

Living Arts
Audited Financial Statements
June 30, 2014

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13305 Reeck Rd.
Southgate, MI 48195
Phone (734) 246-9600
Fax (734) 246-8349

Independent Auditors' Report

To the Board of Directors of
Living Arts

Report on the Financial Statements

We have audited the accompanying financial statements of Living Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Living Arts as of June 30, 2014, 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.

Yeo & Yeo, P.C.

Southgate, Michigan
December 9, 2014

Living Arts

Statement of Financial Position

June 30, 2014

Assets

Current assets

Cash	\$ 149,105
Accounts receivable	27,907
Grants receivable - current	83,153
Pledges receivable - current	5,854
Due from collaborative	2,536
Prepaid expenses	<u>5,000</u>

Total current assets 273,555

Other assets

Property and equipment, net	4,750
Pledges receivable - noncurrent	<u>8,085</u>

Total other assets 12,835

Total assets \$ 286,390

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 19,066
Accrued expenses	<u>8,398</u>

Total liabilities 27,464

Net Assets

Unrestricted	226,110
Temporarily restricted	<u>32,816</u>

Total net assets 258,926

Total liabilities and net assets \$ 286,390

See Accompanying Notes to Financial Statements.

Living Arts

Statement of Activities

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 36,462	\$ 6,100	\$ 42,562
Grants	154,179	295,425	449,604
In-kind contributions	23,674	-	23,674
Special events	2,153	-	2,153
Student fees	22,355	-	22,355
Contract service fees	91,876	-	91,876
Other fees	770	-	770
Net assets released from temporary restrictions	<u>481,266</u>	<u>(481,266)</u>	<u>-</u>
Total revenue and support	<u>812,735</u>	<u>(179,741)</u>	<u>632,994</u>
Functional Expenses			
Program	647,085	-	647,085
Management and General	51,890	-	51,890
Fundraising	<u>58,038</u>	<u>-</u>	<u>58,038</u>
Total functional expenses	<u>757,013</u>	<u>-</u>	<u>757,013</u>
Change in net assets	55,722	(179,741)	(124,019)
Net assets, beginning of year	<u>170,388</u>	<u>212,557</u>	<u>382,945</u>
Net assets, end of year	<u>\$ 226,110</u>	<u>\$ 32,816</u>	<u>\$ 258,926</u>

See Accompanying Notes to Financial Statements.

Living Arts

Statement of Functional Expenses

For the Year Ended June 30, 2014

	<u>Program</u>			<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Operations</u>	<u>DCAA</u>	<u>Total Program</u>			
Salaries and wages	\$ 212,817	\$ 24,401	\$ 237,218	\$ 17,459	\$ 20,254	\$ 274,931
Payroll taxes	19,011	2,009	21,020	1,593	1,623	24,236
Health insurance	6,472	3,103	9,575	27	335	9,937
Contract labor	224,350	9,318	233,668	6,869	5,817	246,354
Contributions	2,065	-	2,065	-	-	2,065
Costumes	8,438	-	8,438	-	-	8,438
Dues and subscriptions	274	-	274	1,177	13,213	14,664
Fees, licenses and permits	95	-	95	26	106	227
Fundraising expense	-	-	-	-	5,019	5,019
Program materials	12,838	-	12,838	-	56	12,894
Field trip expense	5,324	-	5,324	-	-	5,324
Marketing	8,254	19	8,273	11	1,682	9,966
Printing	318	-	318	120	25	463
Postage and delivery	440	-	440	83	320	843
Rent	16,499	1,460	17,959	755	1,781	20,495
Insurance	10,822	147	10,969	213	905	12,087
Interest expense	-	-	-	169	-	169
Professional fees	32,932	5,802	38,734	21,146	1,601	61,481
Office supplies	7,545	1,650	9,195	261	364	9,820
Equipment repairs and maintenance	789	-	789	128	27	944
Training	17,938	-	17,938	34	33	18,005
Telephone	1,159	120	1,279	55	53	1,387
Utilities	1,210	-	1,210	81	78	1,369
Website and internet	2,150	365	2,515	144	140	2,799
Travel and entertainment	4,752	344	5,096	370	2,655	8,121
Miscellaneous	6	6	12	1,148	22	1,182
Bad debt	-	-	-	-	1,925	1,925
Depreciation	1,843	-	1,843	21	4	1,868
Total functional expenses	<u>\$ 598,341</u>	<u>\$ 48,744</u>	<u>\$ 647,085</u>	<u>\$ 51,890</u>	<u>\$ 58,038</u>	<u>\$ 757,013</u>

