

**CRAFT ALLIANCE**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**YEAR ENDED JUNE 30, 2017**

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## Independent Auditors' Report

Board of Directors  
Craft Alliance  
St. Louis, Missouri

We have audited the accompanying financial statements of Craft Alliance (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, 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 auditors' 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 Craft Alliance as of June 30, 2017, 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.

*Anders Minkler Heber & Helms LLP*

November 27, 2017

**Craft Alliance**  
**Statement of Financial Position**  
**June 30, 2017**

**Assets**

|                                 |                                |
|---------------------------------|--------------------------------|
| Current Assets                  |                                |
| Cash and cash equivalents       | \$ 653,821                     |
| Unconditional promises to give  | 215,445                        |
| Inventory                       | 96,379                         |
| Prepaid expenses                | <u>25,940</u>                  |
| Total Current Assets            | 991,585                        |
| Property and Equipment, net     | 277,785                        |
| Assets Restricted for Endowment | <u>22,125</u>                  |
| <br>Total Assets                | <br><u><u>\$ 1,291,495</u></u> |

**Liabilities and Net Assets**

|   |                                |
|---|--------------------------------|
| Current Liabilities                             |                                |
| Current maturities of long-term debt            | \$ 34,748                      |
| Accounts payable                                | 32,912                         |
| Accrued expenses and other current liabilities  | 22,427                         |
| Deferred gain on sale of assets                 | 139,708                        |
| Deferred revenue                                | <u>94,413</u>                  |
| Total Current Liabilities                       | 324,208                        |
| Deferred Gain on Sale of Assets                 | 1,257,368                      |
| Long-term Debt                                  | <u>4,000</u>                   |
| Total Liabilities                               | <u>1,585,576</u>               |
| Net Assets (Deficit)                            |                                |
| Unrestricted                                    |                                |
| Unrestricted - available for general activities | (396,206)                      |
| Temporarily restricted                          | 80,000                         |
| Permanently restricted                          | <u>22,125</u>                  |
| Total Net Assets (Deficit)                      | <u>(294,081)</u>               |
| <br>Total Liabilities and Net Assets            | <br><u><u>\$ 1,291,495</u></u> |

**Craft Alliance**  
**Statement of Activities**  
**Year Ended June 30, 2017**

|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Revenues, Gains and Other Support              |                     |                                   |                                   |                     |
| Contributions                                  | \$ 495,809          | \$ -                              | \$ -                              | \$ 495,809          |
| Grants   | 130,567             | -                                 | -                                 | 130,567             |
| Special events                                 | 85,741              | -                                 | -                                 | 85,741              |
| Tuition  | 333,974             | -                                 | -                                 | 333,974             |
| Program fees                                   | 675,566             | -                                 | -                                 | 675,566             |
| Other, net                                     | 3,606               | -                                 | -                                 | 3,606               |
| Satisfaction of time and usage<br>restrictions | 43,681              | (43,681)                          | -                                 | -                   |
| Total Revenues, Gains and<br>Other Support     | <u>1,768,944</u>    | <u>(43,681)</u>                   | <u>-</u>                          | <u>1,725,263</u>    |
| Expenses                                       |                     |                                   |                                   |                     |
| Program Services                               |                     |                                   |                                   |                     |
| Delmar location                                | 1,041,813           | -                                 | -                                 | 1,041,813           |
| Grand Center location                          | 311,373             | -                                 | -                                 | 311,373             |
| Total Program Services                         | <u>1,353,186</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,353,186</u>    |
| Supporting Activities                          |                     |                                   |                                   |                     |
| Management and general                         | 156,571             | -                                 | -                                 | 156,571             |
| Fundraising                                    | 287,033             | -                                 | -                                 | 287,033             |
| Total Supporting Activities                    | <u>443,604</u>      | <u>-</u>                          | <u>-</u>                          | <u>443,604</u>      |
| Total Expenses                                 | <u>1,796,790</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,796,790</u>    |
| Change in Net Assets                           | (27,846)            | (43,681)                          | -                                 | (71,527)            |
| Net Assets (Deficit), Beginning of Year        | <u>(368,360)</u>    | <u>123,681</u>                    | <u>22,125</u>                     | <u>(222,554)</u>    |
| Net Assets (Deficit), End of Year              | <u>\$ (396,206)</u> | <u>\$ 80,000</u>                  | <u>\$ 22,125</u>                  | <u>\$ (294,081)</u> |

