

Artrain, Incorporated

**Financial Statements**

**For the Year Ended December 31, 2010**

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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, 2010 and 2009, 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, 2010 and 2009, 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.*

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

May 17, 2011

**Artrain , Inc.**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

<b>ASSETS</b>	<u>2010</u>	<u>2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,528	\$ 20,026
Escrow - America Now and Here	-	237,500
Accounts receivable	-	5,249
Grant receivable	-	8,200
Promise to give, current portion	27,150	107,494
Inventory	<u>10,999</u>	<u>11,661</u>
<b>Total Current Assets</b>	<b>46,677</b>	<b>390,130</b>
Promise to give, long term portion	13,102	50,043
Prepaid exhibition, less accumulated amortization	-	17,002
Investments	1,116	700,000
Property and equipment, net	<u>961,009</u>	<u>981,359</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,021,904</u></b>	<b><u>\$ 2,138,534</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 62,269	\$ 83,036
Payable - America Now and Here	-	237,500
Accrued payroll liabilities	361	8,542
Deferred revenue	2,000	16,500
Related party payables - current	2,000	155,000
Loans payable - current	<u>109,500</u>	<u>90,020</u>
<b>Total Current Liabilities</b>	<b>176,130</b>	<b>590,598</b>
<b>LONG-TERM LIABILITIES</b>		
Related party payables	182,000	-
Loans payable	<u>228,125</u>	<u>966,119</u>
<b>Total Long-Term Liabilities</b>	<b><u>410,125</u></b>	<b><u>966,119</u></b>
<b>Total Liabilities</b>	<b><u>586,255</u></b>	<b><u>1,556,717</u></b>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	<u>435,649</u>	<u>493,671</u>
	435,649	493,671
Temporarily restricted	<u>-</u>	<u>88,146</u>
<b>Total net assets</b>	<b><u>435,649</u></b>	<b><u>581,817</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,021,904</u></b>	<b><u>\$ 2,138,534</u></b>

See accompanying notes to financial statements.

**Artrain, Inc.**  
**Statements of Activities**  
**Years Ended December 31, 2010**  
**and 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2009</u>
<b>REVENUE AND SUPPORT</b>					
Contributions	\$ 157,544			\$ 157,544	\$ 304,892
Grants	7,500	-	-	7,500	82,779
Donated materials and services	12,484	-	-	12,484	67,483
Program fees	42,576	-	-	42,576	15,000
Sales, admissions and other	-	-	-	-	2,022
Interest and dividends	17,418	-	-	17,418	36,600
Unrealized gains on investments	45	-	-	45	-
Other income	412	-	-	\$ 412	2,328
Net assets released from restrictions	88,146	(88,146)		-	-
				-	
Total revenue and support	326,125	(88,146)	-	237,979	511,104
				-	
Unrealized gain(loss) on Endowment Funds		-	-	-	
				-	
<b>Expenses</b>					
Program services	189,569	-	-	189,569	546,156
Management and general	118,369	-	-	118,369	106,391
Development	76,209	-	-	76,209	298,576
				-	
Total Expenses	384,147	-	-	384,147	951,123
Increase (Decrease) in Net Assets	(58,022)	(88,146)	-	(146,168)	(440,019)
NET ASSETS - Beginning of Year	493,671	88,146	-	581,817	1,021,836
NET ASSETS - End of Year	<u>\$ 435,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,649</u>	<u>\$ 581,817</u>

See accompanying notes to financial statements

**Artrain, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010**  
**and 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>2010</b>	<b>2009</b>
Decrease in net assets	\$ (146,168)	\$ (440,019)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	21,019	19,070
Change in operating assets and liabilities:		
Accounts receivable	5,249	(4,948)
Escrow - America Now and Here	237,500	(237,500)
Grants receivables	8,200	37,300
Promises to give	117,285	71,801
Inventory	662	4,922
Prepaid expenses	17,002	200
Endowment investments	700,000	67,966
Investments	(1,116)	-
Accounts payable	(20,767)	18,714
Payable - America Now and Here	(237,500)	237,500
Accrued payroll liabilities	(8,181)	(20,246)
Deferred revenue	(14,500)	16,500
Net cash used by operating activities	678,685	(228,740)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds (withdrawals) from the maturity of securities	-	-
Sale (purchase) of property and equipment	(669)	(29,390)
Net cash used in investing activities	(669)	(29,390)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net proceeds and payments from related party loans	29,000	18,000
Net proceeds and payments on bank loans	(718,514)	(96,711)
Net cash provided by financing activities	(689,514)	(78,711)

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** (11,498) (336,841)

**CASH AND CASH EQUIVALENTS - Beginning of Year** 20,026 356,867

**CASH AND CASH EQUIVALENTS - End of Year** \$ 8,528 \$ 20,026

Total interest paid \$ 64,806 \$ 80,212

**Schedule of noncash transactions:**

During the year ended December 31, 2010 and 2009, donated services and materials of \$12,484 and \$67,483 were received, respectively.

