



FRONTIER TEXAS!, INC.
Abilene, Texas

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

September 30, 2017 and 2016

FRONTIER TEXAS!, INC.
Abilene, Texas

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December 18, 2017

**Board of Directors
Frontier Texas!, Inc.
Abilene, Texas**

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying statement of financial position of Frontier Texas!, Inc. as of September 30, 2017, and the related statements of activities 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 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 Frontier Texas!, Inc. as of September 30, 2017, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Frontier Texas!, Inc. financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Condley and Company, L.L.P.

Certified Public Accountants

FRONTIER TEXAS!, INC.
Abilene, Texas

STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	September 30,	
	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 395,493	\$ 311,012
Accounts receivable	0	1,265
Accounts receivable from related party	12,148	24,148
Inventory	50,795	56,272
Pledges receivable	20,024	15,452
Prepaid expenses	31,713	42,160
Total Current Assets	510,173	450,309
Capital assets, net	3,271,528	3,507,828
Sculptures, historical artifacts and other non-depreciable assets	294,167	294,167
TOTAL ASSETS	\$ 4,075,868	\$ 4,252,304
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 10,843	\$ 18,754
Accrued liabilities	25,268	21,892
Current portion of capital lease	3,013	2,810
Total Current Liabilities	39,124	43,456
Long term Liabilities:		
Long-term portion of capital lease	523	3,535
Total Long Term Liabilities	523	3,535
Total Liabilities	39,647	46,991
Net Assets:		
Unrestricted	4,033,240	4,202,332
Temporarily restricted	2,981	2,981
Total Net Assets	4,036,221	4,205,313
TOTAL LIABILITIES AND NET ASSETS	\$ 4,075,868	\$ 4,252,304

The accompanying notes are an integral part of the financial statements.

FRONTIER TEXAS!, INC.
Abilene, Texas

STATEMENTS OF ACTIVITIES

			Year Ended September 30,	
	Unrestricted	Temporarily Restricted	Total 2017	Summarized 2016
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions, Grants and Sales:				
Charges for services	\$ 163,951	\$	\$ 163,951	\$ 179,362
Local government grant - venue tax	437,045		437,045	427,260
Contributions and fundraising, net of costs	26,989	842	27,831	24,187
Gift shop sales, net	49,670		49,670	54,526
Net assets released from restrictions	842	(842)	0	0
	<u>678,497</u>	<u>0</u>	<u>678,497</u>	<u>685,335</u>
Total Contributions, Grants and Sales				
Other Revenues:				
Interest income	30		30	39
	<u>30</u>	<u>0</u>	<u>30</u>	<u>39</u>
Total Other Revenues				
	<u>30</u>	<u>0</u>	<u>30</u>	<u>39</u>
Total Revenues, Gains and Other Support	<u>678,527</u>	<u>0</u>	<u>678,527</u>	<u>685,374</u>
EXPENSES:				
Program services:				
Personnel	269,136		269,136	289,069
Depreciation	243,145		243,145	242,038
Advertising	105,150		105,150	124,171
Building maintenance	48,038		48,038	47,230
Utilities	45,426		45,426	48,938
Employee development	6,590		6,590	4,704
Event expenses	2,623		2,623	2,496
Other expenses	1		1	439
Insurance	38,131		38,131	43,862
Total Program Services Expenses	<u>758,240</u>	<u>0</u>	<u>758,240</u>	<u>802,947</u>
Supporting services:				
General and administrative:				
Personnel	48,873		48,873	25,019
Credit card fees	5,664		5,664	6,038
Office supplies and postage	5,132		5,132	6,993
Interest expense	354		354	541
Accounting fees	13,200		13,200	13,000
Total General and Administrative Expenses	<u>73,223</u>	<u>0</u>	<u>73,223</u>	<u>51,591</u>
Fundraising:				
Personnel	16,156		16,156	16,116
Total Fundraising	<u>16,156</u>	<u>0</u>	<u>16,156</u>	<u>16,116</u>
Total Expenses	<u>847,619</u>	<u>0</u>	<u>847,619</u>	<u>870,654</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	<u>(169,092)</u>	<u>0</u>	<u>(169,092)</u>	<u>(185,280)</u>
Net Assets at Beginning of Year	<u>4,202,332</u>	<u>2,981</u>	<u>4,205,313</u>	<u>4,390,593</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,033,240</u>	<u>\$ 2,981</u>	<u>\$ 4,036,221</u>	<u>\$ 4,205,313</u>

The accompanying notes are an integral part of the financial statements.

FRONTIER TEXAS!, INC.
Abilene, Texas

STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (169,092)	\$ (185,280)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	243,145	242,038
Loss on sale of property and equipment	0	420
(Increase) Decrease in operating assets:		
Accounts receivable	1,265	(1,265)
Accounts receivable from related party	12,000	(24,148)
Pledges receivable	(4,572)	10,231
Inventory	5,477	(6,057)
Prepaid expenses and other assets	10,447	(8,020)
Decrease in operating liabilities:		
Accounts payable and accrued expenses	(4,535)	(264,026)
Net Cash Provided (Used) by Operating Activities	94,135	(236,107)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(6,845)	(19,205)
Net Cash Used by Investing Activities	(6,845)	(19,205)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal paid on long-term debt and line-of-credit	(2,809)	(2,621)
Net Cash Used by Financing Activities	(2,809)	(2,621)
Net Increase (Decrease) in Cash and Cash Equivalents	84,481	(257,933)
Cash and Cash Equivalents at Beginning of Year	311,012	568,945
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 395,493	\$ 311,012
Supplemental Information:		
Interest paid	\$ 354	\$ 541

The accompanying notes are an integral part of the financial statements.

