

Living Arts
Financial Statements
June 30, 2021



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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, 2021, 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, 2021, 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.

Ann Arbor, Michigan
December 9, 2021

Living Arts
Statement of Financial Position
June 30, 2021

Assets

Current assets

Cash	\$ 1,298,203
Accounts receivable	32,080
Grants receivable	88,915
Prepaid expenses	<u>10,524</u>

Total current assets 1,429,722

Other assets

Property and equipment, net	<u>2,814</u>
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Total assets \$ 1,432,536

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 28,039
Accrued expenses	20,290
PPP loan, current portion	<u>86,847</u>

Total current liabilities 135,176

Net assets

Without donor restrictions

Unrestricted	880,552
Board designated	<u>89,972</u>

Total without donor restrictions 970,524

With donor restrictions

Purpose restrictions	<u>326,836</u>
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Total net assets 1,297,360

Total liabilities and net assets \$ 1,432,536

Living Arts
Statement of Activities
For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions	\$ 85,345	\$ -	\$ 85,345
Grants	13,500	460,450	473,950
Paycheck protection program	87,000	-	87,000
In-kind contributions	6,360	-	6,360
Student fees	3,034	-	3,034
Contract service fees	119,690	-	119,690
Interest income	524	-	524
Other revenue	829	-	829
Net assets released from temporary restrictions	<u>548,769</u>	<u>(548,769)</u>	<u>-</u>
Total support and revenue	<u>865,051</u>	<u>(88,319)</u>	<u>776,732</u>
Functional Expenses			
Program	552,374	-	552,374
Management and general	39,312	-	39,312
Fundraising	<u>124,514</u>	<u>-</u>	<u>124,514</u>
Total functional expenses	<u>716,200</u>	<u>-</u>	<u>716,200</u>
Change in net assets	148,851	(88,319)	60,532
Net assets, beginning of year	<u>821,673</u>	<u>415,155</u>	<u>1,236,828</u>
Net assets, end of year	<u>\$ 970,524</u>	<u>\$ 326,836</u>	<u>\$ 1,297,360</u>

See Accompanying Notes to the Financial Statements

Living Arts
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program			Total Program	Management and General	Fundraising	Total
	ISA - In School Arts	Wolf Trap	OSA				
Bad debt	\$ 2,207	\$ -	\$ -	\$ 2,207	\$ -	\$ -	\$ 2,207
Bank service charges	73	62	191	326	942	1,884	3,152
Contract services	10,018	19,967	17,562	47,547	5,570	27,291	80,408
Depreciation	294	716	1,091	2,101	290	454	2,845
Dues and subscriptions	687	1,361	995	3,043	305	619	3,967
Education	98	198	190	486	66	120	672
Equipment and repairs	827	1,767	1,836	4,430	383	1,026	5,839
Fees, licenses, and permits	200	332	291	823	78	191	1,092
Health insurance	315	753	764	1,832	168	472	2,472
Hospitality	387	585	634	1,606	170	387	2,163
Insurance	2,458	4,728	4,549	11,735	1,100	2,908	15,743
Professional services	16,829	31,565	30,948	79,342	7,270	18,467	105,079
Marketing	1,029	1,754	2,228	5,011	116	1,054	6,181
Office supplies	895	1,699	1,823	4,417	16	1,028	5,461
Health insurance	2,044	4,890	4,963	11,897	1,095	3,065	16,057
Payroll taxes	2,840	6,796	6,898	16,534	1,522	4,260	22,316
Postage and delivery	201	335	331	867	81	193	1,141
Printing and reproduction	223	285	251	759	96	275	1,130
Program contract labor	31,818	59,636	40,640	132,094	-	700	132,794
Program material and supplies	467	760	4,939	6,166	42	206	6,414
Rent and security	2,707	5,294	6,497	14,498	1,210	7,339	23,047
Retirement benefits	638	1,527	1,549	3,714	341	957	5,012
Salaries and wages	33,783	80,839	82,045	196,667	18,098	50,675	265,440
Telephone and fax	497	1,056	1,377	2,930	243	652	3,825
Travel	84	-	76	160	-	-	160
Web and internet expense	242	481	459	1,182	110	291	1,583
Total functional expenses	\$ 111,861	\$ 227,386	\$ 213,127	\$ 552,374	\$ 39,312	\$ 124,514	\$ 716,200

