

Living Arts
Financial Statements
June 30, 2019



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Independent Auditors' Report

To the Board of Directors of
Living Arts
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Living Arts, which comprise the statement of financial position as of June 30, 2019, 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, 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.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Living Arts changed its method of accounting for net assets and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to that matter.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
December 12, 2019

Living Arts
Statement of Financial Position
June 30, 2019

Assets

Current assets

| | | |
|------------------------------|----|---------|
| Cash | \$ | 762,526 |
| Accounts receivable | | 63,825 |
| Grants receivable | | 781,681 |
| Pledges receivable - current | | 3,019 |
| Prepaid expenses | | 7,487 |
| | | 7,487 |

| | | |
|----------------------|--|-----------|
| Total current assets | | 1,618,538 |
|----------------------|--|-----------|

Other assets

| | | |
|---------------------------------|--|-------|
| Property and equipment, net | | 2,305 |
| Pledges receivable - noncurrent | | 200 |
| | | 200 |

| | | |
|--------------------|--|-------|
| Total other assets | | 2,505 |
|--------------------|--|-------|

| | | |
|---------------------|-----------|------------------|
| Total assets | \$ | 1,621,043 |
|---------------------|-----------|------------------|

Liabilities and Net Assets

Current liabilities

| | | |
|------------------|----|--------|
| Accounts payable | \$ | 30,370 |
| Accrued expenses | | 16,754 |
| | | 16,754 |

| | | |
|-------------------|--|--------|
| Total liabilities | | 47,124 |
|-------------------|--|--------|

Net assets

| | | |
|----------------------------|--|---------|
| Without donor restrictions | | |
| Unrestricted | | 569,528 |
| Board designated | | 61,357 |
| | | 61,357 |

| | | |
|----------------------------------|--|---------|
| Total without donor restrictions | | 630,885 |
|----------------------------------|--|---------|

With donor restrictions

| | | |
|----------------------|--|---------|
| Purpose restrictions | | 943,034 |
| | | 943,034 |

| | | |
|------------------|--|-----------|
| Total net assets | | 1,573,919 |
|------------------|--|-----------|

| | | |
|---|-----------|------------------|
| Total liabilities and net assets | \$ | 1,621,043 |
|---|-----------|------------------|

Living Arts
Statement of Activities
For the Year Ended June 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|---------------------|
| Support and Revenue | | | |
| Contributions | \$ 156,179 | \$ - | \$ 156,179 |
| Grants | 472,532 | 763,519 | 1,236,051 |
| In-kind contributions | 38,037 | - | 38,037 |
| Special events | 19,225 | - | 19,225 |
| Student fees | 16,968 | - | 16,968 |
| Contract service fees | 214,231 | - | 214,231 |
| Interest income | 3,356 | - | 3,356 |
| Other revenue | 840 | - | 840 |
| Cost of goods sold | (610) | - | (610) |
| Net assets released from temporary restrictions | <u>266,792</u> | <u>(266,792)</u> | <u>-</u> |
| Total support and revenue | <u>1,187,550</u> | <u>496,727</u> | <u>1,684,277</u> |
| Functional Expenses | | | |
| Program | 775,604 | - | 775,604 |
| Management and general | 49,002 | - | 49,002 |
| Fundraising | <u>73,457</u> | <u>-</u> | <u>73,457</u> |
| Total functional expenses | <u>898,063</u> | <u>-</u> | <u>898,063</u> |
| Change in net assets | 289,487 | 496,727 | 786,214 |
| Net assets, beginning of year | <u>341,398</u> | <u>446,307</u> | <u>787,705</u> |
| Net assets, end of year | <u>\$ 630,885</u> | <u>\$ 943,034</u> | <u>\$ 1,573,919</u> |

