

ART 180, INC.

**Financial Statements and
Independent Auditors' Report**

For the Years Ended December 31, 2019 and 2018

ART 180, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of ART 180, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows 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 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 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 AUDITORS' 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, 2019 and 2018, and its support, revenue, and expenses for the years then ended in accordance with generally accepted accounting principles.

North Chesterfield, Virginia
May 20, 2020

ART 180, INC.

Statement of Financial Position
As of December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 733,644	\$ 789,212
Promises to Give	43,657	105,000
Inventory	2,095	2,692
Prepaid expenses and other	<u>4,158</u>	<u>2,996</u>
Total current assets	783,554	899,900
Property and equipment, net (note 2)	<u>572,297</u>	<u>594,858</u>
	<u><u>\$ 1,355,851</u></u>	<u><u>\$ 1,494,758</u></u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 11,188	\$ 2,794
Accrued expenses	35,538	9,182
Payroll withholdings payable	9,592	10,163
Sales tax payable	<u>614</u>	<u>456</u>
Total current liabilities	<u>56,932</u>	<u>22,595</u>
Net assets:		
Without donor restrictions:		
Undesignated	1,076,119	1,095,545
Board designated operating reserve (note 4)	<u>100,000</u>	<u>100,000</u>
Total unrestricted net assets	1,176,119	1,195,545
With donor restrictions (note 5)	<u>122,800</u>	<u>276,618</u>
Total net assets	<u>1,298,919</u>	<u>1,472,163</u>
	<u><u>\$ 1,355,851</u></u>	<u><u>\$ 1,494,758</u></u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Activities
Year Ended December 31, 2019, with Comparative Totals for 2018

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<u>Support and Revenue</u>				
Contributions and grants (notes 6 and 8)	\$ 539,841	362,979	902,820	\$ 997,467
Contributions - in kind (note 7)	9,349	-	9,349	5,268
Sales	14,187	-	14,187	18,404
Cost of goods sold	(4,895)	-	(4,895)	(1,202)
Program service fees	44,455	-	44,455	23,673
Special events income	10,845	-	10,845	7,849
Losses on disposals of equipment	(3,037)	-	(3,037)	-
Interest income	6,512	-	6,512	3,760
Net assets released from restriction	516,797	(516,797)	-	-
	1,134,054	(153,818)	980,236	1,055,219
<u>Expenses (note 9)</u>				
Program services	739,133	-	739,133	708,273
Support services:				
Management and general	167,114	-	167,114	203,519
Fund-raising	247,233	-	247,233	191,786
	1,153,480	-	1,153,480	1,103,578
Change in net assets	(19,426)	(153,818)	(173,244)	(48,359)
Net assets, beginning of year	1,195,545	276,618	1,472,163	1,520,522
Net assets, end of year	\$ 1,176,119	122,800	1,298,919	\$ 1,472,163

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Activities
Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<u>Support and Revenue</u>			
Contributions and grants (notes 6 and 8)	\$ 514,375	485,492	997,467
Contributions - in kind (note 7)	2,868	-	5,268
Sales	18,404	-	18,404
Cost of goods sold	(1,202)	-	(1,202)
Program service fees	23,673	-	23,673
Special events income	7,849	-	7,849
Losses on disposals of equipment	-	-	-
Interest income	3,760	-	3,760
Net assets released from restriction	<u>687,207</u>	<u>(687,207)</u>	<u>-</u>
Total support and revenue	<u>1,256,934</u>	<u>(201,715)</u>	<u>1,055,219</u>
<u>Expenses (note 9)</u>			
Program services	708,273	-	708,273
Support services:			
Management and general	203,519	-	203,519
Fund-raising	<u>191,786</u>	<u>-</u>	<u>191,786</u>
Total expenses	<u>1,103,578</u>	<u>-</u>	<u>1,103,578</u>
Change in net assets	153,356	(201,715)	(48,359)
Net assets, beginning of year	<u>1,042,189</u>	<u>478,333</u>	<u>1,520,522</u>
Net assets, end of year	<u>\$ 1,195,545</u>	<u>276,618</u>	<u>1,472,163</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Functional Expenses
Year Ended December 31, 2019, with Comparative Totals for 2018

