



# **Artisan's Asylum, Inc.**

## **Financial Statements and Supplementary Information**

For the Year Ended  
June 30, 2012



**Artisan's Asylum, Inc.**  
Financial Statements and Supplementary Information  
For the Year Ended June 30, 2012

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*Independent Accountants' Review Report*

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

We have reviewed the accompanying statement of financial position of Artisan's Asylum, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of activities and change in net assets and cash flows for the year then ended. 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

*LitmanGerson Associates, LLP*

Woburn, Massachusetts  
May 15, 2013

**Artisan's Asylum, Inc.**  
Statement of Financial Position  
June 30, 2012

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**Assets**

Current assets:

Cash and cash equivalents	\$	273
Accounts receivable, net		11,359
Prepaid expenses and other current assets		6,525
Total current assets		<u>18,157</u>

Property and equipment, net		<u>191,841</u>
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Other assets:

Security deposits		<u>25,000</u>
Total assets	\$	<u><u>234,998</u></u>

**Liabilities and Net Assets**

Current liabilities:

Current portion of long-term debt	\$	13,741
Current portion of capital lease obligation		3,965
Accounts payable and accrued expenses		41,317
Accrued payroll and related liabilities		2,605
Deferred revenue		97,239
Deferred rent		57,271
Third party advances		25,000
Due to related party		5,000
Gift certificate liability		1,342
Total current liabilities		<u>247,480</u>

Long-term liabilities:

Long-term debt, net of current portion		51,885
Capital lease obligation, net of current portion		15,000
Total long-term liabilities		<u>66,885</u>
Total liabilities		<u>314,365</u>

Net assets:

Unrestricted		<u>(79,367)</u>
Total liabilities and net assets	\$	<u><u>234,998</u></u>

See accompanying notes and independent accountants' review report.

## **Artisan's Asylum, Inc.**

Statement of Activities and Change in Net Assets  
For the Year Ended June 30, 2012

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### **Revenue and Support**

Educational programs	\$ 149,259
Membership dues	136,132
Contributions	92,500
License fee income	91,363
Materials and supplies	32,336
Other revenue	4,067
Total revenue and support	<u>505,657</u>

### **Expenses**

Program services	448,889
Supporting services	153,862
Fundraising	8,291
Total expenses	<u>611,042</u>
Change in net assets	(105,385)
Net assets at beginning of year	<u>26,018</u>
Net assets at end of year	<u>\$ (79,367)</u>

See accompanying notes and independent accountants' review report.

# Artisan's Asylum, Inc.

## Statement of Cash Flows

For the Year Ended June 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ (105,385)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	20,413
Donated software	(45,000)
Change in operating assets and liabilities:	
Increase in:	
Accounts receivable	(10,359)
Prepaid expenses and other current assets	(6,525)
Security deposits	(25,000)
Increase in:	
Accounts payable and accrued expenses	36,822
Accrued payroll and related liabilities	2,605
Deferred revenue	97,239
Deferred rent	57,271
Third party advances	20,000
Gift certificate liability	1,342
Net cash provided by operating activities	<u>43,423</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(134,647)</u>
Net cash used in investing activities	<u>(134,647)</u>
Cash flows from financing activities:	
Proceeds from long-term debt	75,000
Repayment of long-term debt	(9,374)
Repayment of capital lease obligation	(1,935)
Net cash provided by financing activities	<u>63,691</u>
Net decrease in cash and cash equivalents	(27,533)
Cash and cash equivalents at beginning of year	<u>27,806</u>
Cash and cash equivalents at end of year	<u>\$ 273</u>
<b>Supplemental disclosures of cash flow information:</b>	
Cash paid during the year for:	
Interest	<u>\$ 1,661</u>
Income taxes	<u>\$ -</u>
<b>Supplemental disclosures of noncash investing and financing activities:</b>	
Capital lease obligation assumed in connection with the acquisition of property and equipment	<u>\$ 20,900</u>

See accompanying notes and independent accountants' review report.

