

# ALCHEMIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2018

## TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Revenue, Support and Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Alchemia  
Santa Rosa, California

We have audited the accompanying financial statements of Alchemia (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, revenue, support, and functional expenses and cash flows for the year 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.



**Goranson and Associates, Inc.**

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alchemia as of June 30, 2018, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the Alchemia's financial statements for the year ended June 30, 2017, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Goranson and Associates, Inc.*

April 16, 2019

Santa Rosa, CA

ALCHEMIA  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2018  
(With summarized comparative totals for June 30, 2017)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,536	\$ 109,292
Accounts receivable	170,795	146,228
Prepaid expenses	39,495	6,217
Total current assets	288,826	261,737
Fixed assets:		
Furniture and equipment	48,665	48,665
Automobiles	99,157	72,924
Building and improvements	717,368	717,368
Land	235,001	235,001
Intangible assets	28,215	28,215
Subtotal	1,128,406	1,102,173
Less accumulated depreciation	(217,686)	(175,068)
Net fixed assets	910,720	927,105
Total assets	\$ 1,199,546	\$ 1,188,842
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ (1,843)	\$ 17,360
Accrued expenses	53,337	53,670
Current portion of long term debt	98,317	40,246
Total current liabilities	149,811	111,276
Notes payable	461,602	483,098
Total liabilities	611,413	594,374
Net assets without donor restriction	588,133	594,468
Total liabilities and net assets	\$ 1,199,546	\$ 1,188,842

The accompanying notes are an integral part of these financial statements

ALCHEMIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018  
(With summarized comparative totals for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT:		
Program service fees	\$ 1,484,337	\$ 1,449,864
Contributions	62,390	20,445
Art sales, net cost of goods sold of \$6,408	6,251	11,626
Other income	1,888	1,230
Total revenue and support	<u>1,554,866</u>	<u>1,483,165</u>
EXPENSES:		
Program services:		
Total program services	1,418,234	1,283,290
Supporting activities:		
Administrative and general	<u>142,968</u>	<u>143,436</u>
Total expenses	<u>1,561,202</u>	<u>1,426,726</u>
CHANGE IN NET ASSETS	(6,336)	56,439
NET ASSETS, beginning	<u>594,469</u>	<u>538,030</u>
NET ASSETS, ending	<u>\$ 588,133</u>	<u>\$ 594,469</u>

The accompanying notes are an integral part of these financial statements

ALCHEMIA  
STATEMENT OF REVENUE, SUPPORT AND FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018  
(With summarized comparative totals for the year ended June 30, 2017)

	Program	Support Services	2018 Total	2017 Total
REVENUE AND SUPPORT:				
Fees for service	\$ 1,484,337		\$ 1,484,337	\$ 1,449,864
Contributions	62,390		62,390	20,445
Art sales, net cost of goods sold of \$6,408	6,251		6,251	11,626
Other revenue	-	\$ 1,888	1,888	1,230
Total revenue and support	<u>1,552,978</u>	<u>1,888</u>	<u>1,554,866</u>	<u>1,483,165</u>
EXPENSES:				
Salaries and wages	914,327	86,626	1,000,953	891,535
Payroll taxes	81,454	7,409	88,863	83,778
Employee benefits	34,511	4,376	38,887	49,569
Contracted services	25,654	19,611	45,265	59,477
Occupancy	175,566	70	175,636	146,928
Insurance	17,985	8,090	26,075	17,584
Travel and meetings	29,946	1,396	31,342	44,469
Program supplies and expenses	72,773	1,479	74,252	55,673
Office expenses	17,296	4,848	22,144	28,802
Taxes and licenses	758	258	1,016	827
Fundraising expenses	-	1,264	1,264	1,188
Other expenses	5,537	7,350	12,887	5,819
Subtotal	<u>1,375,807</u>	<u>142,777</u>	<u>1,518,584</u>	<u>1,385,649</u>
Change in net assets before depreciation	177,171	(140,889)	36,282	97,516
Depreciation	<u>42,427</u>	<u>191</u>	<u>42,618</u>	<u>41,077</u>
CHANGE IN NET ASSETS	<u>\$ 134,744</u>	<u>\$ (141,080)</u>	<u>\$ (6,336)</u>	<u>\$ 56,439</u>

The accompanying notes are an integral part of these financial statements

ALCHEMIA  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018  
(With summarized comparative totals for the year ended June 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (6,336)	\$ 56,439
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	42,618	41,077
(Increase) decrease in:		
Accounts receivable	(24,567)	(23,024)
Deposits and prepaid expenses	(33,278)	(1,438)
Increase (decrease) in:		
Accounts payable and accrued expenses	(19,536)	12,656
Total cash provided by operations	(41,099)	85,710
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(26,233)	(10,872)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	36,575	(37,588)
 NET CHANGE IN CASH	(30,757)	37,250
 CASH, beginning of year	109,292	72,042
 CASH, end of year	\$ 78,535	\$ 109,292
 Supplemental information:		
Cash paid for interest	\$ 26,641	\$ 28,486

The accompanying notes are an integral part of these financial statements



ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1 ORGANIZATION

Alchemia nurtures the creative expression of individuals with disabilities as a vehicle for personal growth, achievement and community integration in Marin and Sonoma counties. Founded in 1998, Alchemia provides a socially and artistically nourishing environment in which participants develop and sustain strong interpersonal relationships, realize individual creative goals, and pursue their unique dreams. Primary sources of support and revenue are public and private fees-for-service, contributions and sales of art.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – Alchemia reports information regarding its financial position and activities on an accrual basis according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

*Net assets without donor restriction* – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

*Net assets with donor restriction* – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of Alchemia to meet the stipulations or that become net assets without donor restriction at the date specified by the donor.

