

STUDIO 23  
BAY CITY, MICHIGAN

FINANCIAL STATEMENTS  
DECEMBER 31, 2022

DRAFT



**WEINLANDER FITZHUGH**  
Certified Public Accountants & Advisors



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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Date

Management  
Studio 23  
Bay City, Michigan

We have reviewed the accompanying financial statements of Studio 23 (Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with U.S. generally accepted accounting principles. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Studio 23 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.



**WEINLANDER FITZHUGH**

Certified Public Accountants & Advisors

**Report on Summarized Comparative Information**

We have previously reviewed the December 31, 2021 financial statements in our report dated March 18, 2022, and we were not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with U.S. generally accepted accounting principles. We are not aware of any modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 30, 2021 for it to be consistent with the reviewed financial statements from which it has been derived.

*Weinlander Fitzhugh*

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STUDIO 23  
Statement of Financial Position  
December 31, 2022 and 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
<u>Current Assets</u>		
Cash	\$ 375,027	\$ 424,345
Accounts receivable	2,862	571
Contributions receivable	86,028	91,762
Investments	16,358	17,276
Total current assets	480,275	533,954
Building and equipment at cost less accumulated depreciation	716,197	763,826
Beneficial interest in endowment fund	48,398	61,909
Loan acquisition fee net of amortization	51	1,747
Total Assets	\$ 1,244,921	\$ 1,361,436
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable	\$ 7,083	\$ 8,029
Current maturities of long-term debt	3,110	40,340
Sales tax payable	410	540
Accrued interest payable	14	715
Accrued payroll taxes	12,338	9,787
Deferred revenue	10,499	14,510
Gift certificates payable	1,840	1,840
Total current liabilities	35,294	75,761
<u>Long-Term Debt</u>		
Notes payable	3,110	119,824
Less current maturities	(3,110)	(40,340)
Total long-term liabilities	0	79,484
Total liabilities	35,294	155,245
<u>Net Assets</u>		
Without donor restrictions		
Investment in building and equipment net of depreciation	713,087	644,002
Funds acting as endowment	48,398	61,909
Board designations	101,862	102,779
Undesignated	332,780	387,501
Total net assets without donor restrictions	1,196,127	1,196,191
With donor restrictions	13,500	10,000
Total net assets	1,209,627	1,206,191
Total Liabilities and Net Assets	\$ 1,244,921	\$ 1,361,436

See accompanying notes to financial statements

See Accountant's Review Report

STUDIO 23  
Statement of Activities  
For the Year Ended December 31, 2022  
With Summarized Comparative Totals for the Year Ended December 31, 2021

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<u>Revenue</u>				
Contributions	\$ 151,370	\$ 0	\$ 151,370	\$ 105,761
Grants	26,483	13,500	39,983	36,809
Fundraising	63,631	0	63,631	40,783
Less direct expenses	(23,683)	0	(23,683)	(17,303)
Net fundraising	39,948	0	39,948	23,480
Exchange transactions:				
Programs	128,227	0	128,227	118,591
Commissions	43,527	0	43,527	43,167
Memberships	26,691	0	26,691	16,912
Sponsorship	440	0	440	16,670
	198,885	0	198,885	195,340
Other revenue:				
Rent	2,450	0	2,450	515
Paycheck Protection Program	0	0	0	25,875
Net investment income	678	0	678	4,115
Change in beneficial interest in endowment fund	(13,511)	0	(13,511)	5,679
Net realized and unrealized gain (loss) on investment	(1,189)	0	(1,189)	4,757
Miscellaneous	2,032	0	2,032	3,081
Net assets released from restrictions	10,000	(10,000)	0	0
Total other revenue	460	(10,000)	(9,540)	44,022
Total revenue	417,146	3,500	420,646	405,412
<u>Expenses</u>				
Program services	358,962	0	358,962	303,737
Management and general	51,612	0	51,612	60,795
Fundraising	6,636	0	6,636	9,489
Total expenses	417,210	0	417,210	374,021
Change in net assets	(64)	3,500	3,436	31,391
Net assets - beginning of year	1,196,191	10,000	1,206,191	1,174,800
Net assets - end of year	\$ 1,196,127	\$ 13,500	\$ 1,209,627	\$ 1,206,191

