

ART 180, INC.

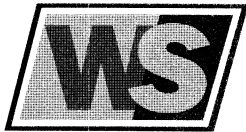
**Financial Statements and
Independent Auditor's Report**

For the Years Ended December 31, 2015 and 2014

ART 180, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ART 180, Inc.
Richmond, Virginia

We have audited the accompanying financial statements of ART 180, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets-modified cash basis as of December 31, 2015 and 2014, and the related statements of support, revenue, and expenses-modified cash basis and functional expenses-modified cash basis for the years 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of ART 180, Inc. as of December 31, 2015 and 2014, and its support, revenue, and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Emphasis of Matter

As discussed in Note 2 of the financial statements, starting in 2015, the Organization no longer recognizes services contributed by its program leaders and assistants. The accompanying 2014 financial statements have been restated to remove service contributions by program leaders and assistants.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Will D. Satchell, CPA, PC

North Chesterfield
May 23, 2016

ART 180, INC.

Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis
As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>Assets (note 6)</u>		
Current assets:		
Cash (note 8)	\$ 478,764	357,134
Certificates of deposit (notes 3 and 7)	110,907	112,001
Inventory (note 10)	5,512	7,706
Prepaid expenses and other	<u>12,265</u>	<u>1,585</u>
Total current assets	607,448	478,426
Property and equipment, net (notes 4 and 10)	421,832	429,030
Certificate of deposit (note 3)	-	10,255
Deferred loan costs, net of accumulated amortization of \$1,804	<u>-</u>	<u>3,246</u>
	<u>\$ 1,029,280</u>	<u>920,957</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Credit card payable	\$ 185	2,631
Payroll withholdings payable	7,305	6,492
Sales tax payable	885	774
Current portion of long-term debt (note 6)	<u>-</u>	<u>7,520</u>
Total current liabilities	8,375	17,417
Long-term debt, net of current portion (note 6)	<u>-</u>	<u>150,558</u>
Total liabilities	<u>8,375</u>	<u>167,975</u>
Net assets:		
Unrestricted net assets:		
Undesignated	881,724	479,038
Board designated operating reserve (note 7)	<u>100,000</u>	<u>100,000</u>
Total unrestricted net assets	981,724	579,038
Temporarily restricted net assets (note 8)	<u>39,181</u>	<u>173,944</u>
Total net assets	<u>1,020,905</u>	<u>752,982</u>
	<u>\$ 1,029,280</u>	<u>920,957</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statements of Support, Revenue, and Expenses - Modified Cash Basis
Year Ended December 31, 2015, with Comparative Totals for 2014 as restated

	2015			2014 <u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
<u>Support and Revenue</u>				
Contributions and grants (notes 9 and 11)	\$ 529,385	297,920	827,305	501,125
Contributions - in kind (note 10)	22,612	-	22,612	23,570
Sales	21,048	-	21,048	21,130
Cost of goods sold	(5,506)	-	(5,506)	(9,926)
Program service fees	7,650	-	7,650	-
Rental income	1,200	-	1,200	-
Interest income	1,193	-	1,193	1,129
Loss on disposal of equipment	(1,042)	-	(1,042)	(2,074)
Net assets released from restriction	432,683	(432,683)	-	-
	<u>1,009,223</u>	<u>(134,763)</u>	<u>874,460</u>	<u>534,954</u>
<u>Expenses (note 12)</u>				
Program services	340,397	-	340,397	311,157
Support services:				
Management and general	108,565	-	108,565	101,338
Fund-raising	157,575	-	157,575	135,087
	<u>606,537</u>	<u>-</u>	<u>606,537</u>	<u>547,582</u>
Change in net assets	402,686	(134,763)	267,923	(12,628)
Net assets, beginning of year	<u>579,038</u>	<u>173,944</u>	<u>752,982</u>	<u>765,610</u>
Net assets, end of year	<u>\$ 981,724</u>	<u>39,181</u>	<u>1,020,905</u>	<u>752,982</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statements of Support, Revenue, and Expenses - Modified Cash Basis
Year Ended December 31, 2014 as restated

