

Discovery Arts
Financial Statements
For the Years Ended June 30, 2015 and 2014
and
Independent Auditor's Report

**Discovery Arts
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For the Years Ended June 30, 2014 and 2013**

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LAWRENCE R. MITCHELL & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
A Professional Corporation

Independent Auditor's Report

Board of Directors
Discovery Arts

We have audited the accompanying financial statements of Discovery Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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.

Auditor's 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 auditor's 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 Discovery Arts as of June 30, 2015 and 2014, 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.

Lawrence R. Mitchell & Company

Lawrence R. Mitchell & Company
Certified Public Accountants
A Professional Corporation

El Segundo, California

July 15, 2016

Discovery Arts
Statements of Financial Position
June 30, 2015 and 2014

Assets

Current assets:	2015	2014
Cash	\$ 45,044	\$ 21,036
Receivables	1,480	1,480
Supplies inventory - workbooks	3,516	3,516
Prepaid insurance	3,594	3,373
Total current assets	53,634	29,405
Other assets:		
Property and equipment, net	625	3,125
Other assets	6,000	6,000
Total other assets	6,625	9,125
Total assets	\$ 60,259	\$ 38,530

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 25,139	\$ 17,917
Accrued and other current liabilities	12,169	15,223
Total liabilities	37,308	33,140
Net assets:		
Unrestricted	22,951	5,390
Total net assets	22,951	5,390
Total liabilities and net assets	\$ 60,259	\$ 38,530

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

Discovery Arts
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2015 and 2014

Changes in unrestricted net assets:	2015	2014
Public support:		
Contributions	\$ 171,315	\$ 167,214
Donated materials	45,692	37,037
Donated services	5,928	5,928
Total public support	222,935	210,179
 Other income:		
Interest income	1	2
Total unrestricted public support and other income	222,936	210,181
 Expenses:		
Program services	171,571	192,904
Support services:		
Management and general	21,249	24,905
Fundraising	12,555	13,247
Total support services	33,804	38,152
Total program and support services	205,375	231,056
Net increase (decrease) in unrestricted net assets	17,561	(20,875)
 Changes in temporarily restricted net assets:		
Net change in temporarily restricted assets	-	-
Increase (decrease) in net assets	17,561	(20,875)
Net assets, beginning of year	5,390	26,265
Net assets, end of year	\$ 22,951	\$ 5,390

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

Discovery Arts
Statements of Functional Expenses
For the Years Ended June 30, 2015 and 2014

June 30, 2015	Program Service	Support		Subtotal	Total
		Mgt. and General	Fund Raising		
Salaries and wages	\$ 65,747	\$ 11,281	\$ 1,781	\$ 13,062	\$ 78,809
Employment taxes and benefits	23,603	4,050	639	4,689	28,292
Conferences and meetings	-	769	-	769	769
Insurance	4,348	746	118	864	5,212
Miscellaneous	5,340	1,410	470	1,880	7,220
Occupancy	4,685	1,562	1,562	3,124	7,809
Postage and shipping	-	112	1,010	1,122	1,122
Professional fees & contract services	6,711	286	5,545	5,831	12,542
Supplies and printing	7,672	802	1,199	2,001	9,673
Telephone	1,845	231	231	462	2,307
Subtotals	119,951	21,249	12,555	33,804	153,755
Donated materials and services	51,620	-	-	-	51,620
	\$ 171,571	\$ 21,249	\$ 12,555	\$ 33,804	\$ 205,375

June 30, 2014	Program Service	Support		Subtotal	Total
		Mgt. and General	Fund Raising		
Salaries and wages	\$ 86,795	\$ 13,664	\$ 2,250	\$ 15,914	\$ 102,709
Employment taxes and benefits	29,075	4,577	753	5,330	34,405
Conferences and meetings	-	1,456	-	1,456	1,456
Insurance	4,046	637	105	742	4,788
Miscellaneous	5,596	1,227	409	1,636	7,232
Occupancy	4,776	1,592	1,592	3,184	7,960
Postage and shipping	-	130	1,165	1,295	1,295
Professional fees & contract services	8,951	537	5,589	6,126	15,077
Supplies and printing	9,179	895	1,194	2,089	11,268
Telephone	1,521	190	190	380	1,901
Subtotals	149,939	24,905	13,247	38,152	188,091
Donated materials and services	42,965	-	-	-	42,965
	\$ 192,904	\$ 24,905	\$ 13,247	\$ 38,152	\$ 231,056