	2019				2018
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>	<u>Total</u>
Payroll and related expenses:					
Salaries and wages	\$ 313,978	118,536	145,713	578,227	\$ 538,763
Stipends for program leaders and assistants	94,313	-	-	94,313	87,160
Payroll taxes	17,581	6,637	8,159	32,377	34,791
Training	1,565	-	-	1,565	1,801
Employee health insurance	20,605	7,779	9,562	37,946	45,159
Total payroll and related expenses	448,042	132,952	163,434	744,428	707,674
Bank and merchant card fees	-	446	2,401	2,847	4,751
Board and volunteer expense	2,064	676	831	3,571	2,567
Bookkeeping and payroll services	1,136	429	527	2,092	2,723
Business insurance	1,629	615	756	3,000	7,206
Condominium association dues	6,795	2,565	3,154	12,514	12,043
Conferences and meetings	5,549	2,095	2,685	10,329	7,509
Contracted services	134,763	-	47,023	181,786	164,892
Depreciation	11,813	4,460	5,482	21,755	22,039
Dues and subscriptions	1,860	702	863	3,425	3,290
Maintenance and repairs	2,077	784	964	3,825	2,928
Office and other	1,966	3,731	913	6,610	7,079
Postage and mailing	962	501	850	2,313	6,097
Printing	6,127	1,061	2,836	10,024	9,018
Professional	-	5,064	-	5,064	5,083
Program materials and supplies	13,824	-	-	13,824	11,542
Program food and catering	12,860	-	-	12,860	13,771
Other program expenses	52,293	-	-	52,293	39,718
Software and website maintenance	4,987	1,882	6,186	13,055	13,622
Special events	5,142	-	5,142	10,284	20,938
Taxes and licenses	1,059	631	491	2,181	5,267
Telephone	3,414	1,289	1,585	6,288	6,828
Travel	18,379	3,448	-	21,827	20,194
Utilities	2,392	3,783	1,110	7,285	6,799
	\$ 739,133	167,114	247,233	1,153,480	\$ 1,103,578

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
Payroll and related expenses:				
Salaries and wages	\$ 294,704	137,923	106,136	538,763
Stipends for program leaders and assistants	87,160	-	-	87,160
Payroll taxes	19,031	8,907	6,853	34,791
Training	1,801	-	-	1,801
Employee health insurance	24,702	11,561	8,896	45,159
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Total payroll and related expenses	427,398	158,391	121,885	707,674
Advertising and marketing	-	-	-	-
Bank and merchant card fees	-	2,309	2,442	4,751
Board and volunteer expense	1,458	627	482	2,567
Bookkeeping and payroll services	1,490	697	536	2,723
Business insurance	3,942	1,844	1,420	7,206
Condominium association dues	6,588	3,083	2,372	12,043
Conferences and meetings	3,953	1,850	1,706	7,509
Contracted services	134,243	-	30,649	164,892
Depreciation	12,055	5,642	4,342	22,039
Dues and subscriptions	1,800	842	648	3,290
Interest	-	-	-	-
Maintenance and repairs	1,602	749	577	2,928
Office and other	2,458	3,736	885	7,079
Postage and mailing	2,193	1,352	2,552	6,097
Printing	5,398	1,518	2,102	9,018
Professional	-	5,083	-	5,083
Program materials and supplies	11,542	-	-	11,542
Program food and catering	13,771	-	-	13,771
Other program expenses	39,718	-	-	39,718
Software and website maintenance	5,489	2,569	5,564	13,622
Special events	10,469	-	10,469	20,938
Taxes and licenses	2,881	1,348	1,038	5,267
Telephone	3,735	1,748	1,345	6,828
Travel	13,946	6,248	-	20,194
Utilities	2,144	3,883	772	6,799
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	\$ 708,273	203,519	191,786	1,103,578
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See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Cash Flows
Year Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (173,244)	\$ (48,359)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	21,755	22,039
Losses on disposals of equipment	3,037	-
Decrease (Increase) in promises to give	61,343	88,885
Decrease (Increase) in inventory	597	463
Decrease (Increase) in prepaid expenses	(1,162)	(1,019)
Increase (Decrease) in accounts payable	8,394	(5,188)
Increase (Decrease) in accrued expenses	26,356	3,094
Increase (Decrease) in payroll withholdings payable	(571)	(711)
Increase (Decrease) in sales tax payable	158	(42)
	<u>(53,337)</u>	<u>59,162</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(2,231)	(2,328)
Proceeds from sale of equipment	-	-
Maturities of certificates of deposit	-	-
	<u>(2,231)</u>	<u>(2,328)</u>
Net cash used in investing activities		
Net increase in cash	(55,568)	56,834
Cash, beginning of year	<u>789,212</u>	<u>732,378</u>
Cash, end of year	<u>\$ 733,644</u>	<u>\$ 789,212</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Notes to Financial Statements Years Ended December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

