



Gorfine Schiller Gardyn

Certified Public Accountants and Consultants



ARTSTREAM, INC.

FINANCIAL STATEMENTS
AUGUST 31, 2017

ARTSTREAM, INC.
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INDEPENDENT AUDITORS' REPORT

**Board of Directors
ArtStream, Inc.
Chevy Chase, Maryland**

Report on the Financial Statements

We have audited the accompanying financial statements of ArtStream, Inc., which comprise the statements of financial position as of August 31, 2017, 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, 2017, 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.

Other Matter

The financial statements of ArtStream, Inc. for the year ended August 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on December 8, 2016.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Morino, Schiller & Gaidyn, P.A.

December 6, 2017
Owings Mills, Maryland

FINANCIAL STATEMENTS

ARTSTREAM, INC.
STATEMENTS OF FINANCIAL POSITION
August 31, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 91,340
Accounts receivable	25,127
Prepaid expenses	<u>4,833</u>

Total current assets 121,300

PROPERTY AND EQUIPMENT

Furniture and Equipment	19,352
Less accumulated depreciation	<u>(14,270)</u>

Net property and equipment 5,082

OTHER ASSETS

Investments	150,000
Deposits	<u>13,172</u>

Total other assets 163,172

TOTAL ASSETS \$ 289,554

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 6,388
Accrued payroll	1,743
Deferred revenue and refundable advances	44,993
Short-term loan payable	<u>15,000</u>

Total current liabilities 68,124

NET ASSETS

Unrestricted	214,171
Temporarily restricted	<u>7,259</u>

Total net assets 221,430

TOTAL LIABILITIES AND NET ASSETS \$ 289,554

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

ARTSTREAM, INC.
STATEMENTS OF ACTIVITIES
For the Year Ended August 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions			
Individuals	\$ 145,206	\$ -	\$ 145,206
Corporate grants	55,603	-	55,603
Foundation grants	37,900	15,000	52,900
Government grants	59,936	-	59,936
Program Service Revenue			
Tuition	117,169	-	117,169
Arts in health	65,980	-	65,980
Theatre	29,055	-	29,055
Special events	18,153	-	18,153
Interest and dividend income	348	-	348
Gain on investments	22,602	-	22,602
In-Kind donation	12,826	-	12,826
	<u>564,778</u>	<u>15,000</u>	<u>579,778</u>
Total support and revenue before net assets released from restrictions	564,778	15,000	579,778
Net assets released from restrictions	22,131	(22,131)	-
Total support and revenue	586,909	(7,131)	579,778
EXPENSES			
Program services			
Inclusive theatre companies	249,878	-	249,878
Classes for adults and children	247,252	-	247,252
Arts in health	52,503	-	52,503
Total program services	549,633	-	549,633
Management and general	23,064	-	23,064
Fundraising	64,299	-	64,299
	<u>636,996</u>	<u>-</u>	<u>636,996</u>
Total expenses	636,996	-	636,996
CHANGES IN NET ASSETS	(50,087)	(7,131)	(57,218)
NET ASSETS - Beginning of year	264,258	14,390	278,648
NET ASSETS - End of year	\$ 214,171	\$ 7,259	\$ 221,430

The accompanying notes are an integral part of these financial statements

ARTSTREAM, INC.
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ (57,218)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation	2,874
Investment gains	(22,602)
Changes in assets and liabilities:	
Accounts receivable	(19,306)
Prepaid expenses	1,367
Security deposits	(11,727)
Accounts payable	1,922
Accrued expenses	(7,051)
Deferred revenue	<u>(30,134)</u>
Net cash provided by operating activities	<u>(141,875)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(150,000)
Proceeds from sale of investments	<u>189,285</u>
Net cash provided by investing activities	<u>39,285</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from shor-term loan payable	<u>15,000</u>
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CHANGES IN CASH (87,590)

CASH - Beginning of year 178,930

CASH - End of year \$ 91,340

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

ARTSTREAM, INC.
NOTES TO FINANCIAL STATEMENTS
August 31, 2017

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization and Nature of Activities

ArtStream, Inc. (the Organization) was incorporated in the State of Maryland on September 9, 2005. People with intellectual and developmental disabilities (IDD) – including autism spectrum disorders – develop communication, self-advocacy and social skills through the Organization’s inclusive performance-based learning programs. These skills transfer to the home, classroom, workplace, and community. Participants make their own choices and are engaged, stimulated, challenged and inspired to surpass their own and others’ expectations.

