Living Arts

Financial Statements

June 30, 2020

YEO & YEO
CPAs & BUSINESS CONSULTANTS

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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, 2020, 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, 2020, 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 revenue recognition in 2020 as required by the provisions of FASB Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* and changed its method of accounting for contributions in 2020 as required by

the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to those matters.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
February 11, 2021

Living Arts
Statement of Financial Position
June 30, 2020

Assets		
Current assets		
Cash	$	1,026,804
Accounts receivable		33,438
Grants receivable		285,796
Pledges receivable		8,247
Prepaid expenses		6,716
Total current assets		1,361,001
Other assets		
Property and equipment, net		4,109
Total assets	$	1,365,110
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$	9,249
Accrued expenses		32,033
PPP loan, current portion		33,411
Total current liabilities		74,693
Long-term liabilities		
PPP loan, net of current portion		53,589
Total liabilities		128,282
Net assets		
Without donor restrictions		
Unrestricted		731,701
Board designated		89,972
Total without donor restrictions		821,673
With donor restrictions		
Purpose restrictions		415,155
Total net assets		1,236,828
Total liabilities and net assets	$	1,365,110

Living Arts
Statement of Activities
For the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions	$ 152,593	$ -	$ 152,593
Grants	172,025	109,985	282,010
In-kind contributions	36,838	-	36,838
Student fees	5,595	-	5,595
Contract service fees	177,840	-	177,840
Interest income	4,848	-	4,848
Other revenue	1,379	-	1,379
Net assets released from temporary restrictions	637,864	(637,864)	-
Total support and revenue	1,188,982	(527,879)	661,103
Functional Expenses			
Program	880,399	-	880,399
Management and general	51,402	-	51,402
Fundraising	66,393	-	66,393
Total functional expenses	998,194	-	998,194
Change in net assets	190,788	(527,879)	(337,091)
Net assets, beginning of year	630,885	943,034	1,573,919
Net assets, end of year	$ 821,673	$ 415,155	$ 1,236,828

Living Arts

Statement of Functional Expenses

For the Year Ended June 30, 2020

	Program							
	ISA - In School Arts	Wolf Trap	OSA	Community Programs	Total Program	Management and General	Fundraising	Total
Bad debt	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,100	$ 2,100
Bank service charges	157	378	300	38	873	762	2,322	3,957
Contract services	4,400	27,697	10,096	6,427	48,620	3,721	28,174	80,515
Costume expenses	-	-	150	26	176	-	-	176
Depreciation	-	-	57	-	57	1,352	-	1,409
Dues and subscriptions	782	2,734	1,065	422	5,003	358	80	5,441
Education	732	1,715	1,209	103	3,759	447	224	4,430
Equipment and repairs	1,229	3,550	1,666	274	6,719	213	463	7,395
Fees, licenses, and permits	3	9	5	1	18	4,321	1	4,340
Health insurance	3,356	9,861	4,784	1,016	19,017	922	1,727	21,666
Hospitality	1,116	4,095	2,213	409	7,833	1,042	501	9,376
Insurance	2,194	6,099	3,402	539	12,234	602	809	13,645
Professional services	4,670	39,019	9,038	1,270	53,997	1,665	4,431	60,093
Marketing	1,996	6,548	2,146	568	11,258	-	1,690	12,948
Office supplies	1,140	3,283	1,896	326	6,645	392	397	7,434
Payroll taxes	4,653	13,396	7,045	1,329	26,423	2,280	1,861	30,564
Postage and delivery	143	409	238	41	831	526	297	1,654
Printing and reproduction	437	1,248	1,263	125	3,073	450	2,167	5,690
Program contract labor	55,044	123,643	45,994	2,800	227,481	-	-	227,481
Program material and supplies	1,449	2,158	12,918	310	16,835	-	3	16,838
Rent and security	1,889	5,397	30,145	1,140	38,571	7,285	756	46,612
Retirement benefits	-	11	-	-	11	6,315	-	6,326
Salaries and wages	75,091	186,827	93,989	21,844	377,751	17,961	18,029	413,741
Telephone and fax	265	756	698	145	1,864	65	96	2,025
Travel	821	5,107	3,323	38	9,289	642	123	10,054
Utilities	100	287	152	29	568	23	40	631
Web and internet expense	256	778	379	80	1,493	58	102	1,653
Total functional expenses	$ 161,923	$ 445,005	$ 234,171	$ 39,300	$ 880,399	$ 51,402	$ 66,393	$ 998,194

Living Arts
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities		
Change in net assets	$	(337,091)
Items not requiring cash		
Depreciation		1,409
Bad debt		2,100
Changes in operating assets and liabilities		
Accounts receivable		28,287
Grants receivable		495,885
Pledges receivable		(5,028)
Prepaid expenses		771
Accounts payable		(21,121)
Accrued expenses		15,279
Net cash flows provided by operating activities		180,491
Cash flows from investing activities		
Purchase of property and equipment		(3,213)
Cash flows from financing activities		
PPP loan proceeds		87,000
Net change in cash and cash equivalents		264,278
Cash and cash equivalents - beginning of year		762,526
Cash and cash equivalents - end of year	$	1,026,804

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 and Revenue Recognition

The Organization's sources of support and revenue include grants, contributions, student fees, contract service fees and special events.

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the performance obligations are met. Grants and contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

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, 2020.

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.

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.

Paycheck Protection Program (PPP) Loan
The Organization accounts for the PPP loan as a financial liability in accordance with FASB ASC 470 *Debt*. Interest is accrued throughout the life of the loan, even when no payments are currently due.

