



Artisan's Asylum, Inc.

Financial Statements and Supplementary Information

For the Year Ended
June 30, 2014



Artisan's Asylum, Inc.
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For the Year Ended June 30, 2014

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Independent Auditors' Report

To the Board of Directors of
Artisan's Asylum, Inc.
Somerville, Massachusetts

We have audited the accompanying financial statements of Artisan's Asylum, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Artisan's Asylum, Inc. as of June 30, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Litman Benson Associates, LLP

Woburn, Massachusetts
May 11, 2015

Artisan's Asylum, Inc.

Statement of Financial Position

June 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 51,209
Accounts receivable	19,465
Prepaid expenses and other current assets	<u>106,738</u>
Total current assets	<u>177,412</u>

Property and equipment, net	<u>353,101</u>
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Other assets:

Security deposits	<u>20,000</u>
Total assets	<u><u>\$ 550,513</u></u>

Liabilities and Net Assets

Current liabilities:

Current portion of long-term debt	\$ 15,644
Current portion of capital lease obligation	4,230
Accounts payable and accrued expenses	31,092
Deferred revenue	143,832
Deferred rent	111,662
Third party advances	19,000
Due to related party	5,000
Gift certificate liability	<u>10,616</u>
Total current liabilities	<u>341,076</u>

Long-term liabilities:

Long-term debt, net of current portion	22,488
Capital lease obligation, net of current portion	<u>6,676</u>
Total long-term liabilities	<u>29,164</u>
Total liabilities	<u>370,240</u>

Net assets:

Unrestricted	175,273
Temporarily restricted	<u>5,000</u>
Total net assets	<u>180,273</u>
Total liabilities and net assets	<u><u>\$ 550,513</u></u>

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

Artisan's Asylum, Inc.

Statement of Activities

For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Membership dues, net	\$ 408,607	\$ -	\$ 408,607
License fee income	346,385	-	346,385
Educational programs	320,229	-	320,229
Contributions	306,590	5,000	311,590
Materials and supplies	48,507	-	48,507
Other revenue	8,661	-	8,661
Net assets released from restriction	13,203	(13,203)	-
Total revenue and support	<u>1,452,182</u>	<u>(8,203)</u>	<u>1,443,979</u>
Expenses			
Program services	976,517	-	976,517
Supporting services	293,486	-	293,486
Fundraising	9,729	-	9,729
Total expenses	<u>1,279,732</u>	<u>-</u>	<u>1,279,732</u>
Change in net assets	172,450	(8,203)	164,247
Net assets at beginning of year	<u>2,823</u>	<u>13,203</u>	<u>16,026</u>
Net assets at end of year	<u>\$ 175,273</u>	<u>\$ 5,000</u>	<u>\$ 180,273</u>

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

Artisan's Asylum, Inc.

Statement of Cash Flows

For the Year Ended June 30, 2014

Cash flows from operating activities:	
Change in net assets	\$ 164,247
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Noncash contribution of prepaid expenses and other current assets	(59,000)
Noncash contributions of property and equipment	(192,226)
Depreciation	84,349
Bad debt expense	9,357
Change in operating assets and liabilities:	
Decrease in:	
Accounts receivable	7,847
Prepaid expenses and other current assets	13,846
Increase (decrease) in:	
Accounts payable and accrued expenses	10,945
Accrued payroll and related liabilities	(3,274)
Deferred revenue	34,541
Deferred rent	7,465
Third party advances	(2,150)
Gift certificate liability	3,262
Net cash provided by operating activities	<u>79,209</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(55,621)</u>
Net cash used in investing activities	<u>(55,621)</u>
Cash flows from financing activities:	
Repayment of long-term debt	(14,607)
Repayment of capital lease obligation	(3,717)
Net cash used in financing activities	<u>(18,324)</u>
Net increase in cash and cash equivalents	5,264
Cash and cash equivalents at beginning of year	<u>45,945</u>
Cash and cash equivalents at end of year	<u>\$ 51,209</u>
Supplemental disclosures of cash flow information:	
Cash paid during the year for:	
Interest	\$ 3,764
Income taxes	\$ -

