

ART 180, INC.

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

For the Year Ended December 31, 2017

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 statement of financial position as of December 31, 2017, 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 the 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 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 financial position of ART 180, Inc. as of December 31, 2017, 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.

Emphasis of Matter

We draw attention to Note 12 of the financial statements, which describes the Organization's change in its overall basis of accounting from the modified cash basis to the accrual basis in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Will D. Sathum, CPA, PC

North Chesterfield, Virginia
May 25, 2018

ART 180, INC.

Statement of Financial Position
As of December 31, 2017

Assets

Current assets:	
Cash (notes 4 and 5)	\$ 732,378
Grants receivable (note 5)	193,885
Inventory	3,155
Prepaid expenses and other	<u>1,977</u>
Total current assets	931,395
Property and equipment, net (note 2)	<u>614,569</u>
	<u>\$ 1,545,964</u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 7,982
Accrued expenses	6,088
Payroll withholdings payable	10,874
Sales tax payable	<u>498</u>
Total current liabilities	<u>25,442</u>
Net assets:	
Unrestricted net assets:	
Undesignated	942,189
Board designated operating reserve (note 4)	<u>100,000</u>
Total unrestricted net assets	1,042,189
Temporarily restricted net assets (note 5)	<u>478,333</u>
Total net assets	<u>1,520,522</u>
	<u>\$ 1,545,964</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Activities
Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenue</u>			
Contributions and grants (notes 6 and 8)	\$ 492,383	530,311	1,022,694
Contributions - in kind (note 7)	17,633	-	17,633
Sales	10,207	-	10,207
Cost of goods sold	(2,291)	-	(2,291)
Program service fees	8,909	-	8,909
Special events income	2,799	-	2,799
Losses on disposals of equipment	(122)	-	(122)
Interest income	1,101	-	1,101
Net assets released from restriction	<u>411,978</u>	<u>(411,978)</u>	<u>-</u>
Total support and revenue	<u>942,597</u>	<u>118,333</u>	<u>1,060,930</u>
<u>Expenses (note 9)</u>			
Program services	590,201	-	590,201
Support services:			
Management and general	193,188	-	193,188
Fund-raising	<u>193,268</u>	<u>-</u>	<u>193,268</u>
Total expenses	<u>976,657</u>	<u>-</u>	<u>976,657</u>
Change in net assets	(34,060)	118,333	84,273
Net assets, beginning of year	<u>1,076,249</u>	<u>360,000</u>	<u>1,436,249</u>
Net assets, end of year	<u>\$ 1,042,189</u>	<u>478,333</u>	<u>1,520,522</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Functional Expenses
Year Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
Payroll and related expenses:				
Salaries and wages	\$ 222,154	126,880	102,498	451,532
Stipends for program leaders and assistants	107,823	-	-	107,823
Payroll taxes	16,944	9,677	7,818	34,439
Training	1,391	-	-	1,391
Employee health insurance	20,078	11,468	9,264	40,810
Total payroll and related expenses	368,390	148,025	119,580	635,995
Advertising and marketing	2,328	-	-	2,328
Bank and merchant card fees	-	668	1,684	2,352
Board and volunteer expense	1,823	696	562	3,081
Bookkeeping and payroll services	912	521	421	1,854
Business insurance	2,160	1,234	997	4,391
Condominium association dues	4,437	2,534	2,047	9,018
Conferences and meetings	3,943	2,257	2,242	8,442
Contracted services	100,283	466	37,696	138,445
Depreciation	9,999	5,711	4,613	20,323
Dues and subscriptions	1,027	586	474	2,087
Interest	45	26	21	92
Maintenance and repairs	852	486	393	1,731
Office and other	1,522	8,265	702	10,489
Postage and mailing	4,320	2,438	3,069	9,827
Printing	5,395	380	2,952	8,727
Professional	-	12,252	-	12,252
Program materials and supplies	18,844	-	-	18,844
Program food and catering	15,957	-	-	15,957
Other program expenses	12,035	-	-	12,035
Software and website maintenance	4,394	2,509	7,016	13,919
Special events	5,458	-	5,458	10,916
Taxes and licenses	562	321	260	1,143
Telephone	3,487	1,991	1,609	7,087
Travel	18,838	-	-	18,838
Utilities	3,190	1,822	1,472	6,484
	<u>\$ 590,201</u>	<u>193,188</u>	<u>193,268</u>	<u>976,657</u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 84,273
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	20,323
Losses on disposals of equipment	122
Decrease in grants receivable	149,585
Increase in inventory	(20)
Decrease in prepaid expenses	5,144
Decrease in accounts payable	(5,545)
Decrease in accrued expenses	(971)
Decrease in payroll withholdings payable	(197)
Decrease in sales tax payable	<u>(258)</u>
Net cash provided by operating activities	<u>252,456</u>
Cash flows from investing activities:	
Purchases of property and equipment	(221,511)
Proceeds from sale of equipment	700
Maturities of certificates of deposit	<u>101,602</u>
Net cash used in investing activities	<u>(119,209)</u>
Net increase in cash	133,247
Cash, beginning of year	<u>599,131</u>
Cash, end of year	\$ <u><u>732,378</u></u>
Supplemental cash flow disclosure:	
Interest paid	\$ <u><u>92</u></u>