See accompanying notes to financial statements

See Accountant's Review Report

STUDIO 23  
Statement of Functional Expenses  
For the Year Ended December 31, 2022  
With Summarized Comparative Totals for the Year Ended December 31, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2022</u>	<u>Total 2021</u>
Salaries and wages	120,720	27,413	6,189	154,322	131,437
Payroll taxes	8,714	1,979	447	11,140	12,428
Total salaries and related expenses	<u>129,434</u>	<u>29,392</u>	<u>6,636</u>	<u>165,462</u>	<u>143,865</u>
Advertising and promotion	5,798	0	0	5,798	3,514
Art materials	38,984	0	0	38,984	25,333
Association fees	3,154	201	0	3,355	2,968
Bank charges	0	7,461	0	7,461	6,034
Commissions	28,819	0	0	28,819	27,461
Contract labor	0	0	0	0	937
Depreciation	46,014	2,937	0	48,951	51,876
Dues and subscriptions	6,395	408	0	6,803	4,968
Equipment rental and maintenance	10,900	696	0	11,596	11,737
Insurance	4,917	314	0	5,231	7,850
Interest	0	3,238	0	3,238	7,522
Miscellaneous	2,890	184	0	3,074	580
Postage and shipping	2,012	128	8,059	10,199	8,899
Printing	6,687	427	258	7,372	4,704
Professional fees	0	3,900	0	3,900	3,600
Repairs and maintenance	2,940	188	0	3,128	6,795
Seminars, meetings and events	6,024	384	15,366	21,774	13,426
Supplies	3,597	230	0	3,827	2,903
Teaching fees	43,215	0	0	43,215	37,362
Telephone and internet	2,766	177	0	2,943	3,323
Travel	0	427	0	427	74
Utilities	14,416	920	0	15,336	15,593
Total Functional Expenses	<u>358,962</u>	<u>51,612</u>	<u>30,319</u>	<u>440,893</u>	<u>391,324</u>
Less expenses included with revenues on the statement of activities					
Direct fundraising expenses	<u>0</u>	<u>0</u>	<u>23,683</u>	<u>23,683</u>	<u>17,303</u>
Total expenses included in the expense section of statement of activities	<u><u>358,962</u></u>	<u><u>51,612</u></u>	<u><u>6,636</u></u>	<u><u>417,210</u></u>	<u><u>374,021</u></u>

See accompanying notes to financial statements

See Accountant's Review Report

STUDIO 23  
Statement of Cash Flows  
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Cash Flows From Operating Activities</u>		
Change in net assets	\$ 3,436	\$ 31,391
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Amortization	1,696	617
Depreciation	48,951	51,876
Net unrealized and realized loss (gain) on investments	1,189	(4,757)
Change in beneficial interest in endowment fund	13,511	(5,679)
Changes in operating assets and liabilities:		
Accounts receivable	(2,291)	0
Contributions receivable	5,734	(2,772)
Accounts payable	(946)	7,734
Sales tax payable	(130)	(32)
Accrued interest payable	(701)	1
Accrued payroll taxes	2,551	2,919
Deferred revenue	(4,011)	7,028
Gift certificates payable	0	0
	<u>68,989</u>	<u>88,326</u>
<u>Cash Flows From Investing Activities</u>		
Purchase of fixed assets	(1,322)	(2,164)
Dividends reinvested in investments	(271)	(176)
	<u>(1,593)</u>	<u>(2,340)</u>
<u>Cash Flows From Financing Activities</u>		
Repayments of long term debt	(116,714)	(38,168)
	<u>(116,714)</u>	<u>(38,168)</u>
Net increase (decrease) in cash	(49,318)	47,818
Cash, beginning of the year	424,345	376,527
Cash, end of the year	<u>\$ 375,027</u>	<u>\$ 424,345</u>

See accompanying notes to financial statements

See Accountant's Review Report



STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Studio 23 (Organization) is a nonprofit corporation located in Bay City, Michigan and is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's mission is to provide the Bay Area with a visual arts center and embrace creative educational activities involving the community. The Organization's support comes primarily from contributions, grants, and educational classes.

**Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting. Revenue from grant income is recognized when all requirements of the grant agreement have been fulfilled, membership fees are recognized in the applicable time period, and program income is recognized when the program begins. Other revenue is recognized when earned. Expenses are recorded when incurred.

**Use of Estimates**

The process of preparing financial statements in conformity with U.S. 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.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. There were no payments made for income taxes or interest expense during the year.

Bank demand deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

During 2022, cash paid for interest was \$3,238. There were no non-cash operating, investing or financing activities during 2022.

**Financial Statement Presentation**

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions, according to the existence or absence of donor restrictions.

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

Investments consist of mutual funds and are carried at fair value. Unrealized gains and losses are reflected in the statement of activities.

**Contributions Receivable**

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions.

Unconditional contributions receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discount on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises to give. As of December 31, 2022, all receivables were deemed collectible, and no allowance was necessary.

**Contributed Services**

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations, and various committee assignments.

**Buildings, Equipment and Depreciation**

Purchases of buildings and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair market value at time of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	39 years
Equipment	3-7 years

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for scholarships, kiln savings, an operating reserve and a building fund.

*Net assets with donor restrictions* - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources must be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Revenue Recognition**

The Organization records membership dues and program service fees as deferred revenue when billed and recognizes revenue over time as the customer simultaneously receives and consumes the benefits of memberships and programs throughout the subscription period. The timing of revenue recognition is based on a time-based measure of progress as the Organization provides access to the benefits over the course of the membership or program period.

Fundraising revenue is equal to the cost of direct benefit to the donors and contribution revenue for the difference. The Organization recognizes the contribution portion immediately and the exchange portion upon completion of the event. For the year ended December 31, 2022, the Organization recognized \$63,631 in gross fundraising revenue. Management has estimated the exchange portion of fundraising revenue to be \$2,186 and was recognized upon completion of the events. The remaining \$61,445 was considered to be contribution revenue and was recognized immediately.

Other revenues not discussed above, including commissions on art sales, are comprised entirely of an exchange transaction and are recognized at a point in time.

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (continued)**

Total revenue recognized at a point in time and over time is as follows for the year ended December 31, 2022:

Revenue recognized at a point in time	\$ 43,967
Revenue recognized over time	<u>154,918</u>
	<u>\$ 198,885</u>

Contract liabilities included in deferred revenue are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Deferred membership	\$ 8,052	\$ 11,460
Deferred program revenue	<u>2,447</u>	<u>3,050</u>
	<u>\$ 10,499</u>	<u>\$ 14,510</u>

**Advertising Costs**

Advertising costs are expensed as incurred. For the year ending December 31, 2022, advertising costs amounted to \$5,798.

**Functional Allocation of Expenses**

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2021, from which the summarized information was derived.

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Accountant's Review Report, which is the date the financial statements were available to be issued.

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 2 - LIQUIDITY AND AVAILABILITY**

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash, accounts receivable, contributions receivable, investments and a beneficial interest in an endowment fund. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations.

The Organization's Board of Directors has designated a portion of its unrestricted resources for various purposes. Those amounts are identified as board designated in the table below. Board designated funds are invested for long-term purposes but remain available and may be spent at the discretion of the Board of Directors.

The following table reflects the Organization's financial assets as of December 31, 2022, reduced by amounts not available to meet general expenses within one year of the statement of financial position date because of contractual restrictions or internal board designations.

Cash	\$ 375,027
Accounts receivable	2,862
Contributions receivable	86,028
Investments	16,358
Beneficial interest in endowment fund	48,398
Total financial assets	<u>528,673</u>
Board designations	(101,862)
Cash with donor-imposed purpose restrictions	(13,500)
Investments held in endowments	(48,398)
	<u>(163,760)</u>
Financial assets available to meet cash needs for general expenses within one year	<u>\$ 364,913</u>

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board (FASB) Accounting Statement Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a framework for measuring 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 ASC 820 are described as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Quoted prices in markets that are not considered to be active or financial statements for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents assets at fair value on a recurring basis during the period by level within the fair value hierarchy, as of December 31, 2022.

