

Artrain, Incorporated

**Financial Statements**

For the Year Ended December 31, 2009

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## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Artrain, Incorporated  
d/b/a Artrain  
Ann Arbor, Michigan

We have audited the accompanying statements of financial position of Artrain, Incorporated d/b/a Artrain (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artrain, Incorporated d/b/a Artrain as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Gayle Leipsitz, CPA, P.C.  
Certified Public Accountants

April 27, 2010

**Artrain**  
**Statements of Financial Position**  
**December 31, 2009 and 2008**

**ASSETS**

	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 20,026	\$ 356,867
Escrow - America Now and Here	237,500	-
Accounts receivable	5,249	301
Grant receivable	8,200	45,500
Promise to give, current portion	107,494	164,413
Inventory	11,661	16,583
Prepaid expenses	-	200
<b>Total Current Assets</b>	<b>390,130</b>	<b>583,864</b>
Promise to give, long term portion	50,043	64,925
Prepaid exhibition, less accumulated amortization	17,002	71,881
Board designated investments	700,000	-
Endowment investments	-	767,966
Property and equipment, net	981,359	952,163
<b>TOTAL ASSETS</b>	<b>\$ 2,138,534</b>	<b>\$ 2,440,799</b>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 83,036	\$ 64,322
Payable - America Now and Here	237,500	-
Accrued payroll liabilities	8,542	28,788
Deferred revenue	16,500	-
Related party payables	155,000	173,000
Loans payable - current	90,020	120,748
<b>Total Current Liabilities</b>	<b>590,598</b>	<b>386,858</b>
<b>LONG-TERM LIABILITIES</b>		
Loans payable	966,119	1,032,102
<b>Total Long-Term Liabilities</b>	<b>966,119</b>	<b>1,032,102</b>
<b>Total Liabilities</b>	<b>1,556,717</b>	<b>1,418,960</b>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	493,671	396,194
Aggregate deficiency of endowment fund	-	(230,682)
	493,671	165,512
Temporarily restricted	88,146	246,011
Permanently restricted	-	1,000,000
<b>Total net assets</b>	<b>581,817</b>	<b>1,411,523</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,138,534</b>	<b>\$ 2,440,799</b>

See accompanying notes to financial statements.

**Artrain, Inc.**  
**Statement of Activities**  
**Years Ended December 31, 2009**  
**and 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2008</u>
<b>REVENUE AND SUPPORT</b>					
Contributions	\$ 279,892	\$ 25,000		\$ 304,892	\$ 577,251
Grants	82,779	-	-	82,779	201,100
Donated materials and services	67,483	-	-	67,483	33,947
Program fees	15,000	-	-	15,000	-
Sales, admissions and other	2,022	-	-	2,022	3,115
Interest and dividends	36,600	-	-	36,600	38,060
Realized gains on investments	-	-	-	-	-
Other income	2,328	-	-	2,328	15,478
Net assets released from restrictions	1,147,200	(147,200)	(1,000,000)	-	-
				-	
Total revenue and support	1,633,304	(122,200)	(1,000,000)	511,104	868,951
				-	
Unrealized gain(loss) on Endowment Funds		-	-	-	
				-	
<b>Expenses</b>					
Program services	546,156	-	-	546,156	1,017,386
Management and general	106,391	-	-	106,391	117,325
Development	298,576	-	-	298,576	123,927
				-	
Total Expenses	951,123	-	-	951,123	1,258,638
				-	
Increase (Decrease) in Net Assets	682,181	(122,200)	(1,000,000)	(440,019)	(389,687)
<b>NET ASSETS - Beginning of Year</b>	(188,510)	210,346	1,000,000	1,021,836	1,411,523
<b>NET ASSETS - End of Year</b>	<u>\$ 493,671</u>	<u>\$ 88,146</u>	<u>\$ -</u>	<u>\$ 581,817</u>	<u>\$ 1,021,836</u>

