The Heritage Foundation of Franklin & Williamson County, Tennessee

Consolidated Financial Statements
For the year ended
December 31, 2019

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Contents

BLANKENSHIP

Independent Auditor's Report

Board of Directors
The Heritage Foundation of Franklin & Williamson County, Tennessee

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of The Heritage Foundation of Franklin & Williamson County, Tennessee (a Tennessee not-for-profit organization) and its subsidiary (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2019, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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 Foundation as of December 31, 2019, 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.

Blankenship CPA Group, PLLC
Brentwood, Tennessee
August 26, 2020

The Heritage Foundation of Franklin & Williamson County, Tennessee
Consolidated Statement of Financial Position
December 31, 2019

Assets	
Cash	$ 871,151
Restricted cash	1,996,469
Accounts receivable	22,850
Investments	904,047
Promises to give, net	5,367,249
Other assets	14,599
Deposits	55,150
Historic collection	4,675
Land, buildings, and equipment, net	14,572,528
Total assets	$ 23,808,718
Liabilities	
Accounts payable and accrued expenses	$ 124,654
Gift cards	91,962
Deferred revenue	194,715
Notes payable	6,727,500
Total liabilities	7,138,831
Net assets	
Without donor restrictions	11,267,326
With donor restrictions	5,402,561
Total net assets	16,669,887
Total liabilities and net assets	$ 23,808,718

See notes to consolidated financial statements.

The Heritage Foundation of Franklin & Williamson County, Tennessee
Consolidated Statement of Activities
For the year ended December 31, 2019

Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Program service fees		$ 3,132,827
Membership dues and annual fund		88,449
Contributions		2,056,329
Grants		22,018
Investment gain		123,749
Special events	$ 766,161	
Less: Costs of direct benefits to donors	(125,100)	
Net revenues from special events		641,061
Net assets released from restriction		1,010,000
Total revenues, gains, and other support		7,074,433
Expenses		
Program services		4,324,779
Management and general		331,580
Fundraising		588,318
Total expenses		5,244,677
Change in unrestricted net assets		1,829,756
Changes in net assets with donor restrictions		
Contributions		1,618,777
Losses from uncollected pledges		(421,680)
Net assets released from restriction		(1,010,000)
Change in restricted net assets		187,097
Total change		2,016,853
Net assets at beginning of year		14,653,034
Net assets at end of year		$ 16,669,887

See notes to consolidated financial statements.

The Heritage Foundation of Franklin & Williamson County, Tennessee
Consolidated Statement of Functional Expenses
For the year ended December 31, 2019

	Program services	Management and general	Fundraising	Total
Salaries and wages	$ 1,098,228	$ 105,844	$ 119,653	$ 1,323,725
Payroll taxes	83,698	9,791	-	93,489
Advertising and promotion	80,787	24,567	7,578	112,932
Event expense	336,235	146	91,329	427,710
Rent	167,717	4,960	135,820	308,497
Merchant fees	72,466	5,756	3,331	81,553
Contract services	341,254	30,741	11,049	383,044
Depreciation	519,903	1,256	-	521,159
Dues and subscriptions	15,746	7,898	-	23,644
Gifts and awards	-	3,757	-	3,757
Insurance	36,037	45,427	-	81,464
Office supplies	22,256	19,003	-	41,259
Professional fees	124,363	-	100,000	224,363
Entertainment, performers	692,966	-	13,800	706,766
Meetings and conferences	16,339	16,444	-	32,783
Photography	2,310	150	17,628	20,088
Printing and publications	49,378	6,836	16,380	72,594
Postage	1,846	864	3,385	6,095
Repairs and maintenance	106,160	10,254	-	116,414
Taxes, licenses, and fees	66,882	-	-	66,882
Utilities and telephone	78,027	15,154	-	93,181
Miscellaneous	86,715	22,732	814	110,261
Decorations	192	-	67,551	67,743
Foods and food preparation	56,128	-	-	56,128
Interest	269,146	-	-	269,146
	$ 4,324,779	$ 331,580	$ 588,318	$ 5,244,677

See notes to consolidated financial statements.