**Artrain, Inc.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2010**  
**and 2009**

	<u>Program</u>	<u>Management and General</u>	<u>Development</u>	<u>Total</u>	<u>2009</u>
<b>Compensation and related expenses</b>					
Salary	\$ 27,417	\$ 60,841	\$ 50,679	\$ 138,937	\$ 316,696
Employee benefits	3,861	7,274	6,902	18,037	25,816
Payroll Taxes	2,062	5,347	3,610	11,019	25,385
	<u>33,340</u>	<u>73,462</u>	<u>61,191</u>	<u>167,993</u>	<u>367,897</u>
Staff development	20	1,480	162	1,662	1,318
Outside services	-	958	-	958	1,108
Per diem, lodging and meals	2,756	2,533	342	5,631	19,854
Exhibition:	-	-	-	-	-
Other	62,236	-	-	62,236	197,603
Program materials	-	-	-	-	-
Insurance	3,664	3,095	-	6,759	9,475
Repair and maintenance	100	798	-	898	1,291
Office rent	3,377	6,270	6,431	16,078	16,765
Telephone	1,215	1,279	552	3,046	4,557
Office supplies	25	988	335	1,348	2,532
Printing	781	2,048	2,046	4,875	16,934
Postage and shipping	173	787	2,217	3,177	4,751
Sponsor benefits	-	-	1,632	1,632	22,462
Advertising and promotion	520	-	-	520	9,090
Items for re-sale	411	-	-	411	-
Bank fees and interest	58,634	6,172	-	64,806	80,212
Website and IT expense	1,252	-	1,251	2,503	-
Professional fees	-	18,114	50	18,164	155,368
Depreciation	21,019	-	-	21,019	19,070
Miscellaneous	46	385	-	431	1,836
Donated rail service	-	-	-	-	19,000
	<u>\$ 189,569</u>	<u>\$ 118,369</u>	<u>\$ 76,209</u>	<u>\$ 384,147</u>	<u>\$ 951,123</u>

See accompanying notes to financial statements

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

**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 ASC 958 (formerly SFAS No. 117). Under FASB ASC 958 (formerly 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.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

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

e) Property, Equipment and Depreciation

Purchased 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.

f) 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.

g) Pledges receivable

Artrain, Inc uses the allowance method for accounting for doubtful accounts. Management regularly reviews the collection history of its pledges receivable balances with particular attention given to those accounts greater than 90 days old. Based on management's review, an allowance for \$821 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) Investments

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, 2010**

**3. Promise to give**

Unconditional promises to give consist of the following at December 31, 2010:

Unconditional promises to give before unamortized	
Discount and allowance for uncollectibles	\$ 42,250
Less: unamortized discount	<u>(1,177)</u>
Subtotal	41,073
Less: allowance for uncollectibles	<u>(821)</u>
Net unconditional promises to give	<u>\$ 40,252</u>
Amounts are due as follows:	
Less than one year	\$ 27,150
One to five years	<u>13,102</u>
	<u>\$ 40,252</u>

**4. Investments**

In 2010, Artrain, Inc received a stock donation valued at \$1,070. Investments are valued at market value. At December 31, 2010 the investments are comprised of the following:

	<u>Fair Value</u>
19 shares of Prudential stock	<u>1,115</u>
	<u>\$ 1,115</u>

**5. Property and equipment**

The components of property and equipment are as follows:

	<u>Estimated Life</u> <u>In Years</u>	<u>2010</u>
Exhibition		\$ 97,620
Office equipment and furniture	3-7	47,167
Website design and rebranding	3-10	67,471
Leasehold improvements	40	142,562
Railcar not placed in service		<u>749,751</u>
		1,104,571
Less: accumulated depreciation		<u>(143,561)</u>
		<u>\$ 961,010</u>

Artrain, Inc had exhibition costs and \$749,751, for purchasing and refurbishing a railcar. The railcar was not yet placed in service, and was therefore not depreciated during the year ending December 31, 2010.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

**6. Debt**

Bank of Ann Arbor refinanced a note with a total original principal amount of \$365,000. At 12/31/10 the principal balance is \$337,625

<u>Date</u>	<u>Loan#</u>	<u>Amount</u>	<u>Rate</u>	<u>Balance</u>
4/22/2010	2009050	\$365,000	3.25%	\$337,625

**7. 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, 2010 Artrain, Inc. has no temporarily restricted net assets.

**8. Permanently restricted net assets**

There are no permanently restricted net assets.

**9. Commitments and contingencies**

Lease

Artrain, Inc. lease for office space expired on December 31, 2010. The Organization is on a month to month basis in 2011. The following is the estimated minimum annual lease payment:

2011	\$14,400
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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. The Board continues to deem such contingency as remote.

Conditional grants, bequests and endowments require the fulfillment of the conditions under which they were granted. 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. The Board acknowledges that a failure to meet or continue to satisfy these conditions could result in the return of the funds to the grant source.

**Artrain, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010**

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

Donated services and materials

Artrain, Inc. did receive various in-kind donations from entities with a fair value of \$12,484 for the fiscal year ending December 31, 2010. These donations have been recorded as contribution revenue. There were no costs associated with these donations.

Donated volunteer time

The board has donated approximately 988 hours of volunteer time in 2010.

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. had a 403(b) retirement plan for its employees in place at the beginning of 2010. In November, 2010, the board voted to terminate the plan.

**13. Related party transactions**

At December 31, 2010, there were board member loans outstanding of \$184,000.

Bert Althaver	\$182,000
Greg Rose	<u>2,000</u>
Total	<u>\$184,000</u>