See accompanying notes to financial statements

**Artrain, Inc.**  
**Statement of Cash Flows**  
**Years Ended December 31, 2009**  
**and 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

	<u>2009</u>	<u>2008</u>
Decrease in net assets	\$ (440,019)	\$ (389,687)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	19,070	40,782
Amortization	-	-
Adjust promises to give to market value	-	(6,051)
Change in operating assets and liabilities:		
Accounts receivable	(4,948)	(301)
Escrow - America Now and Here	(237,500)	-
Grants receivables	37,300	(31,100)
Promises to give	71,801	63,788
Inventory	4,922	28,462
Prepaid expenses	200	(71,114)
Endowment investments	67,966	1,352
Accounts payable	18,714	81,686
Payable - America Now and Here	237,500	-
Accrued payroll liabilities	(20,246)	18,938
Deferred revenue	16,500	-
Net cash used by operating activities	(228,740)	(263,245)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds (withdrawals) from the maturity of securities	-	1,352
Sale (purchase) of property and equipment	(29,390)	629,223
Net cash used in investing activities	(29,390)	630,575

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net proceeds and payments from related party loans	18,000	91,701
Net proceeds and payments on bank loans	(96,711)	(117,497)
Net cash provided by financing activities	(78,711)	(25,796)

<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(336,841)</b>	<b>341,534</b>
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<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<b>356,867</b>	<b>15,333</b>
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<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<b>\$ 20,026</b>	<b>\$ 356,867</b>
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Total interest paid	\$ 80,212	\$ 104,632
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**Schedule of noncash transactions:**

During the year ended December 31, 2009 and 2008, donated services and materials of \$67,483 and \$33,947 were received, respectively.

**Artrain, Inc.**  
**Statement of Functional Expenses**  
**Years Ended December 31, 2009**  
**and 2008**

	<u>Program</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>	<u>2008</u>
<b>Compensation and related expenses</b>					
Salary	\$ 166,558	\$ 62,712	\$ 87,426	\$ 316,696	\$ 260,526
Employee benefits	12,955	6,020	6,841	25,816	12,608
Payroll Taxes	12,742	5,955	6,688	25,385	20,908
	<u>192,255</u>	<u>74,687</u>	<u>100,955</u>	<u>367,897</u>	<u>294,042</u>
Staff development	-	956	362	1,318	7,931
Outside services	-	1,108	-	1,108	925
Per diem, lodging and meals	12,747	2,133	4,974	19,854	15,593
Exhibition:	-	-	-	-	-
Amortization	-	-	-	-	-
Other	197,603	-	-	197,603	7,398
Program materials	-	-	-	-	-
Insurance	4,942	4,533	-	9,475	24,726
Ground transportation	-	-	-	-	246
Supplies and hardware	-	-	-	-	-
Repair and maintenance	100	1,191	-	1,291	4,541
Generator fuel	-	-	-	-	-
Office rent	10,203	(1,091)	7,653	16,765	23,286
Telephone	1,670	1,473	1,414	4,557	2,188
Office supplies	1,011	27	1,494	2,532	3,613
Printing	940	6,285	9,709	16,934	4,843
Postage and shipping	1,081	1,703	1,967	4,751	4,483
Sponsor benefits	-	-	22,462	22,462	3,953
Advertising and promotion	9,090	-	-	9,090	2,577
Items for re-sale	-	-	-	-	28,732
Bank fees and interest	74,959	5,253	-	80,212	104,632
Investment management fees	-	-	-	-	-
Professional fees	-	8,020	147,348	155,368	7,000
Depreciation	19,070	-	-	19,070	40,782
Miscellaneous	1,485	113	238	1,836	3,359
Legal settlement	-	-	-	-	23,125
Loss on sale of assets	-	-	-	-	650,663
Bad debt expense	-	-	-	-	-
Donated rail service	19,000	-	-	19,000	-
	<u>\$ 546,156</u>	<u>\$ 106,391</u>	<u>\$ 298,576</u>	<u>\$ 951,123</u>	<u>\$ 1,258,638</u>

See accompanying notes to financial statements

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**1. Nature of organization**

Artrain, Incorporated organized as a non-profit organization, is exempt from income taxation under code Section 501( c )( 3 ) of the Internal Revenue Code and similar laws of the State of Michigan. The Organization promotes interest in and appreciation for the arts by bringing exhibitions and art education programs to the public in communities that may not possess art facilities.

