# Artrain, Incorporated

## Financial Statements

## December 31, 2015
## (With Summarized Comparative Information for 2014)

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YEO & YEO
CPAs & BUSINESS CONSULTANTS

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

# Independent Accountants' Review Report

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

We have reviewed the accompanying financial statements of Artrain, Incorporated, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Management's Responsibility 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; 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.

**Accountants' Responsibility**
Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountants' Conclusion**
Based on our review, we are not aware of any material modifications, except as noted in the following paragraph, that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

**Going Concern**
As discussed in Note 8, certain conditions indicate that the Organization may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Our conclusion is not modified with respect to that matter

**Summarized Comparative Information**
We previously audited Artrain, Incorporated's 2014 financial statements and in our conclusion dated October 19, 2015, stated that based on our audit we were not aware of any material modifications that should be made to the 2014 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2015, for it to be consistent with the audited financial statements from which it has been derived.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
November 3, 2016

# Artrain, Incorporated
## Statement of Financial Position
## December 31, 2015
## (With Summarized Comparative Information for 2014)

| | 2015 | (Audited) 2014 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | **$ 7,438** | $ 33,817 |
| Accounts receivable | **17,298** | 1,151 |
| Accounts receivable, related party | **32,440** | 70,438 |
| Grants receivable | **-** | 1,800 |
| Unconditional promises to give, net - current portion | **250** | 850 |
| Inventory | **690** | 690 |
| Total current assets | **58,116** | 108,746 |
| Property and equipment, net | **99,652** | 125,810 |
| Other assets | | |
| Unconditional promises to give, net | **1,500** | 1,500 |
| **Total assets** | **$ 159,268** | $ 236,056 |
| **Liabilities and net assets** | | |
| Current liabilities | | |
| Accounts payable | **$ 43,368** | $ 64,538 |
| Accrued payroll and related liabilities | **5,844** | 9,098 |
| Related party loans, current | **55,000** | 19,000 |
| Loans payable, current | **32,087** | 155,663 |
| Total current liabilities | **136,299** | 248,299 |
| Long-term liabilities | | |
| Loans payable, noncurrent | **99,937** | - |
| Total liabilities | **236,236** | 248,299 |
| Net assets | | |
| Unrestricted (deficit) | **(76,968)** | (12,243) |
| **Total liabilities and net assets** | **$ 159,268** | $ 236,056 |

See Accompanying Notes and Independent Accountants' Review Report

# Artrain, Incorporated
## Statement of Activities
## For the Year Ended December 31, 2015
## (With Summarized Comparative Information for 2014)

| | 2015 | (Audited) 2014 |
|---|---|---|
| **Support and revenue** | | |
| Grants | **$ 39,396** | $ 13,500 |
| Contributions | **130,512** | 248,857 |
| Donated materials and services | **-** | 13,043 |
| Program fees | **125,090** | 274,250 |
| Rail lease income | **13,222** | 13,209 |
| Interest income | **7** | 19 |
| Other income | **258** | 5,665 |
| Total support and revenue | **308,485** | 568,543 |
| **Expenses** | | |
| Program services | **279,251** | 385,835 |
| Management and general | **50,708** | 95,361 |
| Fundraising | **43,251** | 48,120 |
| Total expenses | **373,210** | 529,316 |
| Change in net assets | **(64,725)** | 39,227 |
| Net assets (deficit) - beginning of year | **(12,243)** | (51,470) |
| **Net assets (deficit) - end of year** | **$ (76,968)** | $ (12,243) |

**Artrain, Incorporated**
**Statement of Functional Expenses**
**For the Year Ended December 31, 2015**
**(With Summarized Comparative Information for 2014)**

| | Program Services | Management and General | Fundraising | **2015** | (Audited) 2014 |
|---|---|---|---|---|---|
| Compensation and related expenses | | | | | |
| Salary | $ 181,633 | $ 20,848 | $ 27,677 | **$ 230,158** | $ 233,179 |
| Employee benefits | 12,165 | 681 | 838 | **13,684** | 16,513 |
| Payroll taxes | 13,957 | 1,423 | 1,902 | **17,282** | 38,887 |
| | 207,755 | 22,952 | 30,417 | **261,124** | 288,579 |
| Program and projects | 9,720 | - | - | **9,720** | 35,301 |
| Contract services | - | - | - | **-** | 681 |
| Travel and conference | 1,346 | 2,601 | 52 | **3,999** | 10,719 |
| Exhibition | 346 | - | - | **346** | 60,577 |
| Administrative fees | 3,572 | 1,688 | 1,466 | **6,726** | 13,952 |
| Office rent | 11,911 | 3,665 | 2,749 | **18,325** | 15,892 |
| Sponsor benefits | - | - | - | **-** | 2,049 |
| Banking, fees and interest | - | 9,617 | 970 | **10,587** | 13,485 |
| Technology | 4,766 | 1,584 | 1,053 | **7,403** | 10,089 |
| Professional fees | 20,337 | 4,088 | 3,160 | **27,585** | 23,962 |
| Depreciation | 19,498 | 4,513 | 3,384 | **27,395** | 52,530 |
| Bad debt expense | - | - | - | **-** | 1,500 |
| Total | $ 279,251 | $ 50,708 | $ 43,251 | **$ 373,210** | $ 529,316 |