The Heritage Foundation of Franklin & Williamson County, Tennessee
Consolidated Statement of Cash Flows
For the year ended December 31, 2019

Cash flows from operating activities	
Increase in net assets	$ 2,016,853
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation	521,159
Interest and dividends reinvested	(28,346)
Unrealized loss on investments, net	(101,132)
Contributions restricted for long-term purposes	(2,243,290)
Changes in:	
Accounts receivable	(2,360)
Promises to give, net	(151,784)
Prepaid expenses	(4,090)
Other assets	10,584
Accounts payable and accrued expenses	(40,670)
Gift cards	8,052
Deferred revenue	(128,533)
Net cash used by operating activities	(143,557)
Cash flows from investing activities	
Proceeds from sales of investments	9,531
Contributions restricted for long-term purposes	2,243,290
Purchase of buildings and equipment	(38,059)
Net cash provided by investing activities	2,214,762
Cash flows from financing activities	
Payments on notes payable	(117,485)
Net cash used by financing activities	(117,485)
Net increase in cash	1,953,720
Cash at beginning of year	913,900
Cash at end of year	$ 2,867,620
Supplemental disclosures of cash flow information	
Cash payments for interest	$ 264,146
Property acquired with debt	$ 6,000,000

The following table provides a reconciliation of cash and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash	$ 871,151
Restricted cash	1,996,469
Cash at end of year	$ 2,867,620

See notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

Nature of Activities
The Heritage Foundation of Franklin & Williamson County, Tennessee was incorporated in 1970 under the laws of the State of Tennessee. Its purpose is to protect and preserve the architectural, geographic, and cultural heritage of Franklin and Williamson County, Tennessee, as well as the revitalization and maintenance of the Historic Downtown District of Franklin, Tennessee.

Basis of Presentation
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Heritage Foundation of Franklin & Williamson County, Tennessee. These net assets may be used at the discretion of management and the Board of Directors.

Net Assets With Donor Restrictions
Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Heritage Foundation of Franklin & Williamson County, Tennessee or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Principles of Consolidation
The accompanying financial statements include the accounts of The Heritage Foundation of Franklin & Williamson County, Tennessee and its wholly-owned subsidiary (the Foundation), after elimination of all material intercompany accounts, transactions, and profits.

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

Investments
Investments in equity securities with readily determinable fair values are recorded at fair value. Certificates of deposit are recorded at cost and amount to $215,000 at year-end. Investment income shown in the statement of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses.

Investment income is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the period in which the income is recognized.

Accounts Receivable
Accounts receivable are stated at unpaid balances. Uncollectible accounts have been written off directly as bad debt expense and the Foundation expects to fully collect accounts receivable; therefore no allowance for uncollectible accounts has been recorded in the financial statements.

Note 1: Summary of Significant Accounting Policies (Continued)

Other Assets
Other assets consist of inventories and prepaid expenses. Inventories are stated at the lower of cost or net realizable value based on the first in, first out basis and consist of books and concessions.

Land, Buildings, and Equipment
Land, buildings, and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. The Foundation generally capitalizes and reports land, buildings, and equipment acquisitions in excess of $500. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the useful lives of assets are capitalized at cost. Depreciation is computed using the straight line method over the estimated useful lives of the assets ranging from 3 to 39 years.

Long-Lived Assets
Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. At December 31, 2019, no assets were considered to be impaired.

Fair Values of Financial Instruments
The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments. The fair value of the notes payable approximates the carrying amount and is estimated based on current rates offered to the Foundation and anticipated timing of payments.

Contributions
Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

The Foundation held a fundraising campaign for funds to purchase and renovate the O'More (Franklin Grove) property. Promises to give are restricted to this project. The promises to give as of December 31, 2019 are unconditional and due over the next five years. These promises to give have been discounted to present value.

Donated Supplies and Services
Donated supplies are recorded based on their estimated fair value at the date of donation. Donated services are recognized as support if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services are recognized at estimated fair value as support and expense in the period the services were performed. There were no donated services for the year ended December 31, 2019. A number of unpaid volunteers have made significant contributions of their time to assist the Foundation in achieving its stated goals. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Functional Allocation of Expenses
The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Advertising
The foundation uses advertising to promote its programs. Advertising costs are expensed as incurred. For the year ended December 31, 2019, advertising and promotion expense was $112,932.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service (IRS) as other than a private foundation (its wholly-owned subsidiary is disregarded for tax purposes). Accordingly, no provision for income tax has been made. Accounting principles generally accepted in the United States of America require the Foundation's management to evaluate tax positions taken by the Foundation and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examinations by the IRS. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2019, no uncertain positions are taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation could be subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods in progress. The Foundation is no longer subject to routine audits by taxing jurisdictions for any tax periods before 2016.