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

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

1. Nature of Business

Artisan's Asylum, Inc. (the Organization) is a nonprofit organization established in 2010 to support and promote the teaching, learning, and practicing of design and fabrication of all varieties to individuals in the Greater Boston region. The Organization's program services include the licensing of a fully equipped and professionally maintained manufacturing facility, a large range of affordable, publicly-accessible classes offered by local artisans, on-site material and project storage, as well as the hosting and promotion of local design and fabrication-related events.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements have been prepared in accordance with accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) to ensure the statement of financial position, and the related statements of activities and change in net assets, and cash flows are consistently reported. References to GAAP issued by the FASB in these notes are to the FASB Accounting Standards Codification (ASC).

Basis of Accounting

The Organization's financial statements have been prepared on the accrual basis of accounting. A summary of the significant accounting policies applied in the preparation of the financial statements follows.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the FASB ASC Topic No. 958 *Not-for-Profit Entities* (ASC 958). Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

Unrestricted

Unrestricted net assets include amounts that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted

Temporarily restricted net assets include amounts resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted

Permanently restricted net assets include amounts resulting from contributions and other inflows of assets whose use by the Organization is restricted by donor stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. There are no permanently restricted net assets held by the Organization at June 30, 2014.

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

2. Summary of Significant Accounting Policies...continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid financial instruments with original maturities of three months or less, when purchased, to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at cost, less an allowance for doubtful accounts, which is the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. The Organization considers a receivable past due if payment is not received based on contractual terms. Bad debts are written off against the allowance when identified. At June 30, 2014, an allowance for doubtful accounts was not deemed necessary. Interest is not charged on outstanding balances.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Property and equipment expenditures less than \$100 are expensed when incurred. Depreciation is computed using the straight-line and accelerated methods over estimated useful lives ranging between three and seven years. Expenditures for maintenance and repairs are charged to expense as incurred, while expenditures which significantly increase values or extend useful lives are capitalized. Upon the disposition of property and equipment, the cost and related accumulated depreciation are eliminated from the accounts and the gain or loss thereon is reflected in the statement of activities.

Deferred Rent

Lease agreements may require future increases in the minimum base rent. Rent expense under these arrangements is recognized on the straight-line basis over the term of the related leases. The difference between rent expense recognized on the straight-line basis and cash paid is classified as deferred rent on the accompanying statement of financial position.

Gift Certificate Liability

The Organization records sales of gift certificates as a current liability until the certificates are redeemed, at which time the liability is reduced and the related revenue is recorded.

Revenue Recognition

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received or pledged. Conditional promises to give are not recognized until they become unconditional, that is, at the time the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of property and equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

2. Summary of Significant Accounting Policies...continued

Revenue Recognition...continued

Contributions...continued

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support depending upon the condition(s) stipulated by the donor. 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 are reported in the statement of activities as net assets released from restriction. However, if a restriction is fulfilled in the same time period in which the contribution or grant is received, the contribution is reported as unrestricted in the year received.

In-Kind Contributions

In-kind contributions are reflected as contributions at their estimated fair value at the date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. The Organization recognizes the estimated fair value of contributed services if such services meet the following criteria:

- The services received either create or enhance nonfinancial assets, or
- The services received require specialized skills and are provided by individuals possessing those skills, and the services received would typically need to be purchased if not contributed.

Many individuals volunteered their time and performed a variety of tasks to assist the Organization in carrying out its mission during the year ended June 30, 2014. These services do not meet the recognition criteria for contributed services. Accordingly, a value for these services has not been reflected in the accompanying financial statements.

During the year ended June 30, 2014, the Organization received donated perpetual software licenses and a 12 month software license with estimated fair values of \$189,726 and \$59,000, respectively. The Organization also received donated computer equipment with an estimated fair value of \$2,500. The value of the donated software licenses and computer equipment has been reflected in the accompanying financial statements as in-kind contributions, with the donated perpetual software licenses and computer equipment included with property and equipment and the donated term software license included with prepaid expenses and other current assets.

