

**Living Arts**  
**Financial Statements**  
**June 30, 2022**



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## **Independent Auditors' Report**

To the Board of Directors of  
Living Arts  
Detroit, Michigan

### **Opinion**

We have audited the accompanying financial statements of Living Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Living Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Living Art's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered

material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Living Art's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Living Art's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Adoption of New Accounting Standards**

As described in Note 1 to the financial statements, Living Arts changed its method of accounting for contributed nonfinancial assets in 2022 as required by the provisions of FASB ASU 2020-07, *Presentation and Disclosures for Not-For-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to that matter.

Yeo & Yeo, P.C.

Ann Arbor, Michigan  
December 22, 2022

**Living Arts**  
**Statement of Financial Position**  
**June 30, 2022**

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**Assets**

Current assets

Cash	\$ 1,215,345
Accounts receivable	31,059
Grants receivable	180,915
Employee retention credit receivable	6,757
Prepaid expenses	<u>12,139</u>

Total current assets 1,446,215

Other assets

Property and equipment, net	<u>1,914</u>
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**Total assets** \$ 1,448,129

**Liabilities and Net Assets**

Current liabilities

Accounts payable	\$ 23,491
Employee retention credit payable	24,628
Accrued expenses	<u>27,581</u>

Total current liabilities 75,700

Net assets

Without donor restrictions	
Unrestricted	972,260
Board designated	<u>89,972</u>

Total without donor restrictions 1,062,232

With donor restrictions

Purpose restrictions	<u>310,197</u>
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Total net assets 1,372,429

**Total liabilities and net assets** \$ 1,448,129

**Living Arts**  
**Statement of Activities**  
**For the Year Ended June 30, 2022**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Revenue</b>			
Contributions	\$ 36,767	\$ -	\$ 36,767
Grants	56,000	493,880	549,880
Paycheck protection program	86,847	-	86,847
Employee retention credit	42,640	-	42,640
Contributions of nonfinancial assets	31,132	-	31,132
Student fees	11,120	-	11,120
Contract service fees	73,831	-	73,831
Interest income	2,121	-	2,121
Other revenue	1,110	-	1,110
Net assets released from temporary restrictions	<u>510,519</u>	<u>(510,519)</u>	<u>-</u>
Total support and revenue	<u>852,087</u>	<u>(16,639)</u>	<u>835,448</u>
<b>Functional Expenses</b>			
Program	635,221	-	635,221
Management and general	57,324	-	57,324
Fundraising	<u>67,834</u>	<u>-</u>	<u>67,834</u>
Total functional expenses	<u>760,379</u>	<u>-</u>	<u>760,379</u>
Change in net assets	91,708	(16,639)	75,069
<b>Net assets, beginning of year</b>	<u>970,524</u>	<u>326,836</u>	<u>1,297,360</u>
<b>Net assets, end of year</b>	<u>\$ 1,062,232</u>	<u>\$ 310,197</u>	<u>\$ 1,372,429</u>