# Artrain, Incorporated
## Statement of Cash Flows
## For the Year Ended December 31, 2015
## (With Summarized Comparative Information for 2014)

| | 2015 | (Audited) 2014 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | **$ (64,725)** | $ 39,227 |
| Item not requiring cash | | |
| Depreciation | **27,395** | 52,530 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | **21,851** | (39,268) |
| Grants receivable | **1,800** | 400 |
| Unconditional promises to give | **600** | 8,175 |
| Inventory | **-** | (85) |
| Accounts payable | **(21,170)** | 14,908 |
| Accrued payroll and related liabilities | **(3,254)** | (3,791) |
| Net cash provided by operating activities | **(37,503)** | 72,096 |
| **Cash flows from investing activities** | | |
| Purchases of property and equipment | **(1,237)** | (1,593) |
| **Cash flows from financing activities** | | |
| Net proceeds (repayments) from related party loans | **36,000** | (4,800) |
| Repayments of bank loans | **(23,639)** | (36,500) |
| Net cash used in financing activities | **12,361** | (41,300) |
| **Net change in cash** | **(26,379)** | 29,203 |
| Cash - beginning of year | **33,817** | 4,614 |
| **Cash - end of year** | **$ 7,438** | $ 33,817 |
| **Supplemental cash flow information** | | |
| Cash paid for interest | **$ 10,587** | $ 13,485 |

## Note 1 – Organization

Artrain, Incorporated (the "Organization") was incorporated in February 1971 and is located in Ann Arbor, Michigan. The Organization'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, 2015, 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, 2015 and 2014.

**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 for both years ended December 31, 2015 and 2014.

**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, 2015 and 2014 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 $0 and $13,043 in contributed services for the years ended December 31, 2015 and 2014, 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 November 3, 2016, which is the date the financial statements were available to be issued.

**Note 3 – Unconditional Promise to Give**

Unconditional promises to give are expected to be collected as follows:

| | |
|---|---|
| Less than one year | $ 250 |
| One to five years | 1,500 |
| Total unconditional promises to give | $ 1,750 |

**Note 4 – Property and equipment**

Property and equipment are as follows as of December 31:

| | 2015 | 2014 |
|---|---|---|
| Exhibition | $ 97,620 | $ 97,620 |
| Office equipment and furniture | 12,166 | 10,931 |
| Website design and rebranding | 67,471 | 67,471 |
| Leasehold improvements | 146,805 | 146,805 |
| | 324,062 | 322,827 |
| Accumulated depreciation | (224,410) | (197,017) |
| Property and equipment, net | $ 99,652 | $ 125,810 |

Depreciation expense for the years ended December 31, 2015 and 2014, was $27,395 and $52,530, respectively.

**Note 5 – Notes Payable**

In 2015, 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 $132,024 and $155,663 as of December 31, 2015 and 2014, respectively. The note is due June 30, 2020.

The Organization has an unsecured, 0% interest loan from a related party due on demand. Total outstanding related party loans were $55,000 and $19,000, as of December 31, 2015 and 2014, respectively.

The future payment schedule for note and unsecured loan are as follows:

| Year ending December 31, | |
|---|---|
| 2016 | $ 87,087 |
| 2017 | 27,074 |
| 2018 | 28,338 |
| 2019 | 29,767 |
| 2020 | 14,758 |
| | $ 187,024 |

**Note 6 – Lease Commitments**

The Organization's current building lease expired on December 31, 2014, but subsequent to year end was renewed through April 2019. The Organization also leases a copier through February 2017. Total combined rent expenses for 2015 and 2014 was $18,325 and $15,892, respectively.

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

| Year ending December 31, | |
|---|---|
| 2016 | $ 20,590 |
| 2017 | 17,480 |
| 2018 | 16,800 |
| 2019 | 5,600 |
| | $ 60,470 |

**Note 7 – Related Party Transactions**

At December 31, 2015 and 2014, there was a loan from the Executive Director outstanding in amounts of $55,000 and $19,000, respectively.

Artrain Incorporated and The Arts Alliance are considered related parties due to the organizations sharing common management. During 2015, the Organization received $125,001 in revenues from The Arts Alliance for rent, administration, and other shared operating costs. In 2014, the Organization received $110,004 for similar services. The receivable balance from The Arts Alliance as of December 31, 2015 and 2014 was $32,440 and $70,438, respectively.

**Note 8 – Going Concern**

As of December 31, 2015, The Organization has deficit net assets of $76,968. There were significant losses in the current year. The net assets have been in a deficit for the last several years.

This creates an uncertainty about the Organization's ability to continue as a going concern. The Management and Board of Directors has taken an active role in developing a plan for operating and sustaining the Organization. The Organization has renegotiated the agreement with the related party and is exploring new avenues for fundraising and program revenues. The Organization is looking at ways to cut expenses by not hiring vacant positions. Our opinion is not modified with respect to this matter.