**Craft Alliance**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

|   | Program Services    |                       |                     | Supporting Activities  |                   |                   | Total Expenses      |
|---|---------------------|-----------------------|---------------------|------------------------|-------------------|-------------------|---------------------|
|   | Delmar Location     | Grand Center Location | Total               | Management and General | Fundraising       | Total             |                     |
| Salaries and wages                                  | \$ 462,938          | \$ 147,253            | \$ 610,191          | \$ 46,591              | \$ 174,189        | \$ 220,780        | \$ 830,971          |
| Payroll taxes and benefits                          | 46,821              | 14,213                | 61,034              | 24,339                 | 15,573            | 39,912            | 100,946             |
| Cost of goods sold                                  | 275,981             | -                     | 275,981             | -                      | -                 | -                 | 275,981             |
| Bad debt  | -                   | 1,472                 | 1,472               | -                      | 6,485             | 6,485             | 7,957               |
| Professional service                                | -                   | -                     | -                   | 42,590                 | -                 | 42,590            | 42,590              |
| Printing expense                                    | 16,365              | 4,199                 | 20,564              | -                      | 3,440             | 3,440             | 24,004              |
| Utilities   | 48,123              | 25,857                | 73,980              | 7,577                  | 3,859             | 11,436            | 85,416              |
| Class expenses                                      | 25,029              | 6,962                 | 31,991              | -                      | -                 | -                 | 31,991              |
| Postage and shipping                                | 23,866              | 1,034                 | 24,900              | 954                    | 2,330             | 3,284             | 28,184              |
| Interest expense                                    | 9,304               | 9,357                 | 18,661              | 21,284                 | -                 | 21,284            | 39,945              |
| Advertising and hospitality                         | 25,583              | 5,564                 | 31,147              | 591                    | 10,654            | 11,245            | 42,392              |
| Curator/Visiting artist                             | 1,848               | -                     | 1,848               | -                      | -                 | -                 | 1,848               |
| Processing fees                                     | 17,137              | 2,508                 | 19,645              | 375                    | 6,034             | 6,409             | 26,054              |
| Programs, shows, and special projects               | 36,721              | 12,686                | 49,407              | -                      | -                 | -                 | 49,407              |
| Equipment rental                                    | 9,855               | 4,880                 | 14,735              | 767                    | 8,129             | 8,896             | 23,631              |
| Insurance   | 14,230              | 6,738                 | 20,968              | 6,158                  | 381               | 6,539             | 27,507              |
| Travel  | 1,250               | 190                   | 1,440               | -                      | -                 | -                 | 1,440               |
| Office supplies                                     | 7,962               | 870                   | 8,832               | 961                    | 1,097             | 2,058             | 10,890              |
| Miscellaneous                                       | 9,149               | 3,250                 | 12,399              | 1,995                  | 125               | 2,120             | 14,519              |
| Rent  | -                   | 20,970                | 20,970              | 500                    | -                 | 500               | 21,470              |
| Parking expense                                     | -                   | 5,026                 | 5,026               | -                      | -                 | -                 | 5,026               |
| Gala/event expense                                  | -                   | -                     | -                   | -                      | 54,348            | 54,348            | 54,348              |
| Total Expenses Before Depreciation and Amortization | <u>1,032,162</u>    | <u>273,029</u>        | <u>1,305,191</u>    | <u>154,682</u>         | <u>286,644</u>    | <u>441,326</u>    | <u>1,746,517</u>    |
| Depreciation and amortization                       | <u>9,651</u>        | <u>38,344</u>         | <u>47,995</u>       | <u>1,889</u>           | <u>389</u>        | <u>2,278</u>      | <u>50,273</u>       |
| Total Expenses                                      | <u>\$ 1,041,813</u> | <u>\$ 311,373</u>     | <u>\$ 1,353,186</u> | <u>\$ 156,571</u>      | <u>\$ 287,033</u> | <u>\$ 443,604</u> | <u>\$ 1,796,790</u> |
| Percent of Total                                    | <u>57.98 %</u>      | <u>17.33 %</u>        | <u>75.31 %</u>      | <u>8.72 %</u>          | <u>15.97 %</u>    | <u>24.69 %</u>    | <u>100.00 %</u>     |

