

ArtStream, Inc.

**Financial Statements
and Independent Auditors' Report**

August 31, 2015

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Brooks, Harrison Company, L.L.C.

2275 Research Boulevard, Suite 500
Rockville, Maryland 20850

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ArtStream, Inc.

We have audited the accompanying financial statements of ArtStream, Inc. (the Organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities 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 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 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 ArtStream, Inc. as of August 31, 2015, 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.

Brooks, Harrison Company
Rockville, Maryland
January 27, 2016

ARTSTREAM, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2015

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 218,625
Accounts receivable	7,491
Prepaid expenses	7,663
Total current assets	<u>233,779</u>

PROPERTY AND EQUIPMENT

Furniture and equipment	16,123
Less accumulated depreciation	(9,059)
Total property and equipment	<u>7,064</u>

OTHER ASSETS

Investments	82,770
Deposits	1,005
Total of other assets	<u>83,775</u>

TOTAL ASSETS

\$ 324,618

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 2,582
Accrued payroll obligations	7,902
Deferred revenue	37,550
Total current liabilities	<u>48,034</u>

NET ASSETS

Unrestricted	<u>276,584</u>
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TOTAL LIABILITIES AND NET ASSETS

\$ 324,618

These financial statements should be read only in connection
with the accompanying notes.

ARTSTREAM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

	<u>Unrestricted</u>
SUPPORT AND REVENUE	
Contributions	
Individuals	\$ 125,316
Corporate grants	21,805
Foundation grants	43,675
Government grants	47,175
Program service revenue	
Tuition	119,367
Contract services	103,550
Special events	28,974
Box office receipts	20,619
Concessions	576
Merchandise	3,497
Advertising	5,950
Interest income	243
Loss on investments	(6,621)
Miscellaneous income	1,374
In-kind contributions	4,105
Total support and revenue	519,605
 EXPENSES	
Program services:	
Arts, Culture, and Humanities Productions	235,682
Classes for Autistic Adults and Children	242,445
Total program services	478,127
Supporting services:	
Management and general	24,586
Fundraising	68,532
Total supporting services	93,118
Total expenses	571,245
 CHANGE IN NET ASSETS	 (51,640)
 NET ASSETS, BEGINNING OF YEAR	 328,224
 NET ASSETS, END OF YEAR	 \$ 276,584

These financial statements should be read only in connection
with the accompanying notes.

ARTSTREAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (51,640)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	2,623
Investment losses	6,621
Effects of changes in operating assets and liabilities:	
Accounts receivable	(422)
Prepaid expenses	1,381
Deposits	-
Deferred revenue	(195)
Accounts payable	(1,548)
Accrued payroll obligations	3,488
Net cash used in operating activities	<u>(39,692)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(75,033)
Purchases of property and equipment	<u>(300)</u>
Net cash used in investing activities	<u>(75,333)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (115,025)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>333,650</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 218,625</u></u>

These financial statements should be read only in connection
with the accompanying notes.

ARTSTREAM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ArtStream, Inc. (the Organization) was incorporated in the State of Maryland on September 9, 2005. Based in Silver Spring, Maryland, the mission of the Organization is to create artistic opportunities for individuals challenged by disabilities or life circumstances in communities traditionally under-served by the arts.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Consequently, revenue is recognized when earned and expenses when the obligations are incurred. Contributions and other support are recognized when unconditionally pledged or committed. Unearned revenue and conditional contributions are recorded as deferred revenue until the revenue is earned, or conditions on contributions are met.

Cash and Cash Equivalents

For financial reporting purposes, the Organization classifies money market funds, and short-term investments with an original maturity date of less than three months as cash equivalents.

Accounts and Contributions Receivable

Accounts receivable consist of amounts due for program service fees. Contributions receivable consist of unconditional promises to give and are recorded at their net realizable value. Conditional promises to give are not included as support until the conditions are substantially met.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line depreciation method. Depreciation is provided over the estimated useful lives of the assets, which range from three to seven years. The Organization capitalizes all property and equipment purchased with a cost of \$100 or more.

Restricted Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, temporarily restricted support released in the period received is reported as unrestricted.

Restrictions for substantially all restricted support received during the year ended August 31, 2015, were met during the year. Consequently, no restricted support is reported in the accompanying statement of activities.

ARTSTREAM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated non-cash assets are recognized as contribution revenue at their estimated fair market value on the date of donation.

Unconditional promises to give are recorded in the year made. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at their estimated future cash flows.

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. Accordingly, certain costs have been allocated among the programs supporting services benefited.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). No provision for income taxes is reflected in the statement of financial position, as the Organization did not have a tax liability for the fiscal year ended August 31, 2015.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Investments

Investments consist of mutual funds and are presented in the financial statements at quoted fair values with changes in the fair value that are reflected in revenue currently. Interest, dividends and realized gains and losses are recorded as revenue when earned.

Subsequent Events

The Organization has evaluated subsequent events through January 27, 2016 the date which the financial statements were available to be issued.

ARTSTREAM, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015

NOTE 2 – FINANCIAL INSTRUMENTS

Financial instruments, which potentially subject the Organization to concentration of credit risk, include cash and cash equivalents. The Organization maintains demand deposits and mutual funds at commercial financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portion of these accounts is backed solely by the assets of the financial institution. As such, the failure of an underlying institution could result in financial loss. Management believes there is not a significant concentration of credit risk.

NOTE 3 – COMMITMENTS

Leases

The Organization entered into a five-year operating sublease agreement for office space on May 11, 2011. The lease requires monthly payments ranging from \$1,005 at commencement and \$1,505 in the final year. The Organization is negotiating a new lease for existing lease, plus additional space. Although a written lease is not in place, there is an agreement for a three-year term at \$2,500 per month.

Rent expense under this operating lease for the year ended August 31, 2015 was \$25,062.

The Organization is also obligated under various short-term leases, during the year ending August 31, 2016, for office, event, and theater space.

Future minimum payments under the above leases for each fiscal year are as follows:

2016	17,459
2017	30,000
2018	30,000
2019	<u>30,000</u>
Total minimum payments	<u>\$ 107,459</u>