**2. Summary of significant accounting policies**

a) **Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

b) **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required 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.

Net Assets of the two restricted classes are created either by donor-imposed restrictions on their use or time restrictions. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Revenues earned from program services provided, unrestricted contributions, investment income available for general operations, and all operating expenses are reported in the unrestricted category.

Temporarily restricted net assets consist of unconditional promises to give with donor imposed time restrictions and also contributions received with donor imposed purpose restrictions.

The Organization does not have permanently restricted net assets.

c) **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

d) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

e) **Advertising Costs**

Advertising costs are expensed as incurred

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**2. Summary of significant accounting policies (continued)**

- f) Property, Equipment and Depreciation  
Purchased train equipment, office equipment, furniture, and vehicles are recorded at cost. Donated property and equipment is recorded at fair value on the date of donation. Maintenance and repairs are charged to expenses as incurred; major renewals and betterments are capitalized. The Organization capitalized all property and equipment purchases exceeding \$1,000. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities. Depreciation is provided on the straight-line method over a reasonable estimated useful life.
- g) Functional expense allocation  
Direct identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Artrain, Inc. Although methods used were considered reasonable other methods could be used that would produce difference results.
- h) Accounts receivable  
Artrain, Inc uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its accounts receivable balances with particular attention given to the those accounts greater than 90 days old. Based on management's review, an allowance for \$4,680 has been established.
- i) Inventory  
Inventory consists of educational art books, art reproductions, art supplies, catalogs and train memorabilia held for resale. Inventory is valued at the lower of cost or market using the first-in first-out method.
- j) Board designated investments  
Board designated investments are reported at fair value in accordance with accounting principles generally accepted in the United States of America. Fair value is determined from quoted prices as of the last day of the calendar year. All items of income, gain and loss have been designated as available for operating purposes and are recorded as unrestricted net assets.
- k) Support  
Revenue through public support is recognized when pledged or received and revenue through sales and services is recognized when earned.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**3. Promise to give**

Unconditional promises to give consist of the following at December 31, 2009:

Unconditional promises to give before unamortized	
Discount and allowance for uncollectibles	\$ 157,537
Less: unamortized discount	<u>( 4,476)</u>
Subtotal	153,061
Less: allowance for uncollectibles	<u>(3,306)</u>
Net unconditional promises to give	<u>\$ 149,755</u>
Amounts are due as follows:	
Less than one year	\$ 107,494
One to five years	<u>42,261</u>
	<u>\$ 149,755</u>

Concentrations:

2009 promises to give include one major donor which comprises 45% of total promises receivable.

**4. Prepaid exhibition**

Costs incurred for the Infinite Mirror exhibition are capitalized and will be amortized when the exhibition opens using the straight-line method over the estimated life of the tour. The components of prepaid exhibition at December 31, 2009, are as follows:

Capitalized exhibition costs	\$ 17,002
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**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**5. Board designated investments**

In 1977, Artrain, Inc received a five year matching grant which totaled \$1,000,000 from the Herbert H. and Grace A. Dow Foundation to be used to establish funding for Artrain, Inc. During the audit for 2009, the organization determined through correspondence with the Dow Foundation that there are no restrictions on the gift made in 1977. The endowment fund of \$1,000,000 has been reclassified as unrestricted net assets.