**Craft Alliance**  
**Statement of Cash Flows**  
**Year Ended June 30, 2017**

|  |                            |
|--|----------------------------|
| Cash Flows From Operating Activities   |                            |
| Change in net assets   | \$ (71,527)                |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities:   |                            |
| Depreciation and amortization  | 50,273                     |
| Closing expenses incurred in sale of Delmar assets   | 32,354                     |
| (Increase) decrease in assets:   |                            |
| Unconditional promises to give   | 2,124                      |
| Inventory  | (9,197)                    |
| Prepaid expenses   | (10,891)                   |
| Increase (decrease) in liabilities:  |                            |
| Accounts payable   | (9,114)                    |
| Accrued expenses and other current liabilities   | 22,427                     |
| Deferred revenue   | <u>(4,195)</u>             |
| Net Cash Provided by Operating Activities  | <u>2,254</u>               |
| <br>Cash Flows From Investing Activities   |                            |
| Purchases of property and equipment  | (15,199)                   |
| Proceeds from sale of Delmar building  | <u>697,253</u>             |
| Net Cash Provided by Investing Activities  | <u>682,054</u>             |
| <br>Cash Flows From Financing Activities   |                            |
| Proceeds from notes payable  | 87,000                     |
| Payments on notes payable  | <u>(121,193)</u>           |
| Net Cash Used in Financing Activities  | <u>(34,193)</u>            |
| <br>Net Increase in Cash and Cash Equivalents  | 650,115                    |
| <br>Cash and Cash Equivalents, Beginning of Year   | <u>3,706</u>               |
| <br>Cash and Cash Equivalents, End of Year   | <u><u>\$ 653,821</u></u>   |
| <br>Supplemental Disclosures of Cash Flow Information  |                            |
| Cash paid for  |                            |
| Interest   | \$ 39,946                  |
| <br>Noncash Investing and Financing Activities   |                            |
| During 2017, the Organization sold its land, building, and related improvements at its Delmar location in a sale-leaseback transaction. This transaction resulted in the following activities: |                            |
| Sale of assets   | \$ 1,500,000               |
| Payment of notes payable   | (768,123)                  |
| Closing expenses   | (32,354)                   |
| Prepaid rent, accrued interest, and miscellaneous  | <u>(2,270)</u>             |
| Net cash received  | <u>\$ 697,253</u>          |
| Total deferred gain  | <u><u>\$ 1,397,076</u></u> |

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**1. Nature of Operations and Basis of Presentation**

**Organization**

Craft Alliance (the "Organization") is a not-for-profit organization whose mission and principal activities involve offering contemporary craft art exhibitions, classes, community programs, and a gallery shop featuring the work of national and regional artists. The Organization began as a cooperative gallery in 1964. The Organization has a primary location in the Delmar Loop district and a second location in the Grand Center arts district of St. Louis, Missouri.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with the provisions of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (the "FASB ASC"), which is the source of authoritative, non-governmental accounting principles generally accepted in the United States of America ("GAAP"). All references to authoritative accounting guidance contained in our disclosures are based on the general accounting topics within the FASB ASC.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified into three categories of net assets, as applicable, and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Board designated funds are established by the Board of Directors and represent unrestricted net assets that have been set aside for various future expenditures as determined by the Board. As of June 30, 2017, there were no board designated net assets.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations required to be maintained permanently by the Organization. The income earned on any related investments may be subject to donor-imposed stipulations.

**2. Summary of Significant Accounting Policies**

**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.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**Fair Value Measurements**

The Organization follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. The three general valuation techniques used to measure fair value are the market approach, cost approach, and income approach.

Carrying amounts of certain financial instruments such as cash and cash equivalents, unconditional promises to give, accounts payable, accrued expenses and other current liabilities, and notes payable approximate fair value due to their short maturities or because the terms are similar to market terms. There have been no changes in the methodologies used at June 30, 2017.