Donated Goods
The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization recognized no donated supplies for the year ended June 30, 2020.

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 $2,700 for the year ending June 30, 2020.

Donated Facility
Donated facilities are recorded at the estimated fair rental value, $34,138 for the year ending June 30, 2020.

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 February 11, 2021, the date the financial statements were available to be issued.

Change in Accounting Principle
The Organization adopted ASU 2018-08 Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of the beginning of the year ended June 30, 2020. This has been adopted using the retrospective approach. Net assets did not change as a result of this change

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to clarify the principles of recognizing revenue, create common revenue recognition guidance, and improve disclosures. Accordingly, the Organization has elected to implement this standard using a full retrospective adjustment of the prior year financial statements. Net assets did not change as a result of this change

The Organization has elected to use the following practical expedients: 1) not restating contracts that began and were completed in the same annual reporting period; 2) for contracts with variable consideration, the transaction price used was that at the completion of the contract; and 3) contracts modified before the beginning of the earliest reporting period presented were not retrospectively restated for the modification.

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:

	Total
Cash	$ 1,026,804
Accounts receivable	33,438
Grants receivable	285,796
Pledges receivable	8,247
Total financial assets - end of year	$ 1,354,285
Less: Financial assets unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	415,155
Board designations:	
Amounts set aside for liquidity reserve	89,972
Financial assets available to meet cash needs for general expenditures within one year	$ 849,158

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, 2020, $777,839 was not insured.

Note 4 – Property and Equipment

Property and equipment consisted of the following at June 30, 2020:

Furniture	$ 5,035
Equipment	18,021
Computer software	6,445
Gross property and equipment	29,501
Less: accumulated depreciation	25,392
Net property and equipment	$ 4,109

Depreciation expense for the year ending June 30, 2020 totaled $1,409.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2020:

Kresge Foundation	$ 166,193
Walters Foundation	28,238
Fisher Foundation	69,280
W.K. Kellogg Foundation	99,697
United Way of Southeastern Michigan	36,221
Other	15,526
Total net assets with donor restrictions	$ 415,155

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose for the year ended June 30, 2020:

Community Foundation of Southeast MI	$ 50,000
Detroit Industrial School	612
AEG	10,000
Erb Foundation	47,500
Detroit Rotary	2,500
Fisher Foundation	173,708
Dresner Foundation	31,271
Ford Motor Company Fund	9,154
W.K. Kellogg Foundation	128,877
Kresge Foundation	111,795
Michigan Council for Arts & Cultural Affairs	12,631
NEA	6,000
PNC Foundation	3,893
United Way of Southeastern Michigan	44,923
The Village Club Foundation	3,500
Wolf Trap Foundation	1,500
Total net assets released from restrictions	$ 637,864

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:

2021	$ 20,563
2022	3,427
Total minimum payments	$ 23,990

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

Note 7 – Note Payable

Paycheck Protection Program (PPP) Loan payable to the Federal government in monthly principal installments of $4,896 plus interest at 1% through May 2022.	$ 87,000
Less current portion	(33,411)
Long-term debt, net of current portion	$ 53,589

During the fiscal year, the Organization received a Paycheck Protection Program (PPP) Loan of $87,000 funded by the Federal government through the Small Business Administration. The PPP loan and any accrued interest are forgivable after twenty four weeks as long as the borrower meets certain criteria. The loan proceeds must be used for eligible purposes, including payroll, health insurance, retirement plans, state and local taxes assessed on employee compensation, mortgage interest, rent, and utilities. The criteria also reduces loan forgiveness for certain reductions in salaries or reductions in FTEs. Receipt of funds from the Economic Injury Loan Program further reduce the amount of loan forgiveness. When final forgiveness, if any, is determined, a gain on extinguishment of debt will be realized for any forgiven amounts. There is a deferral of payments until loan forgiveness is determined or 10 months after the last day of the covered period, whichever occurs first.

Annual note maturities are scheduled as follows:

2021	$ 33,411
2022	53,589
Total long-term debt	$ 87,000

Note 8 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended June 30, 2020:

	Total
Revenue from contracts with customers	$ 183,435
Contribution revenue	471,441
Interest revenue	4,848
Other revenue	1,379
Total revenue	$ 661,103

The revenue from contracts with customers for the year ended June 30, 2020:

	Total
Revenue earned at a point in time	$ 183,435

Revenue earned at a point in time consists of various educational art programs presented at local schools and organizations throughout the state of Michigan. These programs are typically one day events and therefore the performance obligation is typically satisfied when the program is held. This is because once the program has started, no amounts are refundable. There is variable consideration for the programs depending on who is attending; however, the variable consideration is not constrained. The transaction price typically equals the sales price to host the program.

The following summarizes contract assets as of:

	June 30, 2019	June 30, 2020
Accounts receivable	$ 63,825	$ 33,438

The organization has no contract liabilities.

There were no changes in judgments related to revenue recognition for the years ended June 30, 2020.

The Organization uses the practical expedient to record revenue as if there is no significant financing component when the receivable is due within one year.

Note 9 – COVID Pandemic

In March 2020 the global COVID-19 pandemic prompted a statewide Stay at Home order that caused the Organization to close its offices and stop all in-person services. That restriction on large in-person gatherings continues (as of June 30, 2020), and the duration and lasting implications of the pandemic cannot be defined at this point. In response, the Organization pivoted to an entirely virtual model, moving all services online. The Organization has built adequate cash reserves to support operations through cash flow timing, and management does not anticipate any significant liquidity issues.