See Accompanying Notes to the Financial Statements

**Living Arts**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2022**

	<b>Program</b>				<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
	<b>ISA - In School Arts</b>	<b>Wolf Trap</b>	<b>OSA - Out of School Arts</b>	<b>Total Program</b>			
Bank service charges	\$ 178	\$ 300	\$ 714	\$ 1,192	\$ 748	\$ 518	\$ 2,458
Community Performance and Event	-	-	26	26	-	-	26
Computers and software	1,049	2,199	2,243	5,491	468	1,074	7,033
Contract services	4,100	11,713	9,518	25,331	5,830	9,331	40,492
Depreciation	277	653	635	1,565	153	430	2,148
Dues and subscriptions	697	1,802	1,692	4,191	369	1,030	5,590
Education	91	216	185	492	39	93	624
Equipment and repairs	318	663	644	1,625	140	338	2,103
Fees, licenses, and permits	164	414	392	970	96	308	1,374
Hospitality	609	594	1,066	2,269	120	253	2,642
Insurance	1,699	4,103	4,033	9,835	793	2,702	13,330
Professional services	2,850	6,147	6,063	15,060	1,346	3,295	19,701
Marketing	767	1,664	2,438	4,869	544	877	6,290
Office supplies	65	86	783	934	639	17	1,590
Health insurance	3,899	8,104	7,831	19,834	1,460	3,846	25,140
Payroll taxes	5,099	9,124	8,855	23,078	1,609	2,147	26,834
Postage and delivery	97	213	211	521	50	135	706
Printing and reproduction	455	1,032	1,266	2,753	235	635	3,623
Program contract labor	25,237	68,482	54,757	148,476	156	170	148,802
Program material and supplies	414	379	18,431	19,224	-	-	19,224
Rent and security	3,008	6,840	33,491	43,339	1,487	3,721	48,547
Retirement benefits	840	1,503	1,458	3,801	264	354	4,419
Salaries and wages	76,094	103,473	114,213	293,780	40,277	35,436	369,493
Telephone and fax	908	1,853	2,088	4,849	388	879	6,116
Travel	334	9	9	352	3	2	357
Web and internet expense	266	551	547	1,364	110	243	1,717
<b>Total functional expenses</b>	<b>\$ 129,515</b>	<b>\$ 232,117</b>	<b>\$ 273,589</b>	<b>\$ 635,221</b>	<b>\$ 57,324</b>	<b>\$ 67,834</b>	<b>\$ 760,379</b>

See Accompanying Notes to the Financial Statements

**Living Arts**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2022**

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**Cash flows from operating activities**

Change in net assets	\$	75,069
Items not requiring cash		
Depreciation		2,148
Forgiveness of PPP loan		(86,847)
Changes in operating assets and liabilities		
Accounts receivable		1,021
Grants receivable		(92,000)
Employee retention credit receivable		(6,757)
Prepaid expenses		(1,615)
Accounts payable		(4,548)
Employee retention credit payable		24,628
Accrued expenses		<u>7,291</u>
Net cash flows used by operating activities		(81,610)

**Cash flows from investing activities**

Purchase of property and equipment		<u>(1,248)</u>
Net change in cash and cash equivalents		(82,858)

Cash and cash equivalents - beginning of year		<u>1,298,203</u>
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<b>Cash and cash equivalents - end of year</b>	<b>\$</b>	<b><u>1,215,345</u></b>
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**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**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, 2022.

**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.

**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**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.

During the prior 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.

Final forgiveness was determined by the SBA in September 2021. Accordingly, \$86,847 of gain on extinguishment of debt has been realized in these financial statements.

**Employee Retention Credit**

The Organization accounts for the Employee Retention Credit (ERC) by analogizing IAS 20 Accounting for Government Grants and Disclosures of Government Assistance. The ERC is treated as a government grant when there is reasonable assurance that the entity will meet the terms for earning the credit. Grants are recognized on a systematic basis over the periods in which the Organization recognizes as expenses the related costs for which the grants are intended to compensate by including them in the other income line on the statement of activities

**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**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.

**Donated Services and Goods**

The Organization records the value of donated goods as contributions using estimated fair values at the date of receipt. The Organization's policy is to utilize, rather than monetize, donated services and goods.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

**Date of Management's Review**

Management has evaluated subsequent events through December 22, 2022, which is the date the financial statements were available to be issued.

**Change in Accounting Principle**

The Organization adopted has adopted FASB ASU 2020-07, *Presentation and Disclosures for Not-For-Profit Entities for Contributed Nonfinancial Assets* as of the beginning of the year ended June 30, 2022. Net assets did not change as a result of this change.

**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**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	\$ 1,215,345
Accounts receivable	31,059
Grants receivable	180,915
Employee retention credit receivable	<u>6,757</u>
Total financial assets - end of year	1,434,076
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	310,197
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>\$ 1,033,907</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 money market funds.