ART 180, Inc. ("ART 180") is a Virginia nonprofit corporation formed in 1998. ART 180'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.

ART 180 creates and provides art-related programs for young people living in challenging circumstances, encouraging personal and community change through self-expression.

ART 180'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 ART 180's premises in the downtown arts and culture district.

(b) Basis of Accounting

The financial statements of ART 180 have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles and, accordingly, reflect all significant receivables, prepaid expenses, payables and other accrued expenses.

(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, ART 180 is required to report information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. These classifications are based on the existence or absence of donor-imposed restrictions.

ART 180 reports gifts as without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Within the without donor restriction net asset class, the Board of Directors may designate funds for specific purposes (see note 4).

ART 180 reports gifts as donor 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, donor restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenue, and expenses as net assets released from restriction.

ART 180 reports its expenses by their functional classification. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and occupancy expenses.

ART 180, INC.

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

(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 community clients that fulfill the mission for which ART 180 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) Promises to Give

Promises to give are reported at net realizable value. As of December 31, 2018 and 2017, all outstanding grants receivable are expected to be fully collected within one year, therefore no allowance for doubtful receivables has been established.

(f) Liquidity Management

ART 180 is primarily funded by contributions from donors and many contain restrictions. Those restrictions require that resources be used in a certain manner in a future period. Therefore, ART 180 must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, ART 180 has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations become due. ART 180 also invests its cash in excess of its daily needs in a money market account. The Board of Directors occasionally designates amounts to its liquidity reserves that could be utilized in the event of an unanticipated liquidity need. ART 180 could also draw upon a \$100,000 available line of credit (as discussed in note 3).

(g) 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.

ART 180, INC.

Notes to Financial Statements Years Ended December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (continued)

(h) Property and Equipment

Property and equipment with a useful life of more than one year and an acquisition cost of \$5,000 or more will be capitalized and are recorded at cost if purchased or fair value at the date of donation if contributed. The Organization will expense the full acquisition cost of tangible personal property below the above thresholds in the year of purchase or donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, ART 180 reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ART 180 reclassifies net assets with donor restrictions to net assets without donor restrictions 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.

(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.

(j) Income Taxes

ART 180 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 were no unrelated business income for 2018 or 2017; accordingly, no provision for income taxes have been 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 ART 180 reports on the accrual basis of accounting, any adjustments made by tax authorities are recorded when assessed.

ART 180, INC.

Notes to Financial Statements Years Ended December 31, 2019 and 2018

(1) Summary of Significant Accounting Policies (continued)

(j) Income Taxes (continued)

ART 180 has analyzed tax positions taken for filing with the Internal Revenue Service and the Virginia Department of Taxation. ART 180 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 ART 180's financial statements.

ART 180's income tax returns are subject to examination by federal and Virginia tax authorities. With few exceptions, ART 180 is no longer subject to U.S. federal tax examinations by tax authorities for years before 2014.