Net assets released from donor restriction – Net assets with donor restriction are “released” to net assets without donor restriction when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Other Basis of Presentation Policies – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, Alchemia reports the revenue or support as unrestricted. 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 restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents – Alchemia considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Accounts Receivable – Receivables are stated at the amount management expects to collect from outstanding balances. Allowances for non-payment of receivables are provided based on management's estimates. Management believes receivables at June 30, 2018 will be fully collected. Accordingly, no allowance for doubtful receivables is recorded.

Property and equipment – Alchemia capitalizes all expenditures for property and equipment in excess of \$2,500. Property and equipment are stated at cost at date of acquisition or fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Estimated useful life for vehicles, equipment and furniture is five years and estimate useful life for building is 39 years.

Revenue Recognition – Revenue is recognized when earned and support when contributions are made, which may be when cash is received.

Income Taxes – Alchemia is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701d. Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined Alchemia is not a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Management of Alchemia considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to Alchemia status as a not-for-profit entity. Management believes Alchemia met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these financial statements. Alchemia's tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

Donated Services and Items – Individuals volunteer their time and perform a variety of tasks that assist the programs at Alchemia. The financial statements do not reflect the value of donated services and items, because no reliable basis exists for determining an appropriate valuation.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 2      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Alchemia's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

NOTE 3      LIQUIDITY

The following reflects Alchemia's financial assets as of June 30, 2018 that are available for operations:

Financial assets at year end		
Cash and cash equivalents	\$	78,428
Accounts receivable		170,795
Prepaid Master (prepaid credit card)		<u>27,602</u>
Total financial assets available to meet cash		
needs for general expenditures within one year	\$	<u><u>276,825</u></u>

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 4      ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2018:

Golden Gate Regional Center	\$	71,684
Northbay Regional Center		88,442
All other receivables		10,669
Total	\$	<u>170,795</u>

NOTE 5      ACCUMULATED PAID TIME OFF

Accumulated unpaid paid time off benefits are recognized as liabilities of Alchemia. The value of accumulated unpaid paid time off at June 30, 2018 is \$16,318.

NOTE 6      LINE OF CREDIT

Alchemia maintains a line of credit with a bank with \$100,000 available paying an interest rate of 5.5 percent that matures October 1, 2018. The balance at June 30, 2018 is \$60,000. The balance was paid off in August 2018.

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 7            LONG-TERM DEBT

At June 30, 2018, long term debt consists of the following:

A note payable to JPMorgan Chase Bank for the purchase of a building was established on March 4, 2014 with a maturity date of March 15, 2024. Principal and interest payments are \$2,214 for 119 payments with one balloon payment due on March 14, 2024 estimated to be \$212,641. Interest is fixed at a rate of 4.75 percent per annum until paid in full. This note is secured by the building purchased by Alchemia.

\$ 280,483

A note payable to pay Stanley A. and Valeri A. Walker was established on March 4, 2014 to pay for the remaining mortgage balance on the building purchased by Alchemia for future operations with a maturity date of March 1, 2024. Commencing on loan date, the organization is required to make monthly payments of interest and principal of \$3,182 until the adjustment date of April 1, 2019, at which time the rate of interest adjusts annually to the prime plus 1.75 percent as published by the Wall Street Journal. Prepayment penalty for paying principal is 10% of total premium paid the first year, which decreases one percent each consecutive year.

166,220

446,703

Less current portion

(98,317)

Noncurrent Portion

\$ 348,386

Future maturities are as follows at June 30:

2019	\$ 42,263
2020	44,402
2021	44,861
2022	47,119
Thereafter	304,453

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 8      LEASE COMMITMENTS

Alchemia leases program space in Petaluma, Novato, and San Rafael.

The Petaluma lease was renewed from July 2016 through June 2017 and has again been renewed from November 2017 through April 2019. Rent is \$1,885 per month along with an additional amount for utilities.

There are two other annual leases for Marin County space. Rent is \$1,243 monthly.

There are three additional monthly leases in Novato as follows:

11/1/17 – 10/31/18	\$545
5/1/18 - 4/30/19	2,700
6/15/18- 6/14/20	2,395

Total rent expense for the year ended June 30, 2018 is \$114,231.

Future minimum required rental payments at June 30 consist of the following:

2019	\$	85,995
2020		27,543

NOTE 9      CONCENTRATION OF RISK

Alchemia receives a substantial amount of revenue and support for its programs from Golden Gate and North Bay Regional centers. During the fiscal year ended June 30, 2018, Alchemia received approximately 48 and 41 percent, respectively, of total revenue and support from these two sources. Alchemia receives 89 percent of its support from regional centers, all of which are subject to audit by the funding agency. The ultimate determination of amounts received under these programs is generally based upon allowable costs reports to and accounted for by the funding agencies. A significant reduction in the level of this support, were this to occur, may have an effect on Alchemia's programs.

ALCHEMIA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 10      CHANGE IN ACCOUNTING PRINCIPLE

Alchemia has adopted ASU 2016-14 effecting a change in the presentation of the financial statements, using new terminology and including additional footnote disclosures.

NOTE 11      SUBSEQUENT EVENTS

Alchemia has evaluated subsequent events through April 16, 2019, the date the financial statements were available to be issued and determined that there was one event occurring subsequent to June 30, 2018, that would have a material impact on Alchemia's results of operations or financial position. Alchemia paid off the line of credit in August 2018.