

ARTS FOR LIFE

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018



CERTIFIED PUBLIC ACCOUNTANTS

Arts For Life
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arts For Life
Asheville, North Carolina

We have audited the accompanying financial statements of Arts For Life (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, 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 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 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 from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arts For Life, as of December 31, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the Arts for Life 2017 financial statements, and our report dated May 10, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Carliss & Solomon, PLLC

Asheville, North Carolina

April 10, 2019

Arts For Life

Statement of Financial Position

As of December 31, 2018

(With summarized comparative totals as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 217,279	\$ 213,773
Grants Receivable	-	21,375
Contributions Receivable	3,561	6,475
Fees for Services Receivable	9,658	16,025
Prepaid Expenses	2,976	2,627
Other Assets	5,556	2,017
Total Assets	\$ 239,030	\$ 262,292
<u>Liabilities and Net Assets</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 3,500	\$ 7,087
Accrued Salary	16,742	13,427
Deferred Revenue	-	1,000
Total Liabilities	20,242	21,514
<u>Net Assets</u>		
Without Donor Restrictions	96,535	228,903
With Donor Restrictions	122,253	11,875
Total Net Assets	218,788	240,778
Total Liabilities and Net Assets	\$ 239,030	\$ 262,292

The accompanying notes are an integral part of these financial statements.

Arts For Life

Statement of Activities

Year Ended December 31, 2018

(With summarized comparative totals for the prior year)

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017
Support and Revenue				
Contributions	\$ 97,701	\$ 158,726	\$ 256,427	\$ 201,537
Foundation Grants	107,500	99,828	207,328	162,289
Fees for Services	118,300	-	118,300	113,020
Event Income	27,337	-	27,337	48,970
Interest Income	80	-	80	159
Endowment Distributions Received	19,100	-	19,100	17,978
In-Kind Contributions	52,739	-	52,739	34,873
Net Assets Released from Restrictions	148,176	(148,176)	-	-
Total Support and Revenue	570,933	110,378	681,311	578,826
Expenses				
Program Services	495,042	-	495,042	444,497
Management and General	77,567	-	77,567	70,359
Fundraising	130,692	-	130,692	90,546
Total Expenses	703,301	-	703,301	605,402
Change in Net Assets During Year	(132,368)	110,378	(21,990)	(26,576)
Net Assets, Beginning of Year	228,903	11,875	240,778	267,354
Net Assets, End of Year	\$ 96,535	\$ 122,253	\$ 218,788	\$ 240,778

The accompanying notes are an integral part of these financial statements.

Arts For Life

Statement of Functional Expenses

Year Ended December 31, 2018

(With summarized comparative totals for the prior year)

	Program Services	Management and General	Fundraising	Total 2018	Total 2017
Personnel					
Salaries	\$ 285,223	\$ 47,982	\$ 62,865	\$ 396,070	\$ 345,880
Payroll Taxes	23,168	3,898	5,106	32,172	29,625
Employee Benefits	21,560	3,627	4,752	29,939	25,372
Subtotal Personnel	329,951	55,507	72,723	458,181	400,877
Bank Fees	-	3,308	-	3,308	3,257
Contract Labor	39,179	-	-	39,179	28,255
Equipment Repairs	1,833	308	405	2,546	3,547
Event Expenses	-	-	32,071	32,071	16,979
Fundraising Expenses	-	-	6,648	6,648	19,609
Insurance	1,144	192	251	1,587	1,591
Office Expense	3,907	657	861	5,425	6,457
Postage and Delivery	1,818	454	2,272	4,544	3,611
Printing and Reproduction	2,692	673	3,364	6,729	9,087
Professional Fees	1,481	8,784	-	10,265	9,776
Program Expenses					
Art Supplies	27,350	-	-	27,350	21,893
Volunteer Costs	3,471	-	-	3,471	2,983
Rent	7,792	1,311	1,717	10,820	10,667
Staff Retreat and Meetings	9,884	616	615	11,115	10,598
Telephone	2,137	360	471	2,968	3,369
Travel	9,319	4,660	4,659	18,638	15,576
Other Expenses	1,549	737	3,431	5,717	2,397
Subtotal Expenses	443,507	77,567	129,488	650,562	570,529
In-Kind Donations Utilized	51,535	-	1,204	52,739	34,873
Total Expenses	\$ 495,042	\$ 77,567	\$ 130,692	\$ 703,301	\$ 605,402

The accompanying notes are an integral part of these financial statements.