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

Discovery Arts
Statements of Cash Flows
For the Years Ended June 30, 2015 and 2014

Cash flows from operating activities:	2015	2014
Increase (decrease) in net assets	\$ 17,561	\$ (20,875)
 Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	2,500	2,654
<i>(Increase) decrease in:</i>		
Receivables	-	(1,141)
Supplies inventory - workbooks	-	900
Prepaid insurance	(221)	(353)
<i>Increase (decrease) in:</i>		
Accounts payable	7,222	3,615
Accrued and other current liabilities	(3,054)	15,223
Total adjustments	6,447	20,898
Net cash provided by operating activities	24,008	23
 Net increase in cash	 24,008	 23
 Cash at beginning of year	 21,036	 21,013
 Cash at end of year	 \$ 45,044	 \$ 21,036

Supplemental disclosures of cash flow information:

<i>Cash paid during year for:</i>		
Interest	\$ 1,191	\$ 1,058
Income taxes	\$ -	\$ -

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

Discovery Arts
Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

1. Summary of significant accounting policies

This summary of significant accounting policies of Discovery Arts (the Organization) is presented to assist in understanding the Organization's financial statements.

Nature of the Organization

Discovery Arts is a California nonprofit corporation exempt from federal and state income taxes. The Board of Directors, comprised of members from the local community, has the responsibility of ensuring that the Organization conducts activities related to its tax-exempt function.

The Organization's purpose is to bring the healing power of the arts to children hospitalized with cancer and serious blood disorders. The Organization's programs are funded through individual and business contributions of money, goods, and services. The Organization operates primarily in the southern California area.

Basis of presentation

The Organization's financial presentation follows the United States generally accepted accounting principles promulgated by the Financial Accounting Standards Board. Under those principles, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no temporarily restricted net assets, or permanently restricted net assets at June 30, 2015 and 2014.

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. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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 (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Restrictions on contributions for acquiring property and equipment expire when the assets is placed in service unless donor provide more specific instructions.

Discovery Arts
Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

1. Summary of significant accounting policies (continued)

Donated services, materials, and facilities

Contributions of noncash assets are recorded at their fair values in the period received. The Organization recognizes donated services and materials, that create or enhance nonfinancial assets, or that require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The Organization receives donated materials used in connection with its service programs. Certain amounts of donated services have not been reflected in the financial statements, as certain services received do not meet the abovementioned criteria. However, many volunteers have donated significant amounts of their time in the Organization's program services and in its fund-raising campaigns. Donated materials are recognized as revenues and expenses and are discussed in detail in Note 3.

Cash and cash equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. There were no cash equivalents at June 30, 2015 and 2014.

Accounts and contributions receivable

Accounts and contributions receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts and/or contributions receivable. At June 30, 2015 and 2014, there was no allowance for uncollectible contributions.

Credit risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of temporary cash investments. Credit risk with respect to temporary cash investments is limited as the Organization places its temporary cash investments with high credit quality financial institutions.

Property and equipment

Property and equipment are recorded at cost. Donated property and equipment are valued at fair value at the date of donation. The Organization's policy is to capitalize assets with a cost of \$1,000 or more; and with estimated useful lives in excess of one year. Depreciation is provided using the straight-line method over the respective estimated useful lives of the assets.

Expenditures for maintenance and repairs are charged to expense as incurred.

Discovery Arts
Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

1. Summary of significant accounting policies (continued)

Income tax status

The Organization is classified as a Section 501(c)(3) Organization under the Internal Revenue Code of 1986 and Section 23701(d) of the California Revenue and Taxation 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.

Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Combined Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services provide.