See Accompanying Notes to Financial Statements.

Living Arts

Statement of Cash Flows

For the Year Ended June 30, 2014

Cash flows from operating activities

Change in net assets	\$ (124,019)
Items not requiring cash	
Depreciation	1,868
Bad debt	1,925
Changes in operating assets and liabilities	
Accounts receivable	(24,687)
Grants receivable	236,084
Pledges receivable	(8,352)
Due from collaborative	(3,654)
Prepaid expenses	1,927
Accounts payable	4,225
Accrued expenses	<u>(140)</u>
Net cash flows provided by operating activities	85,177

Cash flows from investing activities

Purchase of property and equipment	<u>(4,072)</u>
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Net change in cash and cash equivalents 81,105

Cash and cash equivalents - beginning of year 68,000

Cash and cash equivalents - end of year \$ 149,105

See Accompanying Notes to Financial Statements.

Living Arts

Notes to Financial Statements

June 30, 2014

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Living Arts (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are a representation of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization –

The Organization is a Michigan nonprofit corporation organized to strengthen the youth and neighborhoods of Detroit through dance education, multi-disciplinary arts-infused academics, and community arts programs that spark the imagination and foster learning through arts and culture. Programming is organized into four interrelated categories: after-school dance instruction, arts-infused education, arts and cultural workshops, and community events in Southwest Detroit and broader community.

Revenue Recognition –

The Organization's sources of support and revenue include grants, contributions and student fees, contract service fees and special events. Revenue is recognized using the accrual method.

Unconditional promises to give are recognized as revenue when the underlying promises are received by the Organization. Grants are reported as temporarily restricted revenue if they are received with grantor stipulations that limit the use of the donated assets. When a grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and changes in net assets as a satisfaction of time or program restrictions.

Unconditional promises to give are presented at their estimated collectable amount. Management regularly reviews the collection history of its pledges receivable balances with particular attention given to those accounts greater than ninety (90) days old. Based on management's review, there is no allowance at June 30, 2014.

Basis of Accounting –

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

Income Taxes –

The Organization is a non-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to income, or most other forms of taxation, in the normal course of business.

Living Arts

Notes to Financial Statements

June 30, 2014

The Organization's Federal Forms 990, Return of Organization Exempt from Federal Income Taxes, are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Cash and Cash Equivalents –

Cash and cash equivalents are defined as unrestricted cash on hand and demand deposits in banks, plus short-term investments that are readily convertible to cash, as well as investments with original maturities of three months or less.

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.

Basis of Presentation –

The Organization reports 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.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization has received contributions with donor-imposed restrictions. However, there were no permanently restricted net assets as of June 30, 2014.

Functional Allocation of Expenses –

Certain expenses have been allocated between programs, management and general, and fundraising on various bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different results.

Donated Services –

Donated services that create or enhance a non-financial asset, or are specialized skills provided by entities or persons possessing those skills that would be purchased if they were not donated, are valued at the estimated fair value at the date the service is provided.

Living Arts

Notes to Financial Statements

June 30, 2014

Donated Facility –

Donated facilities are recorded at the estimated fair rental value.

Property and Equipment –

Property and equipment purchased by the Organization is carried on its books at cost. Property and equipment donated to the Organization has been recorded at its estimated value at the date of receipt by the Organization. Expenditures for major betterments and additions are charged to the property accounts, while replacements, maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently.