# Artisan's Asylum, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2012

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## 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 generally accepted accounting principles 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 restrictions.

#### *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 restrictions that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those restrictions. There are no temporarily restricted net assets held by the Organization at June 30, 2012.

#### *Permanently Restricted*

Permanently restricted net assets include amounts resulting from contributions and other inflows of assets whose use by the Organization is restricted by the donor restrictions 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, 2012.

## Artisan's Asylum, Inc.

Notes to Financial Statements  
For the Year Ended June 30, 2012

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### 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, net of an allowance for doubtful accounts. 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, 2012, the Organization determined the balance of accounts receivable to be fully collectible. Accordingly, 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 \$50 are expensed when incurred. Depreciation is computed using the straight-line and accelerated methods over estimated useful lives ranging between five and eight 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, 2012

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### 2. Summary of Significant Accounting Policies...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 a 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, 2012. 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, 2012, the Organization received donated software with an estimated fair value of \$45,000. The value of this donated software has been reflected in the accompanying financial statements as an in-kind contribution and an addition to property and equipment.

#### Other Revenue

License fee income received under tenant-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.

## Artisan's Asylum, Inc.

Notes to Financial Statements  
For the Year Ended June 30, 2012

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### 2. Summary of Significant Accounting Policies...continued

#### *Advertising*

Advertising costs are charged to expense as incurred. Advertising costs totaled \$4,644 for the year ended June 30, 2012.

#### *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 adopted the provisions of FASB ASC Topic No. 740 (ASC 740), *Income Taxes*, pertaining to the accounting for uncertainty in income taxes. This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in an organization's financial statements. ASC 740 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, 2010 through 2012.

### 3. Property and Equipment

Property and equipment consists of the following at June 30, 2012:

	<u>Amount</u>	<u>Useful Life</u>
Leasehold improvements	\$ 86,220	8 years
Furniture and fixtures	51,604	7 years
Computer equipment	<u>30,756</u>	5 years
	213,580	
Less: accumulated depreciation	<u>(21,739)</u>	
	<u>\$ 191,841</u>	

Depreciation expense for the year ended June 30, 2012 totaled \$20,413.

### 4. Related Party Transactions

Due to related party represents an interest-free advance of \$5,000 received in prior years from a board member, and the advance has no specific repayment terms. There was no activity during the current year ended June 30, 2012, and the amount outstanding at June 30, 2012 totaled \$5,000.

The Organization provides services to certain related party individuals at discounted rates. Discounts issued to related parties totaled approximately \$4,300 for the year ended June 30, 2012.

## Artisan's Asylum, Inc.

Notes to Financial Statements  
For the Year Ended June 30, 2012

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### 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 the Organization's President and two unrelated individuals.

	\$ 65,626
Less: current portion	<u>13,741</u>
Long-term debt, net of current portion	<u>\$ 51,885</u>

Aggregate maturities of long-term debt for the five years ending June 30<sup>th</sup> are as follows:

2013	\$ 13,741
2014	14,662
2015	15,644
2016	16,691
2017	<u>4,888</u>
	<u>\$ 65,626</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.

Assets under capital lease at June 30, 2012 were as follows:

Computer equipment	\$ 20,900
Less: accumulated depreciation	<u>(2,090)</u>
	<u>\$ 18,810</u>

At June 30, 2012, the present value of the minimum lease payments is as follows:

Total minimum lease payments	\$ 20,350
Less: amount representing interest	<u>(1,385)</u>
Present value of minimum lease payments	18,965
Less: current portion	<u>(3,965)</u>
Long-term capital lease obligation	<u>\$ 15,000</u>

## Artisan's Asylum, Inc.

Notes to Financial Statements  
For the Year Ended June 30, 2012

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### 6. Capital Lease Obligation...continued

Future minimum lease payments under the capital lease obligation at June 30, 2012 are as follows:

2013	\$ 4,522
2014	4,522
2015	4,522
2016	4,522
2017	<u>2,262</u>
	<u>\$ 20,350</u>

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

### 7. Leasing Activities

#### Rent Expense

During September 2012, 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. Pursuant to mutual agreement, the lease was twice amended to expand the Organization's premise within the facility. The amendments commenced on January 2012 and August 2012, respectively, expanding the Organization's premise an additional 5,365 and 8,485 square feet, respectively.