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 16,358	\$ 0	\$ 0	\$ 16,358
Beneficial interest in endowment fund	0	0	48,398	48,398
	<u>\$ 16,358</u>	<u>\$ 0</u>	<u>\$ 48,398</u>	<u>\$ 64,756</u>

Changes in level 3 investments are as follows:

Beginning of year	\$ 61,909
Interest and dividends	1,611
Realized and unrealized gains (losses)	(12,553)
Investment expenses	(328)
Disbursement to Organization	<u>(2,241)</u>
End of year	<u>\$ 48,398</u>

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

As of December 31, 2022, all contributions receivable were due within one year. No discount was applied for the year ended December 31, 2022.

**NOTE 5 - BUILDINGS AND EQUIPMENT**

Buildings and equipment consist of the following at December 31, 2022:

Buildings	\$ 1,326,867
Equipment	137,931
Website	<u>15,500</u>
	1,480,298
Less accumulated depreciation	<u>764,101</u>
	<u><u>\$ 716,197</u></u>

**NOTE 6 - ENDOWMENT FUND**

The Organization is the beneficiary under an endowment fund agreement with the Bay Area Community Foundation (Foundation). A portion of the assets of the fund, \$48,398 is included on the statement of financial position of the Organization. The remaining portion, \$1,492,338 is included on the statement of financial position of the Foundation. The Organization does not exercise any control over the principal of the funds, but a percentage of the value of the funds may be distributed to and expended by the Organization.

Variance power has been granted to the Bay Area Community Foundation for the assets in the endowment fund. If the Organization ceases to exist or no longer performs its functions under the provisions of the agreement, the Foundation shall continue to administer and disburse fund assets in a manner deemed appropriate.

The endowment fund includes funds designated by donors and the Organization. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Organization as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 6 - ENDOWMENT FUND (CONTINUED)**

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted net assets; (a) the original value of gifts with donor restrictions donated to the endowment, (b) the original value of subsequent gifts with donor restrictions to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Changes in endowment net assets for the year ended December, 31, 2022:

Endowment net assets, beginning of year	<u>\$</u>	61,909
Investment return:		
Investment income		1,283
Net appreciation (depreciation) (realized and unrealized)		<u>(12,553)</u>
Total investment return		(11,270)
Appropriations of endowment assets for expenditure		<u>(2,241)</u>
Endowment net assets, end of year	<u>\$</u>	<u>48,398</u>

**NOTE 7 - BOARD DESIGNATED NET ASSETS**

The Board of Directors has designated a portion of net assets without donor restrictions for various purposes. Designated net assets consist of the following at December 31, 2022:

Scholarships	\$	16,358
Kiln savings		10,504
Rainy day fund		<u>75,000</u>
	<u>\$</u>	<u>101,862</u>

See Accountant's Review Report



STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 8 - RESTRICTIONS ON NET ASSETS**

Net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified purpose and passage of time:

Grants restricted for operational support \$ 13,500

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2022.

Grants restricted for Artists in Residency program \$ 10,000

**NOTE 9 - INCOME TAXES**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization's income tax returns are subject to examination by the appropriate taxing jurisdictions. As of December 31, 2022, the Organization's federal tax returns generally remain open for the last three years.

**NOTE 10 - LONG TERM DEBT**

Long-term debt consists of the following at December 31, 2022:

Note payable to Huntington National Bank in the amount of \$200,000, secured by the building at 901 N. Water Street in Bay City, Michigan. Monthly payments are \$3,804, including interest at 5.25%. Note becomes due October 4, 2024.

\$ 3,110

Principal maturities for each of the years ending December 31 are as follows:

2023 \$ 3,110

See Accountant's Review Report

STUDIO 23  
Notes to Financial Statements  
For the Year Ended December 31, 2022

**NOTE 12 – PAYCHECK PROTECTION PROGRAM**

In 2021, the Organization received loan proceeds in the amount of \$25,875 under the second round of the Payroll Protection Program (PPP). Established as part of the Coronavirus Aid Relief, and Economic Security Act (CARES Act), the PPP provides for loans to qualifying businesses in amounts of up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (between 8 and 24 weeks) as long as the borrower maintains its payroll level and uses the loan proceeds on qualified expenses.