ArtStream provides **performance-based classes and workshops** for participants with IDD of all ages. Class themes include comedy, musical theatre, dance, improv, public speaking, and role play. All are designed to improve communication, self-advocacy and social skills, and improve self-esteem.

Participants in ArtStream’s six **Inclusive Theatre Companies** collaboratively write and produce original musicals featuring adults with IDD and autism performing on stage alongside volunteer mentors and teaching artists. The musicals are performed for the public in Maryland and Virginia.

At Walter Reed National Military Medical Center (WRNMMC) in Bethesda, ArtStream’s bedside programming uses **therapeutic arts activities** to aid in the psychological recovery of wounded veterans and visiting family members. Arts-based activities also improve the resilience and morale of nursing personnel, technicians, and medics employed across the Walter Reed campus.

2. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and in accordance with the Financial Accounting Standards Board Accounting Standards Codification (ASC) which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no permanently restricted net assets as of August 31, 2017.

3. 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

The Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. As of August 31, 2017, the Organization did not have any cash equivalents.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

6. Receivable

Receivables consist of amounts due for program service fees and contributions receivable from unconditional promises to give which are recorded at their net realizable value. The Organization considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

7. Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Purchases of property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided using the straight-line method over the estimated useful lives of the asset, which range from 3 to 7 years. Depreciation expense was \$2,873 for the year ended August 31, 2017.

8. Investments

Investments are presented at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value, whether realized or unrealized, are reported in the statements of activities in the period in which they occur. Purchases and sales of investments are recorded on the trade-date basis, dividend income is recognized as of the ex-dividend date and interest income is recognized as earned on the accrual basis.

9. Contributions and Revenue

Contributions are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Donor-restricted contributions are reported as increases in temporarily restricted net assets. 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.

10. Deferred Revenue and Refundable Advances

Revenues received in advance of rendering related services are recorded as deferred revenue, until services are rendered. Conditional grant funds and contributions are recorded as refundable advances until the conditions are met.

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Donated Services, Equipment and Supplies

Donated equipment and supplies are recorded at their estimated fair values in the period received. Donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received.

12. Functional Allocation of Expense

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 program services and supporting activities benefited.

13. Income Tax Status

The Organization is a not-for-profit corporation as described under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code.

ASC 740, *Income Taxes* requires the Organization to recognize or disclose any tax positions that would result in unrecognized tax exposures. The Organization has no positions that would require disclosure or recognition under the topic. The Organization's information returns for years ending August 31, 2014 and after are subject to examination by the various taxing authorities; however there are currently no examinations in progress.

14. Recent Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14 *Not-for-Profit Entities*, which contains significant changes to the financial statements requirements under the *Not-for-Profit Entities* topic of the Accounting Standards Codification. The new standard is effective for the year ending August 31, 2019. The Organization will evaluate the effect that implementation of the new standard will have on its financial position, results of operations and cash flows.

15. Subsequent Events

In preparing these financial statements, the Organization evaluated events and transactions for potential recognition or disclosure through December 6, 2017 the date the financial statements were available to be issued. During this period, the Organization did not have any material recognizable subsequent events.

NOTE B – CONCENTRATION OF CREDIT RISK

The Organization maintains cash in multiple financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. At August 31, 2017, there were no uninsured cash balances. Financial instruments with a maturity date of less than three months are invested in 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 FDIC. The uninsured portion of these accounts are backed solely by the assets of the financial institution. The Organization has not experienced any loss in these accounts and does not believe it is exposed to any significant credit risk on its cash and financial instruments balances.