Subsequent events

The Company has evaluated subsequent events through July 15, 2016, the date which the financial statements were available to be issued. There were no subsequent events noted that would require adjustment to or disclosure in these financial statements.

2. Receivables

Following is a summary of receivables – at cost, less allowance for uncollectible contributions at June 30, 2015 and 2014:

	2015	2014
Contribution receivables	\$ 80	\$ 80
Less: Allowance for uncollectible contributions	-	-
	80	80
Employee advances	1,400	1,400
	\$ 1,480	\$ 1,480

Discovery Arts
Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

3. Property and equipment

Following is a summary of property and equipment – at cost, less accumulated depreciation at June 30, 2015 and 2014:

	2015	2014
Public service announcement video	\$ 10,000	\$ 10,000
Office equipment	5,416	5,416
Equipment	700	700
	<u>16,116</u>	<u>16,116</u>
Less: Accumulated depreciation	(15,491)	(12,991)
	<u>\$ 625</u>	<u>\$ 3,125</u>

Depreciation expense charged to operations was \$2,500 and \$2,654 for the years ended June 30, 2015 and 2014, respectively.

4. Other assets

Following is a summary of other assets at June 30, 2015 and 2014:

	2015	2014
Timeshare	\$ 5,500	\$ 5,500
Security deposit	500	500
	<u>\$ 6,000</u>	<u>\$ 6,000</u>

The Organization plans to utilize this timeshare as a silent auction item at fundraising events to raise money for its charitable exempt purpose.

5. Donated materials

The Organization uses certain materials (costumes, art and other supplies) without charge, in connection with its service programs throughout the year. For the years ended June 30, 2015 and 2014, the estimated fair market value of these materials, totaled \$45,692 and \$37,037, respectively.

6. Donated services

The Organization uses certain storage space without charge, in connection with its service programs throughout the year. The estimated fair market value of the use of this storage space totaled \$5,928 for each of the years ended June 30, 2015 and 2014, respectively.

7. Leases

The Organization leases office space under an operating lease agreement which has been extended annually since May 2003. This lease does not contain a renewal option. In May 2015, the lease was renewed for an additional annual term through May 2016 at \$575 per month. In May 2016, the lease continued on a month-to-month basis, while the Organization evaluated relocation opportunities.

Discovery Arts
Notes to the Financial Statements
For the Years Ended June 30, 2015 and 2014

7. Leases (continued)

In June 2016, the Organization made the decision to relocate. As such, on June 27, 2016, the Organization entered into a noncancelable operating lease agreement, on a new facility, expiring July 14, 2019. Future minimum lease payments for leases with initial terms in excess of one year for each of the next three years and in the aggregate, are as follows at December 31, 2015:

<i>Year ending December 31,</i>	Amount
2016	\$ -
2017	21,946
2018	22,637
2019	23,328
Thereafter	-
	<u>\$ 67,910</u>

Rental expense under all operating leases totaled \$6,900 for the each of the years ended June 30, 2015 and 2014, respectively.

8. Retirement plan

The Organization sponsors a 403(b) retirement savings plan under which eligible employees can defer a percentage of their gross wages on a pretax basis, subject to the maximum annual limits of \$18,000 and \$17,500 for 2015 and 2014, respectively. Employer matching contributions to the plan are discretionary, and are based on a percentage of eligible gross wages. During the years ended June 30, 2015 and 2014, the Organization did not make matching contributions to the plan.

9. Interest cost

The Organization follows the policy of capitalizing interest as a component of the cost of property, and equipment constructed for its own use. For the years ended June 30, 2015 and 2014, the Organization incurred interest expense of \$1,191 and \$1,058, respectively, none of which was capitalized.

10. Concentrations

June 30, 2015

The Organization received contributions from one private foundation during the year ended June 30, 2015, which constituted 18% of the total public support. At June 30, 2015, there were no amounts due from this foundation.

June 30, 2014

The Organization received contributions from one private foundation during the year ended June 30, 2014, which constituted 17% of the total public support. At June 30, 2014, there were no amounts due from this foundation.