Other Revenue

License fee income received under at-will arrangements are recognized as earned. Membership dues are recognized over the term of the membership period. Revenues associated with the sale of materials and supplies are recognized upon delivery. Educational program revenues are recognized when the program is given.

Amounts billed and collected prior to the performance of service, or delivery of goods, are reported as deferred revenue.

Advertising

Advertising costs are charged to expense as incurred. Advertising costs totaled \$3,838 for the year ended June 30, 2014.

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

2. Summary of Significant Accounting Policies...continued

Income Taxes

The Organization is a non-profit organization, which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and as a public charity according to Section 509(a)(3) of the 1986 Internal Revenue Code. Accordingly, a provision for income taxes has not been recorded in the accompanying financial statements.

The Organization accounts for uncertainty in income taxes in accordance with FASB ASC Topic No. 740, *Income Taxes* (ASC 740), which prescribes a recognition threshold of more likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements.

When necessary, the Organization accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes. The Organization does not expect that unrecognized tax benefits arising from tax positions will change significantly within the next 12 months. The Organization is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended June 30, 2011 through 2014.

3. Property and Equipment

Property and equipment consists of the following at June 30, 2014:

	<u>Amount</u>	<u>Useful Life</u>
Software	\$ 234,953	3 years
Leasehold improvements	132,901	Term of lease
Furniture and fixtures	86,728	7 years
Computer equipment	<u>48,405</u>	5 years
	502,987	
Less: accumulated depreciation	<u>(149,886)</u>	
	<u>\$ 353,101</u>	

Depreciation expense for the year ended June 30, 2014 totaled \$84,349.

4. Related Party Transactions

Due to Related Party

Due to related party represents an interest-free advance of \$5,000 received in a prior year from a former board member. The advance has no specific repayment terms and the Organization has not made any repayments on this advance during the year ended June 30, 2014.

Other

The Organization provides services to certain employees and related party individuals at discounted rates. Discounts issued to employees and related parties totaled approximately \$10,000 for the year ended June 30, 2014.

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

4. Related Party Transactions...continued

Other...continued

The Organization licenses 300 square feet of its facility to a taxable entity owned by a former director of the Organization with other unrelated individuals, pursuant to all standard license agreements. As part of the agreement, the related entity and the individuals employed by it have agreed to be members of the Organization. During the year ended June 30, 2014, the amount received under this agreement totaled \$6,300.

5. Long-Term Debt

\$75,000 promissory note to a bank, with interest at 6.50%, payable in monthly principal and interest installments of \$1,471, maturing in October 2016. Terms require the Organization to subordinate certain debts outstanding. The note is secured by substantially all assets of the Organization and is personally guaranteed by one of the Organization's former directors and two unrelated individuals.

	\$	38,132
Less: current portion		<u>15,644</u>
Long-term debt, net of current portion	\$	<u>22,488</u>

Aggregate maturities of long-term debt for the years ending June 30th are as follows:

2015	\$	15,644
2016		16,691
2017		<u>5,797</u>
	\$	<u>38,132</u>

6. Capital Lease Obligation

The Organization leases certain equipment under a capital lease. The economic substance of the lease is that the Organization is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the Organization's assets and liabilities.

Equipment under capital lease at June 30, 2014 was as follows:

Computer equipment	\$	20,900
Less: accumulated depreciation		<u>(10,450)</u>
	\$	<u>10,450</u>

At June 30, 2014, the present value of the minimum lease payments is as follows:

Total minimum lease payments	\$	11,308
Less: amount representing interest		<u>(402)</u>
Present value of minimum lease payments		10,906
Less: current portion		<u>(4,230)</u>
Long-term capital lease obligation	\$	<u>6,676</u>

Artisan's Asylum, Inc.