In June 2020, the American Institute of Certified Public Accountants in conjunction with the Financial Accounting Standard Board (FASB) developed Technical Question and Answer (TQA) 3200.18, "Borrower Accounting for a Forgivable Loan Received Under the Small Business Administration Payroll Protection Program", which is intended to provide clarification on how to account for loans received from PPP. TQA 3200.18 states that an entity that is expected to meet PPP eligibility criteria and the PPP loan is expected to be forgiven, the entity may account for the loan as a conditional contribution. The Organization has elected an accounting policy to treat the full amount of the loan as a conditional contribution. The Organization has received notification of forgiveness prior to year-end and has recorded 100% of the PPP funds as income.

DRAFT

Date

Weinlander Fitzhugh  
1600 Center Avenue  
Bay City, MI 48708

We are providing this letter in connection with your review of the financial statements of Studio 23 (Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of obtaining limited assurance as a basis for reporting whether you are aware of any material modifications that should be made to the financial statements in order for them to be in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of Date, the following representations made to you during your review.

1. We acknowledge our responsibility and have fulfilled our responsibilities for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, as set out in the terms of the engagement.
2. We have made available to you all -
  - (a) Financial records and related data, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements.
  - (b) Minutes of the meetings of directors, and committees of directors (or other similar bodies, as applicable), or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - (c) Additional information you have requested from us for the purpose of the review.
  - (d) Unrestricted access to the Organization personnel from whom you determined it necessary to obtain review evidence.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. All material transactions have been recorded and have been properly reflected in the financial statements.

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5. There are no uncorrected misstatements.
6. We acknowledge and have fulfilled our responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
7. We acknowledge our responsibility for designing, implementing, and maintaining internal control to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Organization involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements as a whole communicated by employees, former employees, analysts, regulators, or others.
10. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
12. The following have been properly recorded or disclosed in the financial statements:
  - (a) Related-party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
  - (b) Guarantees, whether written or oral, under which the Organization is contingently liable.
  - (c) Commitments to purchase or sell investments or agreements to repurchase assets previously sold.
  - (d) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.
13. There are no -
  - (a) Known or suspected instances of noncompliance with laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
  - (b) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with FASB ASC 450, *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.

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- (c) Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies.
- 14. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged except as made known to you and disclosed in the notes to the financial statements.
- 15. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 16. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
- 17. We are in agreement with the adjusting journal entries, if any, you have recommended, and they have been posted to the Organization's accounts.
- 18. No events have occurred subsequent to the date of the Organization's financial statements and through the date of this letter that would require adjustments to, or disclosure in, the aforementioned financial statements.
- 19. Upon implementation of ASU 2014-09, revenue from contracts with customers has been appropriately accounted for and disclosed in accordance with FASB ASC 606, *Revenue from Contracts with Customers*. All contracts underlying revenue recognized in the financial statements have commercial substance and have been approved by the appropriate parties. We have considered side agreements, implied promises, and unstated customary business practices in identifying performance obligations in the contracts. We have sufficient and appropriate documentation supporting all estimates and judgments underlying the amount and timing of revenue recognized in the financial statements.
- 20. We have fully disclosed to you all terms of contracts with customers that affect the amount and timing of revenue recognized in the financial statements, including delivery terms, rights of return or price adjustments, side agreements, implicit provisions, unstated business conventions, and all warranty provisions.
- 21. We have responded fully and truthfully to all inquiries made to us by you during the review.

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22. In regards to the tax preparation, financial statement preparation services and other bookkeeping services performed by you, we have received the following:

Trial Balance and Adjusting Journal Entries

We have performed the following:

- Assumed all management responsibilities.
- Overseen the services by designating an individual who possesses suitable skill, knowledge, and/or experience.
- Evaluated the adequacy and results of the services performed.
- Accepted responsibility for the results of the services.

23. The Organization's books and records are complete.

Signature: \_\_\_\_\_

Title: \_\_\_\_\_