FRONTIER TEXAS!, INC.
Abilene, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

NOTE 1: STATEMENT OF ORGANIZATION AND PURPOSE

Frontier Texas!, Inc., (the “Museum”) was incorporated on June 1, 2003, under the laws of the State of Texas as a non-profit corporation. The purpose of the Museum is to promote the cultural and educational welfare of the citizens of the City of Abilene and surrounding region, using historical, educational, and cultural perspective of life on the Texas frontier.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Museum conform to accounting principles generally accepted in the United States of America. Policies and practices which materially affect the determination of financial position are summarized as follows:

Method of Accounting

The Museum uses the accrual method of accounting for support, revenues, and expenses. Revenues and support are recognized when the right to receive them occurs. Expenses are recognized when incurred.

Financial Statement Presentation

The Museum has adopted Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities: Revenue Recognition*. ASC 958-605 requires the Museum to record contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of any restrictions made by the donor. Contributions include gifts of cash and promises to give.

Contributions and related gains and investment income received with donor-imposed restrictions that are met in the same year as received are reported as revenues of unrestricted net assets. In addition, the Museum is required to present a statement of cash flows.

The classifications of net assets are as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions as to their use.

Temporarily restricted – Net assets subject to donor-imposed restrictions that may or shall be met, either by actions of the Museum and/or by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted – Resources that include a donor imposed restriction that stipulates that resources be maintained permanently, but permits the Museum to use or expend part or all of the income (or other economic benefit) derived from the donated assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers any short-term investment convertible to cash within three months or less with little or no change in the principal amount to be a cash equivalent.

Inventory

Inventory is generally stated at cost on the first-in, first-out basis.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Museum are reported at fair value at the date the promise is received. Unconditional promises to give and indications of intentions to give are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Capital Assets

The Museum's capital assets are reported at historical cost. All equipment purchases with a cost over \$100 and a useful life of more than one year are capitalized. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated using the straight-line method of depreciation using these asset lives:

Exhibit construction and programming	25 years
Audio visual equipment	7 years
Equipment and software	3-5 years
Tent	15 years

Sculptures, Historical Artifacts and Other Non-depreciable Assets

The Museum's sculptures, historical assets and other non-depreciable assets are reported at historical cost. Contributed items are reported at their estimated fair market value.

Federal Income Taxes

The Museum has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code in an exemption letter dated October 10, 2003.

Management evaluated the Museum's tax positions and concluded that the Museum had taken no uncertain tax positions that require adjustment to financial statements and therefore no adjustments have been included in the financial statements for 2017 or 2016. With few exceptions, the Museum is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2014.

Venue Tax

The City of Abilene is responsible for the collection, and apportionment of a hotel venue tax. The Museum recognizes venue tax revenue when amounts are earned from collections made by the City.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been detailed on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributions and Fundraising

Contributions and fundraising revenues totaled \$30,181 and \$25,243 for the years ended September 30, 2017 and 2016, respectively. Fundraising expenditures totaled \$2,350 and \$1,056 for the years ended September 30, 2017 and 2016, respectively.

Contributed Property and Equipment

Contributed property and equipment is recorded at fair value at the date of donation. 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 support.

Advertising Costs

Advertising costs are expensed in the year they are incurred.

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 the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Museum's deposits may not be returned to it. The Museum does not have a deposit or investment policy for custodial credit risk. As of September 30, 2017, the Museum's bank balance was not exposed to custodial credit risk as uninsured and uncollateralized.

Risk Management

The Museum is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Museum includes an additional monthly employee allowance as part of the base compensation for health, dental, or accidental benefits; employees are responsible for obtaining their own insurance coverage.

Compensated Absences

Employees of the Museum are entitled to paid time off. All eligible employees can accumulate paid time off from their date of employment. Depending upon their length of employment, employees can accrue up to 240 hours of paid time off. Terminated employees are paid for unused paid time off when their employment is ended.

Recent Accounting Pronouncements

ASU 2014-09 In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued substantially converged final standards on revenue recognition. The FASB's Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, was issued in three parts: (1) Section A, "Summary and Amendments That Create Revenue from Contracts with Customers and Other Assets and Deferred Costs – Contracts With Customers"; (2) Section B, "Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables"; and (3) Section C, "Background Information and Basis for Conclusions".

ASU 2014-09 provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles (GAAP). This standard will help with improved comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the ASU is not effective until 2017 for calendar end public entities, which includes not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over the counter market and in 2018 for all other entities. On April 1, 2015 the FASB voted to delay the effective date for private companies with a calendar year end date to December 31, 2019.