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

2013	\$ 196,287
2014	270,194
2015	321,352
2016	335,687
2017	<u>56,218</u>
	<u>\$ 1,179,738</u>

Rent expense, including charges for the Organization's proportionate share of operating expenses, totaled \$206,276 for the year ended June 30, 2012.

#### 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 in the statement of activities and equipment rentals as a program expense. During the year ended June 30, 2012, the Organization recognized \$4,015 in revenue and expense from such leasing transactions.

#### License Fee Income

The Organization provides storage and work space to unrelated tenants under tenancy-at-will arrangements. Amounts received under these arrangements during the year ended June 30, 2012 totaled \$91,363.

## **Artisan's Asylum, Inc.**

Notes to Financial Statements  
For the Year Ended June 30, 2012

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### **8. 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 one customer represent approximately 12% of the Organization's accounts receivable at June 30, 2012.

### **9. Subsequent Events**

The Organization has evaluated subsequent events for potential disclosure or recognition through May 15, 2013, the date the financial statements were available to be issued.

On October 1 2012, the Organization executed an operations agreement with a taxable entity owned by the president of the Organization with other unrelated individuals. The agreement provides for the license of 250 square feet of the Organization's facility for a period from October 1, 2012 through May 31, 2013 for \$3,200. The agreement also provides for the Organization to act as a collection agent for the entity's funding, which totaled approximately \$98,000 subsequent to year-end. Furthermore, the entity and the individuals employed by it agree to be members of the Organization.

## Supplementary Information

**Artisan's Asylum, Inc.**  
 Schedule of Functional Expenses  
 For the Year Ended June 30, 2012

	Program Services	Supporting Services	Fundraising	Total
Compensation and employee benefits:				
Salaries and wages	\$ 22,951	\$ 83,964	\$ 6,232	\$ 113,147
Payroll taxes	2,191	8,105	657	10,953
Insurance - health	1,340	4,960	402	6,702
	<u>26,482</u>	<u>97,029</u>	<u>7,291</u>	<u>130,802</u>
Other:				
Rent expense	206,276	-	-	206,276
Instructors and speakers	77,355	-	-	77,355
Materials and supplies	40,102	-	-	40,102
Utilities	29,679	-	-	29,679
Depreciation	20,413	-	-	20,413
Insurance - general	10,370	1,813	-	12,183
Repairs and maintenance	11,766	-	-	11,766
Bank and credit card fees	-	11,115	-	11,115
Moving	-	8,098	-	8,098
Other expenses	4,610	2,089	-	6,699
Shop consumables	6,377	-	-	6,377
Dues and subscriptions	-	6,151	-	6,151
Volunteer care expenses	-	6,061	-	6,061
Payroll processing services	-	5,157	-	5,157
Office expense	-	4,965	-	4,965
Advertising	4,644	-	-	4,644
Equipment rentals	4,015	-	-	4,015
Telephone and internet	-	3,737	-	3,737
Needs-based member discounts	3,687	-	-	3,687
Subcontractors	-	3,186	-	3,186
Health and safety	3,113	-	-	3,113
Professional fees	-	2,800	-	2,800
Interest	-	1,661	-	1,661
Open house	-	-	1,000	1,000
	<u>422,407</u>	<u>56,833</u>	<u>1,000</u>	<u>480,240</u>
Total expenses	<u>\$ 448,889</u>	<u>\$ 153,862</u>	<u>\$ 8,291</u>	<u>\$ 611,042</u>

See independent accountants' review report.