Arts For Life
Statement of Cash Flows
Year Ended December 31, 2018

(With summarized comparative totals for the prior year)

	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ (21,990)	\$ (26,576)
Adjustments to reconcile change in net assets to net cash provided or used by operating activities:		
(Increase)/Decrease in Operating Assets		
Grants Receivable	21,375	(16,375)
Fees for Services Receivable	6,367	(10,147)
Contributions Receivable	2,914	(6,475)
Prepaid Expenses	(349)	92
Other Assets	(3,539)	(951)
Increase/(Decrease) in Operating Liabilities		
Accounts Payable	(3,587)	3,245
Accrued Salary	3,315	13,427
Deferred Revenue	(1,000)	1,000
Net Cash Provided/(Used) by Operating Activities	<u>3,506</u>	<u>(42,760)</u>
Net Change in Cash	3,506	(42,760)
Cash and Equivalents, Beginning of Year	<u>213,773</u>	<u>256,533</u>
Cash and Equivalents, End of Year	\$ 217,279	\$ 213,773

The accompanying notes are an integral part of these financial statements.

Arts For Life
Notes to Financial Statements
For the Year Ended December 31, 2018

1. **Description of the Organization, Corporate and Tax-Exempt Status**

Arts For Life is a nonprofit organization dedicated to supporting pediatric patients and families through arts education and engagement. By providing educational art programs, we enrich patients' lives, nurture their minds and spirits, and encourage positive healthcare experiences for children and their families. Arts for Life helps children in four cities across North Carolina, and in 2018, supported 14,002 patients and family members statewide.

Arts For Life was established in 2001 as a nonprofit corporation under the laws of the State of North Carolina. It qualifies for exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue code. In addition, it has been classified as a publicly supported organization under Section 509(a)(1).

2. **Summary of Significant Accounting Policies**

Basis of Presentation

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require an organization to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, the organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the organization to concentrations of credit risk consist principally of cash and cash equivalents and investments. The organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. The organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Property and Equipment

Property and equipment purchases are capitalized at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The capitalization threshold is \$5,000 per item.

Fair Value Measurements

In accordance with U.S. GAAP, Arts For Life follows “Fair Value Measurements.” This standard establishes a single definition of fair value and a framework for measuring fair value in financial statements under U.S. GAAP. Fair value is defined as “the price that would be received to sell an asset in an orderly transaction between market participants at an agreed upon measurement date. That is, fair value is based on an exit price, which may differ from the price paid to acquire the asset. If there is a principal market for the asset, fair value represents the price in that market.” The organization does not have any financial assets that it carries at fair value on a recurring basis.

Funding

Arts For Life is funded primarily by program service fees, foundation grants and support from the public.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program services fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, and unconditional promises to give, or notification or beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. As restrictions expire, net assets are reclassified to net assets without donor restrictions and are reported on the statement of activities as “Net Assets Released from Restrictions.”

In-Kind Contributions

The organization recognizes contributed goods and the use of facilities at estimated fair value on the date of receipt. Contributed services are recognized in the financial statements if they require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. When recognized, contributed services are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include indirect expenses which are allocated based on management estimates of time and effort.

Income Taxes/Uncertain Tax Positions

Arts for Life is exempt from federal income taxes under 501(c)(3) of the Internal Revenue Code. Under the Code, however, income from certain activities not related to the organization's tax-exempt purpose may be subject to taxation as unrelated business income. The organization had no income from unrelated business activities in 2018 and was, therefore, not required to file Federal Form 990-T (Exempt Organization Business Income Tax Return). The organization believes that it has appropriate support for all tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

New Accounting Pronouncement

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Arts for Life has implemented ASU 2016-14 and the presentation of these financial statements has been adjusted accordingly. The ASU has been applied retrospectively to all periods presented.

Summarized Comparative Data

The financial statements include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's reviewed financial statements for the year ended December 31, 2017, from which the summarized information was derived. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

3. Liquidity and Availability

The organization's liquidity management plan is to invest cash in excess of daily requirements in a money market account. Occasionally, the Board may designate a portion of operating surplus to a reserve account.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 217,279	\$ 213,773
Grants and Contributions Receivable	3,561	27,850
Fee for Service Receivable	9,658	16,025
Total Liquid Assets	<u>\$ 230,498</u>	<u>\$ 257,648</u>

The total net assets with donor restrictions detailed in Note 9 are projected to be satisfied in the coming year through achievement of program objectives and operating expenditures.