See accompanying notes and independent auditor's report.

ART 180, INC.

Notes to Financial Statements Year Ended December 31, 2017

(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'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 three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classifications are based on the existence or absence of donor-imposed restrictions.

ART 180 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 4).

ART 180 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. ART 180 had no permanently restricted net assets in 2017.

ART 180 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
Year Ended December 31, 2017

(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 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) Grants Receivable

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

(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, 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 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
Year Ended December 31, 2017

(1) Summary of Significant Accounting Policies (continued)

(h) 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.

(i) 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 was no unrelated business income for 2017; 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 ART 180 reports on the accrual basis of accounting, any adjustments made by tax authorities are recorded when assessed.

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.

ART 180, INC.

Notes to Financial Statements Year Ended December 31, 2017

(2) Property and Equipment

Property and equipment consists of the following at December 31, 2017:

Land	\$ 102,906
Building and improvements	537,572
Office and other equipment	44,927
Software	13,790
Furniture and fixtures	<u>25,295</u>
	724,490
Less accumulated depreciation	<u>(109,921)</u>
Property and equipment, net	\$ <u>614,569</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, 2018. There were no borrowings against the Line at December 31, 2017. The Line bears interest at the bank's prime lending rate plus 2%. No interest expense was incurred or paid on the Line in 2017.

(4) Board Designated Operating Reserve

The Board designated operating reserve of \$100,000 at December 31, 2017 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.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets of \$478,333 at December 31, 2017 consist of \$288,333 of cash and \$190,000 in grants receivable restricted for programs scheduled for the following year.

(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 running from July 1, 2016 through June 30, 2017 and from July 1, 2017 through June 30, 2018. Under the NAP, Virginia income tax credits are available to qualifying donors to ART 180. In 2017, ART 180 received total approved NAP contributions of \$158,556. ART 180 intends to apply to participate in the NAP for the year ending June 30, 2019.

ART 180, INC.

Notes to Financial Statements
Year Ended December 31, 2017

(7) In-kind Contributions

Donated materials and supplies valued at \$4,904 for 2017 are included in contributions and in printing, food and catering expenses in the accompanying 2017 financial statements.

Donated services valued at \$12,729 are included in contributions and in professional and other program expenses in the 2017 statement of activities.

(8) Related Party Transactions

Contributions in the accompanying 2017 statement of activities include donations from members of ART 180's Board of Directors of \$33,781.

(9) Allocation of Joint Costs

In 2017, 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 \$8,172 of joint costs which are not specifically attributable to particular components of the activities for 2017. These joint costs were allocated as follows:

Programs	\$ 2,530
Management and general	1,556
Fund-raising	<u>4,086</u>
	\$ <u>8,172</u>

(10) Concentrations

A foundation contributed 19% of revenue and support in 2017.

Contributions received under the Virginia NAP (note 6) constituted 15% of 2017 revenue and support.

ART 180 maintains its cash balances at banks insured by the Federal Deposit Insurance Corporation ("FDIC"). ART 180 had \$482,111 of cash balances in excess of FDIC insured limits at December 31, 2017.

(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 2017 are limited to a maximum of \$18,000 (\$24,000 for those ages 50 and over). All employees are eligible to participate. ART 180 made no 2017 matching contributions to the 403(b) Retirement Plan.

ART 180, INC.

Notes to Financial Statements
Year Ended December 31, 2017

(12) Change in Basis of Accounting

In order to provide a more meaningful presentation of its financial results, ART 180 changed its overall basis of accounting in the year ended December 31, 2017 from the modified cash basis to the accrual basis in conformity with U.S. generally accepted accounting principles.

The change resulted in increases of net assets of \$185,990 and \$326,505 at December 31, 2017 and 2016, respectively, a decrease of 2017 support and revenues of \$149,585 and a decrease of 2017 expenses of \$9,070.

(13) Subsequent Events

ART 180 has evaluated all subsequent events through May 25, 2018, the date the financial statements were available to be issued.