Board designated investments are held for long-term funding for the future of Artrain, Inc. At December 31, 2009 the investments are comprised of the following:

	<u>Fair Value</u>
Certificate of Deposit	<u>700,000</u>
	<u>\$700,000</u>

**6. Property and equipment**

The components of property and equipment are as follows:

	<u>Estimated Life In Years</u>	<u>2009</u>
Exhibition		\$ 97,620
Office equipment and furniture	3-7	55,287
Website design and rebranding	3-10	67,470
Leasehold improvements	40	142,562
Railcar not placed in service		<u>749,751</u>
		1,112,690
Less: accumulated depreciation		<u>(131,330)</u>
		<u>\$ 981,360</u>

Artrain, Inc had capitalized costs of \$67,470 for exhibition costs and \$749,751, for purchasing and refurbishing a railcar. The railcar and the planned exhibition assets were not yet placed in service, and were therefore not depreciated during the year ending December 31, 2009.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**7. Debt**

Michigan Commerce Bank, formerly known as Ann Arbor Commerce Bank, financed three notes with a total original principal amount of \$1,350,000. At 12/31/09 the principal balance is \$1,056,139

<u>Date</u>	<u>Loan#</u>	<u>Amount</u>	<u>Rate</u>	<u>Balance</u>
2/08/2007	8839520	\$250,000	5.00%	\$125,097
3/01/2007	8839590	\$700,000	7.50%	\$700,000
3/15/2007	8839660	\$400,000	7.75%	\$231,042

In March of 2010, Artrain, Inc. renegotiated the existing debt with Bank of Ann Arbor, resulting in lower interest rates and more favorable payment terms.

**8. Temporarily restricted net assets**

Temporarily restricted net assets of Artrain, Inc. are grants and contributions received or promised to give with donor-imposed stipulations. These stipulations are removed when Artrain, Inc. expends the funds for the purpose specified. Temporarily restricted contributions whose restrictions are met in the same reporting period are stated on the financial statements as unrestricted contributions.

At December 31, 2009 Artrain, Inc. has the following temporarily restricted net assets:

Temporarily restricted promises to give	\$ 88,146
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**9. Permanently restricted net assets**

There are no permanently restricted net assets.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**10. Commitments and contingencies**

Lease

Artrain, Inc. leases office space under a two year lease that expires December 31, 2010. The Organization has one year remaining on a new two year lease expiring December 31, 2010 with the same landlord. The following is the estimated minimum annual lease payment:

2010    \$14,400

Support and revenue

Artrain, Inc. receives the vast majority of operating resources from the support provided by contributions from individuals, corporations, foundations, grants and program fees as well as donated services from corporations and individuals. A significant reduction in the level of support, if it were to occur, could have a material effect on the Organization's programs and activities. Conditional grants, bequests and endowments require the fulfillment of the conditions under which they were granted. A failure to meet or continue to satisfy these conditions could result in the return of the funds to the grant source. Although this possibility exists, the Board continues to deem such contingency as remote. By accepting the grants and endowments and their terms and conditions, the Board believes they have accommodated the objectives of the organization to the provisions of the gift.

**11. Donated services, materials and time**

Donated services and materials

Artrain, Inc. did receive various in-kind donations from entities with a fair value of \$67,483 for the fiscal year ending December 31, 2009. These donations have been recorded as contribution revenue. There were no costs associated with these donations.

Donated volunteer time

The board has donated approximately 624 hours of volunteer time in 2009.

Contributed services are recognized if services received (a) create or enhance non-financial assets, or (b) require specialized skills. Some of the donated services included in the statement of activities are the value of rail transportation services or train rehabilitation. The statement of activities and the statement of functional expenses have been stated to reflect the offsetting value of contributions and related expenses.

**12. Retirement plan**

Artrain, Inc. has a 403(b) retirement plan for its employees. All employees are eligible to make elective contributions into the plan after satisfying eligibility requirements. Participants should refer to the plan documents for vesting percentages and other details.

**13. Related party transactions**

At December 31, 2009, there were board member loans outstanding of \$155,000.