ASU, Leases (Topic 842): a revision of the 2010 proposed Accounting Standards Update, Leases (Topic 840) will require revised accounting for leases to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard would be effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for annual reporting period beginning after December 15, 2018 and for all other entities for annual reporting periods beginning after December 15, 2019. Early application will be permitted for all entities upon issuance of the final standard. The FASB Board has directed the staff to draft a final ASU for vote by ballot.

ASU 2016-14 Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, includes significant pervasive changes to the financial reporting requirements for Not-for-Profit Entities. ASU No. 2016-14 is effective on a retrospective basis for Not-for-Profit Entities for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the American Institute of Certified Public Accountants did not or are not believed by management to have a material impact on the Museum's present or future financial statements.

Subsequent Events

The Museum has evaluated subsequent events through December 18, 2017 the date the financial statements were available to be issued.

NOTE 3: PLEDGES AND GRANTS RECEIVABLE

As of September 30, 2017 and 2016, it was not deemed necessary to record an allowance for uncollectible pledges and grants receivable. Gross pledges receivable totaled \$20,024 and \$15,452 as of September 30, 2017 and September 30, 2016, respectively. Pledges receivable due within less than one year totaled \$20,024 as of September 30, 2017. The portion of pledges receivable due in more than one year totaled \$0 as of September 30, 2017.

NOTE 4: CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended September 30, 2017 and 2016, respectively were as follows:

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017
Exhibit construction and programming	\$ 3,573,397	\$ 1,309	\$	\$ 3,574,706
Exhibit redevelopment	1,935,261			1,935,261
Audio visual equipment	137,681			137,681
Office and computer equipment	101,307	3,708		105,015
Software	1,719	1,828		3,547
Totals at historical cost	<u>5,749,465</u>	<u>6,845</u>	<u>0</u>	<u>5,756,211</u>
Total accumulated depreciation	<u>(2,241,537)</u>	<u>(243,145)</u>	<u>0</u>	<u>(2,484,682)</u>
Capital assets, net	<u>\$ 3,507,828</u>	<u>\$ (236,300)</u>	<u>\$ 0</u>	<u>\$ 3,271,528</u>

	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016
Exhibit construction and programming	\$ 3,573,397	\$	\$	\$ 3,573,397
Exhibit redevelopment	1,935,241	500	(480)	1,935,261
Audio visual equipment	125,528	12,153		137,681
Office and computer equipment	94,755	6,552		101,307
Software	1,719			1,719
Totals at historical cost	<u>5,730,640</u>	<u>19,205</u>	<u>(480)</u>	<u>5,749,365</u>
Total accumulated depreciation	<u>(1,999,559)</u>	<u>(242,038)</u>	<u>60</u>	<u>(2,241,537)</u>
Capital assets, net	<u>\$ 3,731,081</u>	<u>\$ (222,833)</u>	<u>\$ (420)</u>	<u>\$ 3,507,828</u>

NOTE 5: CAPITAL LEASES

The following is a summary of capital leases of the Museum as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Capital lease obligation payable to Xerox Corporation – with monthly payments of \$264, due February 3, 2019, including 7% interest. Secured by equipment.	\$ <u>3,536</u>	\$ <u>6,345</u>
Less: Current maturities included in current liabilities	<u>(3,013)</u>	<u>(2,810)</u>
Long-term portion of notes payable and capital leases	\$ <u>523</u>	\$ <u>3,535</u>

The Museum is the lessee of equipment under a capital lease expiring in 2019. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the shorter of their related lease terms or their estimated productive lives.

Following is a summary of equipment held under capital lease:

Equipment	\$ 13,321
Less: accumulated depreciation	<u>(4,884)</u>
	<u>\$ 8,437</u>

Minimum future lease payments under capital leases, at September 30, 2017, for the remaining years of the lease term are:

<u>Year Ending September 30,:</u>	
2018	\$ 3,164
2019	<u>527</u>
	3,691
Less: amount representing interest	<u>(155)</u>
Present value of net minimum lease payment	<u>\$ 3,536</u>

NOTE 6: LEASE COMMITMENTS

The Museum entered into a lease agreement with the City of Abilene for the lease of the land in which the Museum is located which will expire March 31, 2024. The Museum prepaid \$10 for the lease, \$1 a year. Minimum rental payments are as follows:

2018	\$	1
2019		1
2020		1
2021		1
2022+		<u>2</u>
	\$	<u>6</u>

Rental expense for the years ended September 30, 2017 and 2016, was \$1.

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following specific program services as of September 30,:

	<u>2017</u>	<u>2016</u>
Future fund	\$ <u>2,981</u>	\$ <u>2,981</u>
Temporarily Restricted Net Assets	\$ <u><u>2,981</u></u>	\$ <u><u>2,981</u></u>

NOTE 8: RELATED PARTY TRANSACTIONS

The museum had outstanding accounts receivable from a related party, Texas Heritage Trails, LLC, for the years ended September 30, 2017 and 2016 in the amount of \$12,148 and \$24,148 respectively. The Executive Director of the Museum is on the Board of Directors of the related party.