See Accompanying Notes to the Financial Statements

Living Arts
Statement of Functional Expenses
For the Year Ended June 30, 2019

| | Program | | | | Total Program | Management and General | Fundraising | Total |
|----------------------------------|-------------------------|-------------------|-------------------|-----------------------|-------------------|---------------------------|------------------|-------------------|
| | ISA - In School Arts | Wolf Trap | OSA | Community Programs | | | | |
| Bank service charges | \$ 125 | \$ 807 | \$ 438 | \$ - | \$ 1,370 | \$ 169 | \$ 1,093 | \$ 2,632 |
| Contract services | 4,708 | 12,150 | 7,859 | - | 24,717 | 2,878 | 36,010 | 63,605 |
| Costume expenses | 47 | 45 | 56 | 487 | 635 | 13 | 71 | 719 |
| Depreciation | 555 | 1,379 | 828 | - | 2,762 | 288 | 204 | 3,254 |
| Dues and subscriptions | 551 | 2,010 | 1,336 | - | 3,897 | 551 | 331 | 4,779 |
| Education | 510 | 4,810 | 1,751 | - | 7,071 | 810 | 212 | 8,093 |
| Equipment and repairs | 1,739 | 4,991 | 2,380 | - | 9,110 | - | 656 | 9,766 |
| Fees, licenses, and permits | 77 | 82 | 43 | - | 202 | 10 | 90 | 302 |
| Health insurance | 2,957 | 7,212 | 3,732 | - | 13,901 | 1,122 | 1,395 | 16,418 |
| Hospitality | 3,216 | 11,164 | 5,417 | 849 | 20,646 | 981 | 1,770 | 23,397 |
| Insurance | 2,365 | 6,039 | 3,532 | 17 | 11,953 | 989 | 1,179 | 14,121 |
| Professional services | 4,760 | 29,925 | 7,616 | - | 42,301 | 3,723 | 2,231 | 48,255 |
| Marketing | 938 | 3,386 | 4,011 | 19 | 8,354 | 295 | 671 | 9,320 |
| Office supplies | 1,468 | 5,070 | 3,618 | - | 10,156 | 454 | 680 | 11,290 |
| Payroll taxes | 3,796 | 12,304 | 6,292 | - | 22,392 | 3,498 | 2,058 | 27,948 |
| Postage and delivery | 202 | 482 | 298 | - | 982 | 75 | 350 | 1,407 |
| Printing and reproduction | 967 | 1,861 | 2,983 | - | 5,811 | 291 | 1,548 | 7,650 |
| Program contract labor | 27,642 | 117,611 | 50,935 | 13,755 | 209,943 | - | 51 | 209,994 |
| Program material and supplies | 1,594 | 2,646 | 20,908 | 200 | 25,348 | 13 | 12 | 25,373 |
| Rent and security | 2,964 | 4,364 | 33,732 | - | 41,060 | 876 | 1,373 | 43,309 |
| Retirement benefits | - | - | - | - | - | 4,252 | - | 4,252 |
| Salaries and wages | 50,945 | 133,258 | 114,394 | 180 | 298,777 | 26,640 | 20,631 | 346,048 |
| Telephone and fax | 445 | 618 | 897 | 1 | 1,961 | 127 | 207 | 2,295 |
| Travel | 1,183 | 5,030 | 1,773 | - | 7,986 | 738 | 211 | 8,935 |
| Utilities | 511 | 1,646 | 838 | - | 2,995 | 209 | 291 | 3,495 |
| Web and internet expense | 261 | 618 | 395 | - | 1,274 | - | 132 | 1,406 |
| Total functional expenses | \$ 114,526 | \$ 369,508 | \$ 276,062 | \$ 15,508 | \$ 775,604 | \$ 49,002 | \$ 73,457 | \$ 898,063 |

See Accompanying Notes to the Financial Statements

Living Arts
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities

| | | |
|---|----|----------------|
| Change in net assets | \$ | 786,214 |
| Items not requiring cash | | |
| Depreciation | | 3,254 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | | 83,227 |
| Grants receivable | | (438,646) |
| Pledges receivable | | 6,420 |
| Prepaid expenses | | (1,349) |
| Accounts payable | | (4,457) |
| Accrued expenses | | <u>1,306</u> |
| Net cash flows provided by operating activities | | <u>435,969</u> |

Cash flows from investing activities

| | | |
|------------------------------------|--|----------------|
| Purchase of property and equipment | | <u>(2,548)</u> |
|------------------------------------|--|----------------|

| | | |
|--|-----------|------------------------------|
| Net change in cash and cash equivalents | | 433,421 |
| Cash and cash equivalents - beginning of year | | <u>329,105</u> |
| Cash and cash equivalents - end of year | \$ | <u><u>762,526</u></u> |