Note 2: Availability and Liquidity

The following represents the Foundation's financial assets at December 31, 2019:

Financial assets at year end:	
Cash	$ 871,151
Restricted cash	1,996,469
Accounts receivable	22,850
Investments	904,047
Promises to give, net	5,367,249
Total financial assets	9,161,766
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(5,402,561)
Cash restricted for debt	(1,996,469)
Board designated endowment	(689,047)
Financial assets available to meet general expenditures over the next twelve months	$ 1,073,689

As part of its liquidity plan, the Foundation has a policy to structure its financial assets in order to have the funds available to meet its general expenditures, liabilities, and other obligations as they come due.

Note 3: Concentrations

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At December 31, 2019, the Foundation had approximately $2,116,000 in excess of FDIC-insured limits. The Foundation has not experienced any losses in such accounts.

Promises to give include amounts that total 77% from one donor. Contributions include amounts that total 39% made by two donors.

Note 4: Endowment Investments

The Board of Directors has designated the investment account as a general endowment fund to support the mission of the Foundation. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as a portion of the Foundation's net assets without donor restrictions.

Investments are stated at fair market value. At December 31, 2019, investments were comprised of the following:

	Cost	Fair Value
Cash	$ 30,222	$ 30,222
Equities - exchange traded funds	132,716	163,572
Mutual funds	391,043	495,253
	$ 553,981	$ 689,047

For the year ended December 31, 2019, the Foundation had the following changes in endowment net assets:

Beginning of year	$ 569,100
Investment return	
Net investment income	28,346
Net appreciation	101,132
Distributions	(9,531)
	$ 689,047

The *Fair Value Measurements and Disclosure* topic of the FASB Accounting Standards Codification (ASC) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1
Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets in active markets.

Level 2
Inputs to the valuation methodology include quoted prices for similar assets in active markets, and inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the asset.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents the assets carried at fair value at December 31, 2019:

	Level 1	Level 2	Level 3	Total
Equities - exchange traded funds	$ 163,572	$ -	$ -	$ 163,572
Mutual funds	495,253	-	-	495,253
	$ 658,825	$ -	$ -	$ 658,825

Note 5: Promises to Give

A summary of promises to give as of December 31, 2019, is as follows:

Due within one year	$ 1,667,110
Due in two to five years	3,875,000
	5,542,110
Discount to present value	(374,248)
	$ 5,167,862

The discount rate used to determine present value is 4.00%.

Note 6: Land, Buildings, and Equipment

Land, buildings, and equipment at December 31, 2019, consist of the following:

Land	$ 4,775,000
Building	5,698,065
Theater	5,257,079
Theater equipment	1,940,503
Furniture and fixtures	99,930
Machines and equipment	92,429
Software	29,667
	17,892,673
Less accumulated depreciation	(3,320,145)
	$ 14,572,528

Note 7: Notes Payable

A summary of notes payable at December 31, 2019, is as follows:

Non-revolving line of credit note with interest only payments due monthly and $92,500 due each March 31 through 2020. Interest is calculated at a variable rate of interest equal to the "prime rate" as published in the Wall Street Journal, but not less than 3.25% (4.75% at December 31, 2019).	$ 92,500
Note payable due in monthly payments including principal and interest at 4.647% per annum through maturity of September 2020.	660,000
Revolving line of credit with monthly payments of interest only at 4.50% per annum through maturity of February 2024.	6,000,000
	6,752,500
Less: Amortized loan costs	(25,000)
	$ 6,727,500

Note 7: Notes Payable (Continued)

Future maturities on the debt are as follows:

Year ending December 31:	
2020	$ 752,500
2024	6,000,000
	$ 6,752,500

Note 8: Net Assets

Net assets with donor restrictions consist of amounts contributed for the following purposes:

Annual fund	$ 234,700
O'More/Franklin Grove	5,167,861
	$ 5,402,561

Note 9: Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new accounting guidance will increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for nonpublic entities for fiscal years beginning after December 15, 2022. The Foundation is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Note 10: Subsequent Events

Subsequent events were evaluated through August 26, 2020, which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, to date the Foundation has had to cancel the majority of their 2020 events, as well as close the Franklin Theatre until further notice.

On April 28, 2020 and May 4, 2020, the Foundation and its subsidiary received loans in the amount of $160,600 and $105,000, respectively, in accordance with the Paycheck Protection Program section of the Coronavirus Air, Relief, and Economic Security Act (the CARES Act). Under this loan program, the entity may be eligible for forgiveness of some portion of the loan up to 100%, if and when qualifying conditions are met. Accounting for the loan and any future forgiveness could have an impact on future financial reporting. As of the report date, management is actively monitoring qualifying conditions to maximize future loan forgiveness and has expended $265,600 on potential qualifying costs as defined by the legislation.