Artrain, Incorporated

Financial Statements

December 31, 2014
(With Summarized Comparative Information for 2013)

Table of Contents

YEO & YEO
CPAs & BUSINESS CONSULTANTS

1450 Eisenhower Place
Ann Arbor, MI 48108
Phone (734) 769-1331
Fax (734) 996-3777

Independent Auditors' Report

Management and the Board of Directors
Artrain, Incorporated
Ann Arbor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Artrain, Incorporated (a Michigan non-profit corporation) (the "Organization") which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artrain, Incorporated as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Artrain, Incorporated's December 31, 2013, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 29, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
October 19, 2015

Artrain, Incorporated
Statement of Financial Position
December 31, 2014
(With Summarized Comparative Information for 2013)

	2014	2013
Assets		
Current assets		
Cash	**$ 33,817**	$ 4,614
Accounts receivable	**1,151**	-
Accounts receivable, related party	**70,438**	32,321
Grants receivable	**1,800**	2,200
Unconditional promises to give, net - current portion	**850**	9,025
Inventory	**690**	605
Total current assets	**108,746**	48,765
Property and equipment, net	**125,810**	176,747
Other assets		
Unconditional promises to give, net	**1,500**	1,500
Total assets	**$ 236,056**	$ 227,012
Liabilities and net assets (deficit)		
Current liabilities		
Accounts payable	**$ 64,538**	$ 49,630
Accrued payroll and related liabilities	**9,098**	12,889
Related party loans, current	**19,000**	23,800
Loans payable, current	**155,663**	152,818
Total current liabilities	**248,299**	239,137
Long-term liabilities		
Loans payable, noncurrent	**-**	39,345
Total liabilities	**248,299**	278,482
Net assets (deficit)		
Unrestricted (deficit)	**(12,243)**	(51,470)
Total liabilities and net assets (deficit)	**$ 236,056**	$ 227,012

See Accompanying Notes to the Financial Statements

Artrain, Incorporated
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2014
(With Summarized Comparative Information for 2013)

	2014	2013
Support and revenue		
Grants	**$ 13,500**	$ 15,875
Contributions	**248,857**	171,964
Donated materials and services	**13,043**	13,989
Program fees	**274,250**	151,589
Rail lease income	**13,209**	43,792
Interest income	**19**	18
Other income	**5,665**	2,274
Total support and revenue	**568,543**	399,501
Expenses		
Program services	**385,835**	270,803
Management and general	**95,361**	57,621
Fundraising	**48,120**	65,282
Total expenses	**529,316**	393,706
Change in net assets	**39,227**	5,795
Net deficit - beginning of year	**(51,470)**	(57,265)
Net deficit - end of year	**$ (12,243)**	$ (51,470)

See Accompanying Notes to the Financial Statements

Artrain, Incorporated
Statement of Functional Expenses
For the Year Ended December 31, 2014
(With Summarized Comparative Information for 2013)

	Program Services	Management and General	Fundraising	**2014**	2013
Compensation and related expenses					
Salary	$ 168,479	$ 49,837	$ 14,863	**$ 233,179**	$ 198,767
Employee benefits	12,989	2,819	705	**16,513**	13,100
Payroll taxes	25,351	8,409	5,127	**38,887**	22,874
	206,819	61,065	20,695	**288,579**	234,741
Program and projects	35,301	-	-	**35,301**	22,967
Contract services	156	-	525	**681**	5,810
Travel and conference	5,628	1,581	3,510	**10,719**	10,338
Exhibition	60,577	-	-	**60,577**	19,812
Administrative fees	8,322	2,704	2,926	**13,952**	12,656
Office rent	10,330	3,178	2,384	**15,892**	14,004
Sponsor benefits	-	-	2,049	**2,049**	5,545
Banking, fees and interest	-	12,078	1,407	**13,485**	19,251
Technology	6,043	1,292	2,754	**10,089**	5,463
Professional fees	18,515	2,957	2,490	**23,962**	22,554
Depreciation	34,144	10,506	7,880	**52,530**	20,565
Bad debt expense	-	-	1,500	**1,500**	-
Total	$ 385,835	$ 95,361	$ 48,120	**$ 529,316**	$ 393,706

Artrain, Incorporated
Statement of Cash Flows
For the Year Ended December 31, 2014
(With Summarized Comparative Information for 2013)

	2014	2013
Cash flows from operating activities		
Change in net assets	$ 39,227	$ 5,795
Item not requiring cash		
Depreciation	52,530	20,565
Loss on property and equipment disposals	-	105
Changes in operating assets and liabilities		
Accounts receivable	(39,268)	32,542
Grants receivable	400	(1,405)
Unconditional promises to give	8,175	6,525
Inventory	(85)	977
Accounts payable	14,908	2,485
Accrued payroll and related liabilities	(3,791)	5,389
Net cash provided by operating activities	72,096	72,978
Cash flows from investing activities		
Purchases of property and equipment	(1,593)	(10,950)
Cash flows from financing activities		
Net proceeds (repayments) from related party loans	(4,800)	11,800
Repayments of bank loans	(36,500)	(72,462)
Net cash used in financing activities	(41,300)	(60,662)
Net change in cash	29,203	1,366
Cash - beginning of year	4,614	3,248
Cash - end of year	$ 33,817	$ 4,614
Supplemental cash flow information		
Cash paid for interest	$ 13,485	$ 19,251

Note 1 – Organization

Artrain, Incorporated (the "Organization") was incorporated in February 1971 and is located in Ann Arbor, Michigan. The Organization Artrain's mission is to deliver discovery and – through the power of arts and culture – transform lives, organizations and communities. Artrain produces programs in partnership with arts and cultural institutions, artists and creative individuals and tours these programs to diverse audiences in cities, towns and villages across the US and Canada, many of whom have limited access to such programs.