NOTE C – COMMITMENTS

The Organization entered into operating sublease agreement for office space on July 17, 2017. The sublease terminates on December 19, 2022 and requires aggregate monthly payments of \$3,283. Rent expense for the year ended August 31, 2017 was \$28,423

Future minimum payments under the sublease are as follows:

2018	\$	39,499
2019		40,683
2020		41,904
2021		43,161
2022		44,456
Thereafter		15,225

The Organization was also obligated under various short-term leases, during the year ended August 31, 2017, for office, event and theater space.

NOTE D – FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (FASB 820), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets:
 - Quoted prices for identical or similar assets or liabilities in inactive markets:
 - Inputs other than quoted prices that are observable for the asset or liability:
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE D – FAIR VALUE MEASUREMENTS – Continued

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at August 31, 2017.

Mutual funds and STIF: Valued at the quoted net asset value of shares held by the plan at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table is set forth by level, within the fair value hierarchy, the Plan's assets at fair value as of August 31, 2017:

Assets at Fair Value as of August 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds - bonds				
Global bonds	\$ 56,242	\$ -	\$ -	\$ 56,242
US core bonds	18,926	-	-	18,926
Inflation protected bond	18,931	-	-	18,931
Short-term bond	13,194	-	-	13,194
International equity bond	9,365	-	-	9,365
STIF	<u>33,342</u>	<u>-</u>	<u>-</u>	<u>33,342</u>
Total assets at fair value	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 150,000</u>

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods for specified purposes. Temporarily restricted net assets as of August 31, 2017 was \$7,259 and are restricted for the purpose of a specific program.

NOTE F – CONTRIBUTED SERVICES

During the year ended August 31, 2017, the Organization's programs benefited from the services of volunteers. The Organization estimates a total of 4,711 hours of services were provided by volunteers, with an estimated value of \$126,208.

In accordance with generally accepted accounting principles, contributed services are recorded in the financial statements at their fair market value, if the services require specialized skills, or increase the value of the Organization's assets. The Organization did not receive such services during the fiscal year, consequently, no amount is included in the accompanying financial statements for contributed services.

NOTE G – CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

The Organization invests in various investments. As a result, the Organization's revenues and liquidity are directly affected by general economic and capital market conditions, including fluctuations in the price levels of securities and changes in interest rates. The Organization believes the risks associated with such investment activities have been minimized through diversification of the investment portfolio and utilization of independent portfolio managers, as well as an independent investment manager, to monitor investment performance.

ARTSTREAM, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended August 31, 2017

	Program Services						
	Inclusive Theatre Companies	Classes for Adults and Children	Arts in Health	Total Program Services	Management and General	Fundraising	Total
Administrative expenses	\$ 20,399	\$ 23,783	\$ 2,887	\$ 47,069	\$ 12,979	\$ 5,878	\$ 65,926
Computer software	113	134	16	263	9	24	296
Conference	139	165	1,019	1,323	11	29	1,363
Depreciation	1,099	1,304	153	2,556	86	230	2,872
In-kind donations	-	-	-	-	300	6,676	6,976
Marketing	3,704	3,779	441	7,924	148	394	8,466
Office expense	1,897	2,249	265	4,411	172	378	4,961
Subcontractors	56,333	69,555	27,152	153,040	57	152	153,249
Salaries	107,868	127,681	15,021	250,570	8,439	22,504	281,513
Printing and publication	7,924	2,251	215	10,390	78	2,927	13,395
Professional development	505	453	53	1,011	25	145	1,181
Professional fees	8,715	9,447	1,111	19,273	583	10,874	30,730
Program	39,878	5,613	3,657	49,148	170	81	49,399
Sales tax	98	-	-	98	-	-	98
Special events	-	-	-	-	-	13,971	13,971
Travel	1,206	838	513	2,557	7	36	2,600
Total functional expenses	\$ 249,878	\$ 247,252	\$ 52,503	\$ 549,633	\$ 23,064	\$ 64,299	\$ 636,996

See independent auditors' report.