**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, 2022, \$966,516 was not insured.

**Note 4 – Property and Equipment**

Property and equipment consisted of the following at June 30, 2022:

Furniture	\$ 2,596
Equipment	18,940
Computer software	<u>5,850</u>
Gross property and equipment	27,386
Less: accumulated depreciation	<u>25,472</u>
Net property and equipment	<u>\$ 1,914</u>

Depreciation expense for the year ending June 30, 2022 totaled \$2,148.

**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**Note 5 – Net Assets with Donor Restrictions**

Net assets with donor restrictions are restricted for the following purposes at June 30, 2022:

Subject to expenditure for specified purpose:

Ford Motor Company Fund - Out-of-School Arts	\$ 101,948
Michigan Council for Arts & Cultural Affairs - Out-of-School Arts	3,225
United Way of Southeastern Michigan - Out-of-School Arts	25,000
Fisher Foundation - General Operations and Wolf Trap	15,422
Joyce Foundation - Community Programs	75,000
Kresge Foundation - General Operations and Wolf Trap	74,602
MGM Resorts Foundation - Community Programs	<u>15,000</u>
Total net assets with donor restrictions	<u>\$ 310,197</u>

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, 2022:

Satisfaction of purpose restrictions	
Ford Motor Company Fund - Out-of-School Arts	\$ 81,125
Michigan Council for Arts & Cultural Affairs - Out-of-School Arts	29,291
United Way of Southeastern Michigan - Out-of-School Arts	129,242
Fisher Foundation - General Operations and Wolf Trap	131,491
Kresge Foundation - General Operations and Wolf Trap	120,180
Erb Foundation - General Operations	15,028
Other	<u>4,162</u>
Total net assets released from restrictions	<u>\$ 510,519</u>

**Note 6 – Board Designated Net Assets**

The Board of Directors of the Organization has voluntarily designated \$89,972 as of June 30, 2022, whose purpose is to fund new projects, special purchases to further business, or to fill cash shortage needs.

**Note 7 – 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:

2023	\$ <u>5,141</u>
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**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**Note 8 – Revenue from Contracts with Customers**

The following summarizes revenue by type for the year ended June 30, 2022:

Revenue from contracts with customers	\$ 84,951
Contribution revenue	617,779
Paycheck protection program	86,847
Employee retention credit	42,640
Interest revenue	2,121
Other revenue	<u>1,110</u>
Total revenue	<u>\$ 835,448</u>

The revenue from contracts with customers for the year ended June 30, 2022:

Revenue earned at a point in time	<u>\$ 84,951</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:

	July 1, 2021	June 30, 2022
Accounts receivable	<u>\$ 32,080</u>	<u>\$ 31,059</u>

The organization has no contract liabilities.

There were no changes in judgments related to revenue recognition for the years ended June 30, 2022.

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.

**Living Arts**  
**Notes to the Financial Statements**  
**June 30, 2022**

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**Note 9 – Contributed Nonfinancial Assets**

Contributed nonfinancial assets for the year ended June 30, 2022 were:

Category	Revenue Recognized	Utilization in Programs/Activities	Donor Restrictions	Valuation Techniques and Inputs
Rent	\$ 27,284	Art room, dance studio, office and storage space	No associated donor restrictions	In valuing the contributed rent, Living Arts obtained the fair value from the donor which is based on comparable rental fees charged to other tenants. Living Arts estimated the fair value on the basis of
Office supplies	608	General and administrative	No associated donor restrictions	estimates of wholesale values that would be received for selling similar products in the United States.
Services	3,240	Public relations	No associated donor restrictions	Contributed services are valued at the estimated fair value based on current rates for similar services.
Volunteer services	-	Student programs	No associated donor restrictions	Criteria for recording revenue are not met; approximately 600 man hours were donated
	<u>\$ 31,132</u>			