Notes to Financial Statements
For the Year Ended June 30, 2014

6. Capital Lease Obligation...continued

Future minimum lease payments under the capital lease obligation for years ending June 30th are as follows:

2015	\$ 4,522
2016	4,522
2017	<u>2,264</u>
	<u>\$ 11,308</u>

Amortization of the asset held under the capital lease is included with depreciation expense.

7. Net Assets

At June 30, 2014, temporarily restricted net assets of \$5,000 have been restricted for awards to individuals for use on program services offered by the Organization.

8. Leasing Activities

Rent Expense

During September 2011, the Organization entered into a five-year, triple-net lease for 25,562 square feet within a facility from which it conducts all operations. The lease contains a renewal option, which would extend the term for an additional three years from the original expiration date of August 2016. The lease has since been amended twice, through which the Organization secured additional facility space of 5,365 and 8,485 square feet, effective January 2012 and August 2012, respectively.

Future minimum lease payments required under the agreement for the years ending June 30th are as follows:

2015	\$ 321,352
2016	335,687
2017	<u>56,218</u>
	<u>\$ 713,257</u>

Rent expense, including charges for the Organization's proportionate share of operating expenses, totaled \$415,912 for the year ended June 30, 2014.

Equipment Rentals

Certain individuals lease equipment to the Organization in exchange for discounted membership rates. The Organization values the leased equipment at 50% of original cost and amortizes the assessed value over a two-year term. Any amortization calculated under this method is reported as membership dues and equipment rentals (as a program expense) in the statement of activities. During the year ended June 30, 2014, the Organization recognized \$38,066 in revenue and expense from such leasing transactions.

License Fee Income

The Organization provides storage and work space to unrelated members under at-will arrangements. Amounts received under these arrangements during the year ended June 30, 2014 totaled \$346,385.

Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2014

9. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable.

The Organization maintains its cash and cash equivalents in bank deposit accounts, which 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 and cash equivalents.

Amounts due from two customers represent approximately 26% of the Organization's accounts receivable at June 30, 2014.

10. Subsequent Events

The Organization has evaluated subsequent events for potential disclosure or recognition through May 11, 2015, the date the financial statements were available to be issued.

Supplementary Information

Artisan's Asylum, Inc.
Schedule of Functional Expenses
For the Year Ended June 30, 2014

	Program Services	Supporting Services	Fundraising	Total
Compensation and employee benefits:				
Salaries and wages	\$ 114,313	\$ 51,889	\$ 5,281	\$ 171,483
Health insurance and benefits	19,816	8,995	916	29,727
Payroll taxes	12,946	5,876	598	19,420
	<u>147,075</u>	<u>66,760</u>	<u>6,795</u>	<u>220,630</u>
Other:				
Rent expense	374,321	41,591	-	415,912
Instructors and speakers	151,954	-	-	151,954
Depreciation	84,349	-	-	84,349
Utilities	65,066	7,230	-	72,296
Office expense	-	62,088	-	62,088
Professional fees	-	52,885	-	52,885
Materials and supplies	47,224	-	-	47,224
Equipment rentals	39,328	-	-	39,328
Bank and credit card fees	-	30,845	-	30,845
Insurance	27,933	1,843	-	29,776
Shop consumables	14,447	-	-	14,447
Repairs and maintenance	13,478	-	-	13,478
Bad debt expense	-	9,357	-	9,357
Other expenses	4,079	1,142	2,934	8,155
Needs based member discounts	5,081	-	-	5,081
Advertising	-	3,838	-	3,838
Interest	-	3,764	-	3,764
Subcontractors	-	3,713	-	3,713
Telephone and internet	-	3,344	-	3,344
Health and safety	2,182	-	-	2,182
Payroll processing services	-	1,548	-	1,548
Volunteer care expenses	-	1,428	-	1,428
Dues and subscriptions	-	1,412	-	1,412
Food and refreshments	-	698	-	698
	<u>829,442</u>	<u>226,726</u>	<u>2,934</u>	<u>1,059,102</u>
Total expenses	<u>\$ 976,517</u>	<u>\$ 293,486</u>	<u>\$ 9,729</u>	<u>\$ 1,279,732</u>

See independent auditors' report.