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenue</u>			
Contributions and grants (notes 9 and 11)	\$ 252,668	248,457	501,125
Contributions - in kind (note 10)	23,570	-	23,570
Sales	21,130	-	21,130
Cost of goods sold	(9,926)	-	(9,926)
Interest income	1,129	-	1,129
Loss on disposal of equipment	(2,074)	-	(2,074)
Net assets released from restriction	<u>227,426</u>	<u>(227,426)</u>	<u>-</u>
Total support and revenue	<u>513,923</u>	<u>21,031</u>	<u>534,954</u>
<u>Expenses (note 12)</u>			
Program services	311,157	-	311,157
Support services:			
Management and general	101,338	-	101,338
Fund-raising	<u>135,087</u>	<u>-</u>	<u>135,087</u>
Total expenses	<u>547,582</u>	<u>-</u>	<u>547,582</u>
Change in net assets	(33,659)	21,031	(12,628)
Net assets, beginning of year	<u>612,697</u>	<u>152,913</u>	<u>765,610</u>
Net assets, end of year	<u>\$ 579,038</u>	<u>173,944</u>	<u>752,982</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statements of Functional Expenses - Modified Cash Basis
Year Ended December 31, 2015, with Comparative Totals for 2014 as restated

	2015			2014	
	Program Services	Management and General	Fund-raising	Total	Total
Payroll and related expenses:					
Salaries and wages	\$ 145,770	66,763	79,007	291,540	271,233
Stipends for program leaders and assistants	55,640	-	-	55,640	40,800
Payroll taxes	11,029	5,051	5,978	22,058	18,926
Training	2,220	-	-	2,220	2,370
Employee health insurance	15,145	6,936	8,208	30,289	24,466
Small employer health care tax credit	(3,204)	(1,468)	(1,737)	(6,409)	(1,646)
Total payroll and related expenses	226,600	77,282	91,456	395,338	356,149
Advertising and marketing	992	-	7,647	8,639	-
Bank and merchant card fees	-	779	2,381	3,160	1,623
Board and volunteer expense	3,145	710	841	4,696	4,303
Bookkeeping and payroll services	517	6,604	280	7,401	9,049
Business insurance	1,696	777	920	3,393	3,252
Condominium association dues	3,732	1,709	2,023	7,464	5,731
Conferences and meetings	13,042	1,441	2,333	16,816	4,411
Contracted services	-	-	21,000	21,000	24,875
Depreciation and amortization	10,324	4,728	5,596	20,648	19,779
Dues and subscriptions	661	303	358	1,322	1,844
Interest	687	315	372	1,374	4,901
Maintenance and repairs	2,643	1,211	1,432	5,286	1,145
Office	1,610	3,270	873	5,753	6,042
Postage and mailing	4,587	579	1,713	6,879	7,463
Printing (note 10)	10,783	808	8,434	20,025	14,711
Professional	-	3,519	-	3,519	4,000
Program materials and supplies	16,493	-	-	16,493	24,277
Other program expenses	25,983	-	-	25,983	24,557
Software and website maintenance	731	334	983	2,048	3,655
Special events	4,190	-	4,191	8,381	6,125
Taxes and licenses	1,116	700	605	2,421	3,074
Telephone	2,690	1,232	1,458	5,380	4,966
Travel	6,279	1,395	1,651	9,325	8,690
Utilities	1,896	869	1,028	3,793	2,960
	\$ 340,397	108,565	157,575	606,537	547,582

See accompanying notes and independent auditor's report.

ART 180, INC.