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the Organization's financial statements. These accounting principles conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the *Audit and Accounting Guide for Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants.

Net Assets

The Organization's net assets are categorized and reported as follows:

Unrestricted Net Assets

These net assets are available for general operations and are not subject to donor-imposed restrictions.

Temporarily Restricted

These net assets are limited to uses specified by donor-imposed restrictions. When donor restrictions expire or the nature and purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Organization had no temporarily restricted net assets.

Permanently Restricted

Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources to be maintained permanently. The income from the investment of these resources is expended for general or restricted purposes as specified by the donor. The Organization had no permanently restricted net assets.

Use of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Organization considers all highly liquid investments held in demand deposit accounts with an original maturity of less than three months to be considered cash.

Concentrations and Credit Risks

The Organization has cash account at a local bank. Account at this financial institution is insured by the FDIC up to $250,000. At December 31, 2014, there were no cash account balances over the FDIC coverage limit.

Contributions
Unconditional promises to give are recognized as revenue when the underlying promises are received by the Organization. Gifts of cash and other assets are reported as temporarily restricted contributions 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 changes in net assets as a satisfaction of time or program restrictions.

Temporarily restricted contributions, which are both received and released within the same year, are recorded as an increase in temporarily restricted net assets and as a satisfaction of program restrictions. There were no temporarily restricted contributions as of December 31, 2014 and 2013.

Unconditional Promises to Give
Unconditional promises to give are presented at their estimated collectable amount net of a present value discount. Management regularly reviews the collection history of its pledges receivable balances with particular attention given to those accounts greater than ninety days old. Based on management's review, allowance was $0 and $1,800 as of December 31, 2014 and 2013.

Revenue Recognition
Revenue through public support is recognized when pledged or received and revenue through sales and services is recognized when earned.

Inventory
Inventory is recorded at the lower cost or market determined by the specific identification method. Inventory consists of educational art books, art reproductions, art supplies, catalogs and train memorabilia held for resale.

Allowance for Doubtful Accounts
Accounts receivable are stated at unpaid balances, less any allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on management experience. The allowance at December 31, 2014 and 2013 was $0.

Contributed Materials and Services
The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals processing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amount reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses. The Organization received $13,043 and $13,989 in contributed services for the years ended December 31, 2014 and 2013, respectively.

Property and Equipment
The Organization's fixed assets are stated at cost. The Organization's capitalization policy is to capitalize any assets over $1,000. Depreciation is computed on the straight-line method over the useful lives of the assets. The estimated lives range from three to forty years.

Functional Allocation of Expenses
The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Tax Status
The Organization is a nonprofit Michigan corporation recognized as exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Code.

Subsequent Events
Management has evaluated subsequent events through October 19, 2015 which is the date the financial statements were available to be issued.

Note 3 – Unconditional Promise to Give

Unconditional promises to give consist of the following at December 31, 2014 and 2013:

	2014	2013
Unconditional promises to give	$ 2,350	$ 12,325
Less: Allowance for uncollectibles	-	(1,800)
Unconditional promises to give, net of allowance	$ 2,350	$ 10,525
Less than one year	$ 850	$ 10,825
One to five years	1,500	1,500
Total unconditional promises to give	$ 2,350	$ 12,325

Note 4 – Property and equipment

Property and equipment are as follows as of December 31:

	2014	2013
Exhibition	$ 97,620	$ 97,620
Office equipment and furniture	10,931	10,931
Website design and rebranding	67,471	67,471
Leasehold improvements	146,805	145,213
	322,827	321,235
Accumulated depreciation	(197,017)	(144,488)
Property and equipment, net	$ 125,810	$ 176,747

Depreciation expense for the years ended December 31, 2014 and 2013, was $52,530 and $20,565, respectively.

Note 5 – Notes Payable

In 2010, the Organization refinanced a note payable with a total original principal amount of $365,000, variable interest rate, and due in quarterly installments. Note payable balance was $155,663 and $192,163 as of December 31, 2014 and 2013, respectively. The note is due June 30, 2015 and the Organization refinanced the loan on June 29, 2015 through June 30, 2020.

The Organization has an unsecured, 0% interest loan from a related party due on demand. Total outstanding related party loans were $19,000 and $23,800, as of December 31, 2014 and 2013, respectively.

Note 6 – Lease Commitments

The Organization's current building lease expired on December 31, 2014 and subsequent to year end renewed through March 2016. The Organization also leases a copier through February 2017. Total combined rent expenses for 2014 and 2013 was $15,892 and $14,004, respectively.

A summary of future lease payments based on current agreements is detailed below:

Year ending December 31,	
2015	$ 19,140
2016	7,590
2017	590
	$ 27,320

Note 7 – Related Party Transactions

At December 31, 2014 and 2013, there were loans from various board members outstanding in amounts of $19,000 and $23,800, respectively.

Artrain Incorporated and The Arts Alliance are considered related parties due to the organizations sharing common management. During 2014, the Organization received $110,004 in revenues from The Arts Alliance for rent, administration, and other shared operating costs. In 2013, the Organization received $115,999 for three months of similar services. The receivable balance from The Arts Alliance as of December 31, 2014 and 2013 was $70,438 and $32,321, respectively.

Note 8 – Subsequent Events

As described in Note 5 subsequent to year end the Organization refinanced the loan through 2020. As described in Note 6, the Organization is extended their rental agreement for leased office space.