

ARTS FOR LIFE

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022



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

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related disclosures to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Arts For Life and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Arts For Life's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arts For Life's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Arts For Life's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Arts For Life's 2021 financial statements, and our report dated August 10, 2022, 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, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Carliss & Solomon, PLLC

Asheville, North Carolina
July 26, 2023

Arts For Life
Statement of Financial Position

As of December 31, 2022

(With summarized comparative totals as of December 31, 2021)

	2022	2021
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 633,862	\$ 310,440
Contributions Receivable	20,137	63,550
Grants Receivable	-	162,033
Accounts Receivable	15,144	10,673
Prepaid Expenses	-	1,533
Total Current Assets	669,143	548,229
<u>Long-Term Assets</u>		
Long-Term Contributions Receivable	2,500	6,000
Total Long-Term Assets	2,500	6,000
Total Assets	\$ 671,643	\$ 554,229
<u>Liabilities and Net Assets</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 5,923	\$ 3,936
Accrued Salary	13,221	12,080
Total Current Liabilities	19,144	16,016
<u>Net Assets</u>		
Without Donor Restrictions	646,499	538,213
With Donor Restrictions	6,000	-
Total Net Assets	652,499	538,213
Total Liabilities and Net Assets	\$ 671,643	\$ 554,229

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

Arts For Life

Statement of Activities

Year Ended December 31, 2022

(With summarized comparative totals for the prior year)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
<u>Support and Revenue</u>				
Contributions	\$ 204,582	\$ 19,840	\$ 224,422	\$ 174,822
Grants	172,250	28,500	200,750	320,242
Program Service Revenue	121,300	-	121,300	177,300
Event Income	26,357	-	26,357	-
Interest Income	2,266	-	2,266	258
Endowment Distributions Received	9,640	-	9,640	9,368
In-Kind Contributions	32,937	-	32,937	87,991
Net Assets Released from Restrictions	42,340	(42,340)	-	-
Total Support and Revenue	611,672	6,000	617,672	769,981
<u>Expenses</u>				
Program Services	317,637	-	317,637	396,299
Management and General	88,446	-	88,446	102,118
Fundraising	97,303	-	97,303	53,906
Total Expenses	503,386	-	503,386	552,323
Change in Net Assets During Year	108,286	6,000	114,286	217,658
Net Assets, Beginning of Year	538,213	-	538,213	320,555
Net Assets, End of Year	\$ 646,499	\$ 6,000	\$ 652,499	\$ 538,213

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

Arts For Life
Statement of Functional Expenses

Year Ended December 31, 2022

(With summarized comparative totals for the prior year)

	Program Services	Management and General	Fundraising	Total 2022	Total 2021
<u>Personnel</u>					
Salaries	\$ 163,654	\$ 53,397	\$ 40,627	\$ 257,678	\$ 280,128
Payroll Taxes	12,461	4,063	3,092	19,616	22,011
Employee Benefits	19,447	6,341	4,825	30,613	37,338
Subtotal Personnel	195,562	63,801	48,544	307,907	339,477
Bank Fees	-	2,274	-	2,274	2,223
Contract Labor	23,650	-	-	23,650	23,590
Equipment Repairs	715	224	179	1,118	1,346
Fundraising Expenses	-	-	28,450	28,450	4,116
Insurance	2,501	782	625	3,908	1,678
Office Expense	4,004	1,251	1,001	6,256	7,763
Postage and Delivery	1,345	337	1,683	3,365	1,971
Printing and Reproduction	1,999	666	3,997	6,662	6,163
Professional Fees	-	12,018	-	12,018	16,582
Program (Art & Music) Supplies	44,420	-	-	44,420	25,113
Rent	3,000	3,000	-	6,000	6,000
Staff Retreat and Meetings	2,763	502	813	4,078	6,675
Telephone	1,582	494	395	2,471	2,762
Travel	2,624	1,967	1,968	6,559	2,492
Other Expenses	5,146	1,130	5,037	11,313	16,381
Subtotal Expenses	289,311	88,446	92,692	470,449	464,332
In-Kind Donations Utilized	28,326	-	4,611	32,937	87,991
Total Expenses	\$ 317,637	\$ 88,446	\$ 97,303	\$ 503,386	\$ 552,323

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

Arts For Life

Statement of Cash Flows

Year Ended December 31, 2022

(With summarized comparative totals for the prior year)