Statements of Functional Expenses - Modified Cash Basis
Year Ended December 31, 2014 as restated

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
Payroll and related expenses:				
Salaries and wages	\$ 136,702	61,027	73,504	271,233
Stipends for program leaders and assistants	40,800	-	-	40,800
Payroll taxes	9,539	4,258	5,129	18,926
Training	2,370	-	-	2,370
Employee health insurance	12,331	5,505	6,630	24,466
Small employer health care tax credit	<u>(830)</u>	<u>(370)</u>	<u>(446)</u>	<u>(1,646)</u>
 Total payroll and related expenses	 200,912	 70,420	 84,817	 356,149
 Bank and merchant card fees	 -	 10	 1,613	 1,623
Board and volunteer expense	2,938	620	745	4,303
Bookkeeping and payroll services	539	8,220	290	9,049
Business insurance	1,639	732	881	3,252
Condominium association dues	2,888	1,289	1,554	5,731
Conferences and meetings	2,121	946	1,344	4,411
Contracted services	3,584	1,221	20,070	24,875
Depreciation and amortization	9,969	4,450	5,360	19,779
Dues and subscriptions	929	415	500	1,844
Interest	2,470	1,103	1,328	4,901
Maintenance and repairs	577	258	310	1,145
Office	3,045	1,359	1,638	6,042
Postage and mailing	3,935	808	2,720	7,463
Printing (note 10)	10,734	1,109	2,868	14,711
Professional	-	4,000	-	4,000
Program materials and supplies	24,277	-	-	24,277
Other program expenses	24,557	-	-	24,557
Software and website maintenance	1,135	506	2,014	3,655
Special events	3,604	-	2,521	6,125
Taxes and licenses	1,486	789	799	3,074
Telephone	2,503	1,117	1,346	4,966
Travel	5,823	1,300	1,567	8,690
Utilities	<u>1,492</u>	<u>666</u>	<u>802</u>	<u>2,960</u>
	 <u>\$ 311,157</u>	 <u>101,338</u>	 <u>135,087</u>	 <u>547,582</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Notes to Financial Statements Years Ended December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

ART 180, Inc. (the "Organization") is a Virginia nonprofit corporation formed in 1998. The Organization's mission is to give young people in the Richmond, Virginia metropolitan area the chance to express themselves through art, and to share their stories with others.

The Organization's major classes of programs consist of community-based after-school art programs conducted at various school and other partner organization sites around the area, and Atlas-based art programs conducted at the Atlas Art Center for Teens located in the Organization's premises in the downtown arts and culture district.

(b) Basis of Accounting

The financial statements of the Organization have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, support and revenue are recognized in the period received and expenses are generally recognized in the period paid. The primary modifications to the cash basis are the capitalization of inventory and prepaid expenses, the capitalization and depreciation of property and equipment, the amortization of long-term debt and deferred loan costs, and the reporting of certain in-kind contributions.

(c) Financial Statement Presentation

The financial statement presentation conforms to the requirements of the Financial Accounting Standards Board ("FASB") as defined in the FASB Accounting Standards Codification ("ASC") Topic 958, "*Not-for-Profit Entities*". Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classifications are based on the existence or absence of donor-imposed restrictions.

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Within the unrestricted net asset class, the Board of Directors may designate funds for specific purposes (see note 7).

The Organization reports gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 reported in the statement of support, revenue, and expenses-modified cash basis as net assets released from restriction.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as an endowment. The Organization had no permanently restricted net assets in 2015 or 2014.

The Organization reports its expenses by their functional classification. Certain expenses have been allocated among the programs and supporting services benefited.

ART 180, INC.

Notes to Financial Statements
Years Ended December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (continued)

(c) Financial Statement Presentation (continued)

Program services are the activities that result in goods and services being provided to beneficiaries and customers that fulfill the mission for which the Organization exists.

Management and general services include oversight, business management, general recordkeeping, budgeting, financing, and all management and administration except for direct conduct of program services or fund-raising activities.

Fund-raising activities include publicizing and conducting fund-raising campaigns, maintaining donor mailing lists, conducting special fund-raising events, and other activities involved with soliciting contributions.