See Accompanying Notes to the Financial Statements

Living Arts
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash flows from operating activities	
Change in net assets	\$ 60,532
Items not requiring cash	
Depreciation	2,845
Bad debt	2,207
Forgiveness of PPP loan	(87,000)
Changes in operating assets and liabilities	
Accounts receivable	(849)
Grants receivable	196,881
Pledges receivable	8,247
Prepaid expenses	(3,808)
Accounts payable	18,790
Accrued expenses	(11,743)
	186,102
 Cash flows from investing activities	
Purchase of property and equipment	(1,550)
 Cash flows from financing activities	
PPP loan proceeds	86,847
	271,399
Net change in cash and cash equivalents	271,399
Cash and cash equivalents - beginning of year	1,026,804
	1,298,203
Cash and cash equivalents - end of year	\$ 1,298,203

See Accompanying Notes to the Financial Statements

Living Arts
Notes to the Financial Statements
June 30, 2021

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, and Out-of-School Arts.

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, 2021.

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, 2021

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 analysis 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, 2021.

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 \$2,230 for the year ending June 30, 2021.

Donated Facility

Donated facilities are recorded at the estimated fair rental value, \$4,130 for the year ending June 30, 2021.

Living Arts
Notes to the Financial Statements
June 30, 2021

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 9, 2021, the date the financial statements were available to be issued.

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	\$ 1,298,203
Accounts receivable	32,080
Grants receivable	<u>88,915</u>
Total financial assets - end of year	1,419,198
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	326,836
Board designations:	
Amounts set aside for liquidity reserve	<u>89,972</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,002,390</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.

Living Arts
Notes to the Financial Statements
June 30, 2021

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, 2021, \$1,051,679 was not insured.

Note 4 – Property and Equipment

Property and equipment consisted of the following at June 30, 2021:

Furniture	\$ 5,035
Equipment	19,571
Computer software	<u>6,445</u>
Gross property and equipment	31,051
Less: accumulated depreciation	<u>28,237</u>
Net property and equipment	<u>\$ 2,814</u>

Depreciation expense for the year ending June 30, 2021 totaled \$2,845.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2021:

Subject to expenditure for specified purpose:

Ford Motor Company Fund - Out-of-School Arts	\$ 33,073
United Way of Southeastern Michigan - Out-of-School Arts	129,242
Other	7,798

Subject to the passage of time:

Fisher Foundation - General Operations and Wolf Trap	46,913
Kresge Foundation - General Operations and Wolf Trap	94,782
Erb Foundation - General Operations	<u>15,028</u>
Total net assets with donor restrictions	<u>\$ 326,836</u>

Living Arts
Notes to the Financial Statements
June 30, 2021

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30, 2021:

Expiration of time restrictions	
Fisher Foundation - General Operations and Wolf Trap	\$ 122,367
Kresge Foundation - General Operations and Wolf Trap	96,411
Erb Foundation - General Operations	22,822
Satisfaction of purpose restrictions	
W.K. Kellogg Foundation - Wolf Trap	128,783
Michigan Council for Arts & Cultural Affairs - Out-of-School Arts	28,990
United Way of Southeastern Michigan - Out-of-School Arts	94,479
Walters Foundation - Out-of-School Arts	27,990
Other	<u>26,927</u>
Total net assets released from restrictions	<u>\$ 548,769</u>

Note 6 – Lease Commitments

The Organization entered into a multi-year lease for program space beginning October 1, 2019 through September 30, 2022. Future minimum lease payments under this lease for the years ending June 30 are as follows:

2022	<u>\$ 5,141</u>
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Note 7 – Note Payable

During the fiscal year, the Organization received a Paycheck Protection Program (PPP) Loan of \$86,847 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.

Paycheck Protection Program (PPP) Loan payable to the Federal government, interest at 1%.	<u>\$ 86,847</u>
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Subsequent to year end the Organization received full forgiveness of the Paycheck Protection Program loan and therefore, the Organization has classified the entire amount due as current.

Living Arts
Notes to the Financial Statements
June 30, 2021

Note 8 - Revenue from Contracts with Customers

The following summarizes revenue by type for the year ended June 30, 2021:

Revenue from contracts with customers	\$ 122,724
Contribution revenue	565,655
Paycheck protection program	87,000
Interest revenue	524
Other revenue	<u>829</u>
Total revenue	<u>\$ 776,732</u>

The revenue from contracts with customers for the year ended June 30, 2021:

Revenue earned at a point in time	<u>\$ 122,724</u>
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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, 2020	June 30, 2021
Accounts receivable	<u>\$ 33,438</u>	<u>\$ 32,080</u>

The organization has no contract liabilities.

There were no changes in judgments related to revenue recognition for the years ended June 30, 2021.

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.