 288,636 |
| Less unamortized debt issuance costs | - | (3,543) |
| <i>Long-term debt, less unamortized debt issuance costs</i> | 269,467 | 285,093 |
| Less current maturities | 10,937 | 127,200 |
| <i>Total long-term debt, less current maturities</i> | \$ 258,530 | \$ 157,893 |

In prior years the Organization had reported debt issuance costs as an asset (deferred charge) on the balance sheet and amortization of such costs in the income statement as amortization expense. Effective September 1, 2016, the Organization adopted new authoritative generally accepted accounting principles (GAAP) guidance under ASU 2015-03 for the presentation of debt issuance costs and related amortization.

To comply with new GAAP presentation requirements, in 2017 the Organization began reporting such costs as a direct deduction from the face amount of the debt (as shown in the table above) and reclassified prior year amounts, resulting in a reduction of total 2016 assets by \$3,543. The change did not affect net assets.

JUXTAPOSITION ARTS, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8. (CONTINUED)

Similarly, the Organization now reports amortization of debt issuance costs as interest expense and reclassified amounts accordingly. As a result, reported interest expense in 2016 was increased (and amortization decreased) by \$7,000, with no effect on net income.

Principal requirements on long-term debt for years ending after August 31, 2017 are as follows:

| YEARS ENDING AUGUST 31, | |
|--------------------------------|-------------------|
| 2018 | \$ 10,937 |
| 2019 | 113,475 |
| 2020 | 14,235 |
| 2021 | 85,623 |
| 2022 | 4,413 |
| Thereafter | 40,784 |
| Total | \$ 269,467 |

The notes payables from Land Bank Twin Cities, Inc. and City of Minneapolis are subject to various loan covenants. At August 31, 2017, the Organization was in compliance with all loan covenants.

Subsequent to year end, the Organization entered into a new note payable agreement with Propel Nonprofits for \$200,000. The note is payable in monthly installments of \$4,012 including interest through December 31, 2020 with a potential of \$80,000 being forgiven if timely loan payments are made. The note is secured by the real asset mortgage and business assets.

NOTE 9. ENVIRONMENTAL REMEDIATION LIABILITY

The Organization owns buildings that contain asbestos in floor tiles, window and door caulk and lead paint on walls. At this time, the Organization has the intention to renovate or demolish these buildings over the next few years. However, the management has not estimated the cost of any potential obligation to remove asbestos and mitigate the lead paint hazard in accordance with ASC 410. As a result, no potential environmental remediation liability is reported on the Statement of Financial Position at August 31, 2017 and 2016 and no expense is shown in years ended August 31, 2017 and 2016.

NOTE 10. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated subsequent events and transactions for potential recognition or disclosure through January 26, 2018, the date the financial statements were available to be issued.

JUXTAPOSITION ARTS, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. ASSET IMPAIRMENT CHARGES

The Organization determined there was an impairment on three of the five buildings they own during fiscal year 2017. The buildings' infrastructure is failing and the buildings will need to be torn down. This will be happening in the Spring of 2018. As such, the Organization determined that there is no further net realizable value on these buildings and have written off the net book value of the assets. The Organization recognized an impairment loss of \$292,932 for the year ended August 31, 2017. The loss is reported as a separate line item of expense in the statement of activities.

NOTE 12. LEASE OBLIGATIONS

Subsequent to year end, the Organization signed a month-to-month lease for additional space for program activities at \$1,800 per month.