Arts For Life's goal is generally to maintain financial assets to meet a minimum of 90 days of operating expenses (approximately \$170,000). As part of its liquidity plan, excess cash is invested in money market accounts.

4. **Cash and Cash Equivalents**

The cash and cash equivalents balance consist of the following as of December 31:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Checking Account	\$ 78,164	\$ 62,319
Money Market Funds	128,472	144,356
Undeposited Funds	10,443	6,898
Petty Cash	200	200
Total Cash and Cash Equivalents	<u>\$ 217,279</u>	<u>\$ 213,773</u>

5. **Grants Receivable**

Grants receivable consists of the following:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Mission Healthcare Foundation	\$ -	\$ 11,375
Duke Children's Hospital	-	10,000
Total Grants Receivable	<u>\$ -</u>	<u>\$ 21,375</u>

6. **Lease Commitments**

Arts For Life renewed a one-year lease for office space located in Asheville, NC. The organization also has a month to month lease for its Durham, NC location. Total rent expense for the year ended December 31, 2018 and 2017 was \$10,820 and \$10,667, respectively. Future minimum lease obligations consist of \$3,646 to be paid in 2019.

7. **In-Kind Contributions**

Arts For Life recognizes in-kind contribution revenue for donated goods and services related to its programs and operations. A Charlotte area hospital supports Arts for Life by providing direct employment to one of their employees. Arts for Life participates in the hiring, scheduling and support of the employee and recognizes the in kind donated services as revenue and expense on the statement of activities. In-kind contributions for the years ended December 31, 2018 and 2017 consist of the following:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Art Supplies and Goods	\$ 3,422	\$ 3,023
Facilities	-	1,500
Personnel Costs and Services	49,317	30,350
Total In-Kind Contributions	<u>\$ 52,739</u>	<u>\$ 34,873</u>

Arts For Life makes extensive use of volunteers to carry out its programs. For the year ended December 31, 2018, volunteers contributed 11,971 hours providing direct services in the hospital. The services contributed by volunteers did not meet the requirements of U.S. GAAP for recognition in the financial statements.

8. Fundraising Events

Arts For Life holds several events throughout the year. Income and expenses for the years ending December 31, 2018 and 2017 are summarized as follows:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Event Income	\$ 27,337	\$ 48,970
Less: Direct Event Expenses	<u>(6,378)</u>	<u>(16,979)</u>
Net Fundraising Event Income	<u>\$ 20,959</u>	<u>\$ 31,991</u>

9. Net Assets

Net assets with donor restrictions were as follows as of December 31, 2018 and 2017:

<u>As of December 31:</u>	<u>2018</u>	<u>2017</u>
Restricted to Asheville Chapter	\$ 23,328	\$ 11,875
Art Well Kits Project	<u>98,925</u>	<u>-</u>
Total Net Assets with Donor Restrictions	<u>\$ 122,253</u>	<u>\$ 11,875</u>

10. Community Foundation Funds Benefiting Arts For Life

Arts For Life is the income beneficiary of five funds held by others. These funds are not assets of Arts For Life and are, therefore, not reflected on the accompanying statement of financial position of the organization. Provided below is a list of those funds.

- The “Arts For Life Endowment” was established by the organization at the Community Foundation of Western North Carolina as an endowment to benefit Arts For Life.
- The “John Dickson Art Fund” was established by the organization at the Community Foundation of Western North Carolina as an endowment to benefit the Asheville chapter of Arts For Life.
- The “Forrest and Gene Vogler Endowment” was established by the organization at the Winston-Salem Foundation as an endowment to benefit the Winston-Salem chapter of Arts For Life.
- The “Arts For Life Winston-Salem Endowment” was established by the organization at the Winston-Salem Foundation as an endowment to benefit the Winston-Salem chapter of Arts For Life.
- The “Charles D. Owen Arts For Life Endowment” was established by a donor at the Mission Healthcare Foundation as an endowment to benefit the Asheville chapter of Arts For Life.

Arts For Life received distributions from these funds totaling \$19,100 in 2018.

11. Subsequent Events

Subsequent events have been evaluated through April 10, 2019, which is the date the financial statements were available to be issued.