	<u>2022</u>	<u>2021</u>
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets	\$ 114,286	\$ 217,658
Adjustments to reconcile change in net assets to net cash provided or used by operating activities:		
(Increase)/Decrease in Operating Assets		
Grants Receivable	162,033	(162,033)
Accounts Receivable	(4,471)	(7,864)
Contributions Receivable	46,913	25,800
Prepaid Expenses	1,533	(57)
Other Assets	-	1,198
Increase/(Decrease) in Operating Liabilities		
Accounts Payable	1,987	(1,361)
Accrued Salary	1,141	(7,279)
Net Cash Provided by Operating Activities	<u>323,422</u>	<u>66,062</u>
Net Change in Cash and Cash Equivalents	323,422	66,062
Cash and Cash Equivalents, Beginning of Year	<u>310,440</u>	<u>244,378</u>
Cash and Cash Equivalents, End of Year	<u>\$ 633,862</u>	<u>\$ 310,440</u>

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

Arts For Life

Disclosures to the Financial Statements

For the Year Ended December 31, 2022

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. In 2022, Arts For Life supported children in three chapter communities across North Carolina, serving more than 7,000 patients and family members statewide. Arts For Life offers art and music lessons for both individuals and groups, as well as asynchronous and remote programming specifically designed to support pediatric patients.

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). The organization receives its support principally through contributions and grants.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The financial statements have been prepared on an accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to not-for-profit organizations.

Financial Statement Presentation

The classification of the organization's net assets, and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of two classes of net assets – without donor restrictions and with donor restrictions – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Net Assets Without Donor Restrictions – Includes net assets that are not subject to donor-imposed restrictions and that may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and board of directors.

Net Assets With Donor Restrictions - Includes net assets that are subject to restrictions imposed by donors or grantors. Some donor and grantor restrictions are temporary in nature, such as those with a specified purpose or a timeframe for expenditure established by the donor or grantor. Other donor-imposed restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Funding

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

Cash and Cash Equivalents

The organization's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts held in the investment portfolio that are invested for long-term purposes.

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.

Accounts Receivable

Accounts receivable represent uncollected amounts for program services carried out on an exchange basis. An allowance for doubtful accounts is established for amounts deemed uncollectible, when needed.

Contributions and Grants Receivable

Contributions and grants receivable, without conditions, and expected to be collected within one year are recorded at net realizable value; those expected to be collected in more than one year are recorded at the present value of their future cash flows, using a risk adjusted interest rate. Any provision for uncollectible receivables is estimated by management based on historical collection experience.

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.

Contributions and Grants

Contributions and grants are recognized in support: (1) when the organization receives cash, securities or other assets from a donor or grantor, (2) when a donor conveys a promise to make a donation in the future, on an unconditional basis, and (3) when a grantor awards a grant to be paid in the future, on an unconditional basis. Contributions and grants with conditions, such as performance requirements, are not recognized until the conditions on which they depend have been substantially met. Under this standard, the timing of recognition for a contribution received depends on whether the contribution is conditional or not. If the contribution is conditional, it is not recognized until the conditions are substantially met or explicitly waived.

Program Service Revenue

In accordance with U.S. GAAP, the organization follows ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. AFL's program services support pediatric patients and families through arts education and engagement. AFL works with participating North Carolina hospitals under one-year contracts. Services are billed to the hospitals monthly or quarterly as rendered. These contracts have a single performance obligation, met as the organization completes services for each period. Program service revenue is then recognized upon the completion of the month or quarter.

Leases

The organization has adopted Accounting Standards Update (ASU) *No. 2016-02 Leases* (Topic 842) as management believes the standard improves the usefulness and understandability of the organization's financial reporting. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases, except for short-term leases less than 12 months. The new standard represents an improvement over the previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The standard was effective for annual reporting periods beginning after December 15, 2021. During the transition period, implementation is presented retrospectively at the beginning of the period of adoption through a cumulative-effective adjustment and no adjustment to the prior year financial statements presented. The Organization adopted (ASU) *No. 2016-02 Leases* (Topic 842) effective January 1, 2022 and utilized all of the available practical expedients. The adoption can have a material impact on the Organization's statement of financial position but does not have a material impact on the statement of activities and cash flows.

In-Kind Contributions

The organization recognizes contributed goods and the use of facilities at estimated fair value on the date of receipt. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. When recognized, contributed services are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Certain categories of expenses that are attributable to more than one program or supporting function require management's allocation on a reasonable basis that is consistently applied. The primary allocation basis used by management for personnel expenses and applicable overhead expenses is estimated based on employee 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 2022 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.