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Certificates of Deposit

Certificates of deposit with original maturities in excess of three months are reported at cost plus accrued interest.

(f) Inventory

Inventory consists of calendars, coloring books, and other art related items held for sale, and is stated at the lower of cost, as determined using the average cost method, and net realizable value.

(g) Property and Equipment

Property and equipment are recorded at cost if purchased or fair value at the date of donation if contributed. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Assets donated without explicit restrictions regarding their use are recorded as unrestricted support.

Depreciation is provided using the straight-line method over the estimated useful lives of assets of three to thirty-nine years.

ART 180, INC.

Notes to Financial Statements
Years Ended December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (continued)

(h) Deferred Loan Costs

Certain loan origination costs incurred for the Organization's mortgage loan (see note 6) are deferred and amortized straight-line over the term of the loan.

(i) In-kind Contributions

Contributed inventory, materials, supplies, and use of facilities are reported as support and expenses in the period received at estimated fair value when determinable.

Unskilled volunteer services neither create nor enhance nonfinancial assets nor do they require specialized skills, and thus are not recognized as support, assets or expense in the financial statements.

Contributions of services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded as support and expenses at estimated fair value when determinable, except for services contributed by the Organization's program leaders and assistants, which are not recognized.

(j) Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 58.1-401.5 of the Code of Virginia, except for taxes on unrelated business income as defined under IRC Sections 511 through 515, and is classified by the Internal Revenue Service as an organization that is not a private foundation. There was no unrelated business income for 2015 and 2014; accordingly, no provision for income taxes is made in the financial statements.

ASC Topic 740, "Income Taxes", requires income tax benefits to be recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. As the Organization reports on the modified cash basis of accounting, any adjustments made by tax authorities are recorded when paid.

The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the Virginia Department of Taxation. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial statements.

The Organization's income tax returns are subject to examination by federal and Virginia tax authorities. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by tax authorities for years before 2012.

(k) Reclassifications

Certain reclassifications have been made to 2014 reported amounts to conform to the 2015 presentation.

ART 180, INC.

Notes to Financial Statements Years Ended December 31, 2015 and 2014

(2) Change in Accounting Principle

Prior to 2015, the Organization had reported contributions of services by its program leaders and assistants as support and expenses at estimated fair value. Due to the increasing difficulty of estimating the fair value of these contributions, in 2015 the Organization decided to stop recognizing services contributed by its program leaders and assistants. The Organization considers these contributed program services as an essential component of meeting its mission.

The accompanying 2014 financial statements have been restated for this change, resulting in a \$44,627 reduction of contributions and stipends expense for program leaders and assistants. The change had no effect on reported net assets at December 31, 2014 or 2013.

(3) Certificates of Deposit

The Organization holds certificates of deposit totaling \$110,907 and \$122,256 at December 31, 2015 and 2014, respectively. The certificates bear interest at rates ranging from 0.4% to 0.947% per annum and have maturity dates from May 11, 2016 to June 6, 2016. Interest earned on the certificates of deposit was \$834 and \$404 in 2015 and 2014, respectively.

(4) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 48,497	48,497
Building and improvements	370,893	370,893
Office and other equipment	39,278	31,346
Software	13,427	13,427
Furniture and fixtures	<u>25,295</u>	<u>23,766</u>
	497,390	487,929
Less accumulated depreciation	<u>(75,558)</u>	<u>(58,899)</u>
Property and equipment, net	\$ <u>421,832</u>	<u>429,030</u>

The Organization owns an office condominium unit located at 112, 114 and 116 W. Marshall Street, Richmond, Virginia in which it conducts program and office activities.

(5) Bank Line-of-Credit

In 2015, the Organization opened a \$100,000 unsecured line of credit with a bank (the "Line") which is subject to annual review and renewal beginning September 9, 2016. There were no borrowings against the Line at December 31, 2015. The Line bears interest at the bank's prime lending rate plus 2%. No interest expense was incurred or paid on the Line in 2015.