Living Arts
Notes to the Financial Statements
June 30, 2019

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 non-profit organization organized to engage Detroit youth, teachers and families in transformative experiences in the performing, visual, literary and media arts. Through artist residencies in schools across Detroit and robust out-of-school offerings focused in Southwest Detroit, the Organization increases youth's academic achievement, develop their leadership and artistic skills, and strengthen our schools and communities. Programming is organized into four interrelated categories: Detroit Wolf Trap Early Learning Through the Arts, In-School Arts, Out-of-School Arts, and Community programs.

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 revenue with donor restrictions 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, net assets with donor restrictions are reclassified to without donor restrictions 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, 2019.

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.

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.

Living Arts
Notes to the Financial Statements
June 30, 2019

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

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include salaries and benefits. Salaries and benefits are allocated based on a time and cost study of where efforts are made.

Donated Goods

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization recognized donated supplies of \$4,903 for the year ended June 30, 2019.

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 and totaled \$5,850 for the year ending June 30, 2019.

Donated Facility

Donated facilities are recorded at the estimated fair rental value, \$27,284 for the year ending June 30, 2019.

Living Arts
Notes to the Financial Statements
June 30, 2019

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.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through December 12, 2019, the date the financial statements were available to be issued.

Change in Accounting Principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | |
|---------------------|-------------------|
| | <u>Total</u> |
| Cash | \$ 601,173 |
| Accounts receivable | 103,825 |
| Pledges receivable | <u>3,019</u> |
| | <u>\$ 708,017</u> |

The Organization's goal is generally to maintain financial assets to meet three months of operating expenses. As part of its liquidity plan, excess cash is invested in certificates of deposit.

Note 3 – 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. As of June 30, 2019, \$519,296 was not insured.

Living Arts
Notes to the Financial Statements
June 30, 2019

Note 4 – Property and Equipment

Property and equipment consisted of the following at June 30, 2019:

| | |
|--------------------------------|-----------------|
| Furniture | \$ 5,035 |
| Equipment | 14,808 |
| Computer software | <u>6,445</u> |
| Gross property and equipment | 26,288 |
| Less: accumulated depreciation | <u>23,983</u> |
| Net property and equipment | <u>\$ 2,305</u> |

Depreciation expense for the year ending June 30, 2019 totaled \$3,254.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2019:

| | |
|--|-------------------|
| Kresge Foundation | \$ 247,988 |
| Erb Foundation | 47,500 |
| Dresner Foundation | 31,271 |
| Community Foundation of Southeast MI | 50,000 |
| Fisher Foundation | 242,988 |
| W.K. Kellogg Foundation | 228,574 |
| United Way of Southeastern Michigan | 44,923 |
| Other | <u>49,790</u> |
| Total net assets with donor restrictions | <u>\$ 943,034</u> |

Living Arts
Notes to the Financial Statements
June 30, 2019

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose for the year ended June 30, 2019:

| | |
|--|--------------------------|
| Community Foundation of Southeast MI | \$ 50,000 |
| Detroit Industrial School | 612 |
| Erb Foundation | 72,500 |
| Fisher Foundation | 27,986 |
| Ford Motor Company Fund | 24,252 |
| ITC Charitable Giving Program | 1,398 |
| Kresge Foundation | 75,000 |
| Michigan Council for Arts & Cultural Affairs | 2,715 |
| PNC Foundation | 10,538 |
| Urban Neighborhood Initiatives | 291 |
| Wolf Trap Foundation | <u>1,500</u> |
| Total net assets released from restrictions | <u><u>\$ 266,792</u></u> |

Note 6 – Lease Commitments

The Organization entered into a multi-year lease for program space beginning September 1, 2015 through August 31, 2022. Future minimum lease payments under this lease for the years ending June 30 are as follows:

| | |
|------------------------|-------------------------|
| 2020 | \$ 18,729 |
| 2021 | 20,563 |
| 2022 | <u>3,427</u> |
| Total minimum payments | <u><u>\$ 42,719</u></u> |

The Organization also rents an auditorium each year for one event.