(2) Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Land	\$ 102,906	\$ 102,906
Building and improvements	537,572	537,571
Office and other equipment	42,054	46,834
Software	13,790	13,790
Furniture and fixtures	<u>25,716</u>	<u>25,716</u>
	722,038	726,817
Less accumulated depreciation	<u>(149,741)</u>	<u>(131,959)</u>
Property and equipment, net	\$ <u>572,297</u>	\$ <u>594,858</u>

ART 180 owns office condominium units located at 110, 112, 114 and 116 W. Marshall Street, Richmond, Virginia in which it conducts program and office activities.

(3) Bank Line-of-Credit

ART 180 has a \$100,000 unsecured line of credit with a bank (the "Line") which is subject to annual review and renewal on September 9, 2020. There were no borrowings against the Line at December 31, 2019 or 2018. The Line bears interest at the bank's prime lending rate plus 2%. No interest expense was incurred or paid on the Line in 2019 or 2018.

(4) Board Designated Operating Reserve

The Board designated operating reserve of \$100,000 at December 31, 2019 and 2018 consists of unrestricted funds held in a bank demand deposit account, and is currently available for operating costs of ART 180, but expendable only with the express consent of the Board of Directors.

ART 180, INC.

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

(5) Net Assets With Donor Restrictions

Donor restricted net assets consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Cash	\$ 79,143	\$ 171,618
Grants receivable – time restricted	<u>43,657</u>	<u>105,000</u>
	<u>\$ 122,800</u>	<u>\$ 276,618</u>

(6) Neighborhood Assistance Program

ART 180 was approved by the Virginia Department of Education to participate in the Neighborhood Assistance Act Tax Credit Program for Education (“NAP”) for the program years ending June 30, 2020, 2019, 2018 and 2017. Under the NAP, Virginia income tax credits are available to qualifying donors to ART 180.

ART 180 received total approved NAP contributions of \$224,048 and \$205,441 for the years ended December 31, 2019 and 2018. ART 180 intends to apply to participate in the NAP for the year ending June 30, 2021.

(7) In-kind Contributions

ART 180 received the following in-kind contributions for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Materials and supplies	\$ 6,535	\$ 1,868
Professional Services	-	-
Program services	<u>2,814</u>	<u>1,000</u>
	<u>\$ 9,349</u>	<u>\$ 2,868</u>

(8) Related Party Transactions

Contributions in the accompanying statements of activities include donations from members of ART 180’s Board of Directors of \$44,924 for 2019 and \$36,582 for 2018. Several employees also contributed to ART 180 in 2019 and 2018.

ART 180, INC.

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

(9) Allocation of Joint Costs

In 2019 and 2018, ART 180 conducted activities that included requests for contributions, as well as program and management and general components. Those activities included certain special events and the production of the annual report. The costs of conducting those activities included a total of \$11,632 and \$12,968 of joint costs which are not specifically attributable to particular components of the activities for 2019 and 2018. These joint costs were allocated as follows:

	<u>2019</u>	<u>2018</u>
Programs	\$ 4,902	\$ 4,896
Management and general	914	1,589
Fund-raising	<u>5,816</u>	<u>6,484</u>
	<u>\$ 11,632</u>	<u>\$ 12,968</u>

(10) Concentrations

Contributions received under the Virginia NAP (note 6) constituted 22.92% and 19.4% of 2019 and 2018 revenue and support, respectively.

ART 180 maintains its cash balances at banks insured by the Federal Deposit Insurance Corporation ("FDIC"). ART 180 had \$232,988 and \$288,783 of cash balances in excess of FDIC insured limits at December 31, 2019 and 2018, respectively.

(11) 403(b) Retirement Plan

ART 180 has adopted a 403(b) Retirement Plan wherein employees may elect to defer compensation on a pre-tax basis. Participant deferrals for 2019 and 2018 are limited to a maximum of \$19,000 and \$18,500 (\$25,000 and \$24,500 for those ages 50 and over), respectively. All employees are eligible to participate. ART 180 made no matching contributions to the 403(b) Retirement Plan in 2019 or 2018.

(12) Subsequent Events

ART 180 has evaluated all subsequent events through May 20, 2020, the date the financial statements were available to be issued.