Summarized Comparative Data

The financial statements include certain prior-year summarized comparative information. Such information needs to include more detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the organization's audited financial statements for the year ended December 31, 2021, 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

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following:

<u>As of December 31:</u>	<u>2022</u>	<u>2021</u>
Financial Assets at year end:		
Cash and Cash Equivalents	\$ 633,862	\$ 310,440
Contributions Receivable	22,637	69,550
Grants Receivable	-	162,033
Accounts Receivable	15,144	10,673
Total Financial Assets	<u>671,643</u>	<u>552,696</u>
Less amounts not available to be used in one year:		
Board Designated Funds	40,000	40,000
Long-Term Contributions Receivable	2,500	6,000
Total not available to be used in one year	<u>42,500</u>	<u>46,000</u>
Financial assets available to meet general expenditures over the following year	<u>\$ 629,143</u>	<u>\$ 506,696</u>

Arts For Life's goal is generally to maintain financial assets to meet a minimum of 90 days of operating expenses. Excess cash is invested in money market accounts as part of its liquidity plan.

4. Cash and Cash Equivalents

The cash and cash equivalents balance consists of the following:

<u>As of December 31:</u>	<u>2022</u>	<u>2021</u>
Checking Account	\$ 35,674	\$ 39,073
Money Market Funds	564,165	254,882
Undeposited Funds	33,923	16,385
Petty Cash	100	100
Total Cash and Cash Equivalents	<u>\$ 633,862</u>	<u>\$ 310,440</u>

As of December 31, 2022, the organization had exceeded the federally insured limit in cash accounts by \$116,927. Management believes the organization is not exposed to any significant credit risk on its cash balances.

5. Grants Receivable

Grants receivable totaled \$162,033 as of December 31, 2021. This amount included an Employee Retention Credit of \$147,033 that was received during the year ended December 31, 2022.

6. Contributions Receivable

Contributions receivable totaled \$22,637 and \$69,550 as of December 31, 2022 and 2021, respectively. All accounts receivable balances are expected to be collected in the following year. An additional allowance for doubtful accounts was not considered necessary. Collections by year are expected as follows:

<u>For the years ended December 31:</u>	
2023	\$ 20,137
2024	2,500
Total Contributions Receivable	<u>\$ 22,637</u>

7. Net Assets Without Donor Restrictions and Board Designated Net Assets

Net assets without donor restrictions totaled \$646,499 and \$538,213 as of December 31, 2022 and 2021, respectively. Arts For Life has established Board Designated Funds of \$40,000 to help ensure the organization's long-term financial stability. The designated funds are held in a cash account at a reputable financial institution.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions for use by the Asheville Chapter totaled \$6,000 as of December 31, 2022.

9. 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 two Arts For Life staff members; the hospital also provides a portion of the total cost of their employment. 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 using the actual amounts paid by the hospital. In-kind contributions for the years ended December 31, 2022 and 2021 consists of the following:

<u>As of December 31:</u>	<u>2022</u>	<u>2021</u>
Art Supplies and Goods	\$ 5,767	\$ 1,761
Personnel Costs and Services	27,170	86,230
Total In-Kind Contributions	<u>\$ 32,937</u>	<u>\$ 87,991</u>

Arts For Life makes extensive use of volunteers to carry out its programs. For the year ended December 31, 2022, volunteers contributed 1,290 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.

10. Community Foundation Funds Benefiting Arts For Life

Arts For Life is the income beneficiary of four 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 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 "Dickson Art Fellowship 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 Arts 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 Endowment" was established by the organization at the Winston-Salem Foundation as an endowment to benefit the Winston-Salem chapter of Arts For Life.

Arts For Life received distributions from these funds totaling \$9,640 and \$9,368 in 2022 and 2021, respectively.

11. Lease Commitments

On October 14, 2021, Arts For Life entered into a two-year lease agreement for office space located in Asheville, NC. The lease term begins on January 1, 2022 with rent at \$500 per month and expires on December 31, 2023. Future minimum lease obligations consist of the following:

For the years ended December 31:

2023	\$	6,000
Total Future Minimum Lease Obligations	\$	<u>6,000</u>

The organization understands that this agreement is subject to ASU 2016-02. However, the impact on the overall financial statements is minimal and the organization decided not to record the Right of Use asset and the corresponding lease liability.

12. Subsequent Events

Subsequent events have been evaluated through July 26, 2023, which is the date the financial statements were available to be issued.