Depreciation of property and equipment is provided under the straight-line method over the following estimated useful lives

Furniture	5 Years
Equipment	3 Years
Computer Software	3 Years

Gains or losses from the sale of property and equipment are recorded in the statement of activities.

Major Contributors –

Support from the two largest contributors in 2014 aggregated 41% of total support and revenue.

Subsequent Events –

The Organization has evaluated events and transactions for potential recognition or disclosure through December 9, 2014, the date the financial statements were available to be issued.

Note 2 – Credit Risk

The Organization does not believe it is exposed to any significant credit risk in cash. All amounts at financial institutions are insured by the FDIC up to \$250,000.

Living Arts

Notes to Financial Statements

June 30, 2014

Note 3 – Property and Equipment

Property and equipment consisted of the following at June 30, 2014:

Furniture	\$ 2,556
Equipment	27,938
Computer software	<u>22,660</u>
	53,154
Less accumulated depreciation	<u>48,404</u>
Total property and equipment	<u>\$ 4,750</u>

Depreciation expense for the year ending June 30, 2014 totaled \$1,868.

Note 4 – Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30, 2014:

Donor restriction (Donor)

STEAM/Read Program Pre-K to 8 (Honda Corporation)	\$ 19,093
El Arte at Vistas Nuevas Head Start Centers from September , 2012 to July 30, 2014 (W.K. Kellogg Foundation)	4,059
El Arte: Early Learning and Natasha Beste Classrooms (Paul Foundation)	6,204
Other	<u>3,460</u>
Total temporarily restricted net assets	<u>\$ 32,816</u>

Living Arts

Notes to Financial Statements

June 30, 2014

Temporarily restricted net assets were released from restrictions during the year ended June 30, 2014 by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Community Foundation for Southeastern Michigan	\$ 22,500
Erb Foundation	14,886
Ford Motor Company Fund	115,380
Honda	40,907
Kellogg Foundation	141,068
Kresge Foundation	22,500
National Guild for Community Arts Education	20,000
PNC Foundation	15,000
Skillman Foundation	61,720
Tides Foundation	9,000
Others	<u>18,305</u>
Total assets released from temporarily restricted net assets	<u>\$ 481,266</u>

Note 5 – Lease Commitments

The Organization leased office space under the terms of a two-year lease agreement beginning November 1, 2011 requiring monthly payments in the amount of \$1,020.

In addition, the Organization entered into a two-year lease for program space beginning November 1, 2013 requiring monthly payments in the amount of \$1,071.

The Organization also periodically rents an auditorium for an annual event.

Future minimum lease payments under operating lease agreements for the next three years are as follows:

2015	\$ 25,704
2016	\$ 8,568

Note 6 – In-Kind Donations

In-kind donations consist of the following for the year ended June 30, 2014:

Donated services	
Contract labor	<u>\$ 23,674</u>

Living Arts

Notes to Financial Statements

June 30, 2014

Note 7 – Due From Collaborative

The Organization is one of four agencies that represent a collaborative called the Detroit Community Arts Alliance (DCAA). The four collaborating organizations entered into an agreement on October 1, 2012 for a one-year term. The agreement renews for consecutive one-year terms thereafter. Any collaborating organization may terminate their participation in this agreement at any time with at least ninety (90) days written notice to the other collaborating organizations.

The mission of DCAA is to build capacity by working jointly in order to assure the sustainability of its collaborating organizations, allowing them to strengthen arts programming and opportunities for the communities and individuals they serve. To that end, the collaborating organizations share aspects of their operations to create efficiencies and support each collaborating organization to more effectively execute its mission. With shared staffing (development director and grant writer) and shared consultants (strategic planners, accountants, and development support) the collaborating organizations have applied for and have been awarded numerous grants and have improved the operations of their individual organizations by incorporating nonprofit management best practices.

DCAA is designed as a mutually beneficial collaborative and since DCAA is not an entity in its own right, the revenue and expenses are shared and reported on the financial statements of the individual organizations.