**Cash and Cash Equivalents**

The Organization considers all short-term investments with an original maturity of three months or less at the time of purchase to be cash and cash equivalents.

**Unconditional Promises to Give**

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received.

The Organization provides an allowance for doubtful promises to give equal to the estimated losses that will be incurred in the collection of unconditional promises to give. This estimate is based on historical experience coupled with a review of the current status of existing promises. The allowance and associated promises are reduced when the promises are determined to be uncollectible. The Organization considers unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful promises to give is deemed necessary.

**Inventory**

Inventory is stated at the lower of cost or market. Cost is determined by the specific identification method and market is considered the lower of prevailing replacement cost or net realizable value.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**Property and Equipment**

Property and equipment acquisitions with a life of 3 years or greater and a cost in excess of \$1,000 are capitalized and recorded at cost, while maintenance and repairs are expensed as incurred. Donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose or period of time. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the life of the related asset or the term of the lease.

The estimated lives for computing depreciation and amortization on property and equipment are:

| <u>Classification</u>   | <u>Years</u> |
|-------------------------|--------------|
| Leasehold improvements  | 20           |
| Furniture and equipment | 5-10         |
| Website                 | 5            |

**Long-Lived Asset Impairment**

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2017.

**Endowment Fund**

The State of Missouri enacted the State Prudent Management of Institutional Funds Act ("SPMIFA") effective August 28, 2009. The Organization follows FASB guidance on accounting for the net assets classification of restricted endowment funds for a not-for-profit organization that is subject to the enacted version of the SPMIFA. The Organization has determined that the Fund meets the definition of endowment funds under SPMIFA.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

The Organization has interpreted the SPMIFA as requiring the preservation of the original gift amount. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of funds are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by SPMIFA.

**Deferred Revenue**

Deferred revenue consists of payments received for class tuition. These payments will be recognized as revenue in the period in which they are earned.

**Support and Revenue**

Contributions, including unconditional promises to give, and grants that are considered non-exchange transactions, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donor restricted contributions in which the restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**Donated Materials and Services (In Kind)**

Donated noncash assets are recorded as contributions at their fair values at the date of donation. There were no donated materials for the year ended June 30, 2017. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

**Functional Expense Allocation**

The Organization allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activity are allocated directly according to their natural expenditure classifications. Other expenses that are common to several functions are allocated by various statistical bases.

**Advertising**

The Organization expenses advertising costs as they are incurred. Advertising costs totaled \$29,915 for the year ended June 30, 2017.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**Income Taxes**

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Organization files as a tax exempt organization.

The Organization follows guidance issued by the FASB on accounting for income taxes and has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provision for income taxes is necessary to cover any uncertain tax positions. The Organization's returns for tax years 2013 and later remain subject to examination by taxing authorities.

**Subsequent Events**

The Organization has evaluated subsequent events through November 27, 2017, the date the financial statements were available to be issued.

**Recent Accounting Pronouncements**

**Not-for-profit Entities**

The FASB has issued new guidance on financial reporting for not-for-profit entities. The guidance requires a not-for-profit entity to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets. The guidance also requires a not-for-profit entity to present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes. Not-for-profit entities will continue reporting the currently required amount of the change in total net assets for the period. The guidance also requires a not-for-profit entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The guidance also requires enhanced disclosures about the following:

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

- ◆ Amounts and purposes of governing board designations, appropriations, etc.,
- ◆ Composition of net assets with donor restrictions at the end of the period,
- ◆ Qualitative information that communicates how an entity manages its liquid resources,
- ◆ Quantitative and additional qualitative information as necessary that communicates the availability of an entity's financial assets,
- ◆ Amounts of expenses by both their natural classification and their functional classification,
- ◆ Method(s) used to allocate costs among program and support functions,
- ◆ Underwater endowment funds.

The guidance also requires that the Organization report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses. The guidance also require that the Organization use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The guidance will be required for the first fiscal year beginning after December 15, 2017. Based on a preliminary analysis, the Organization does expect the new guidance will have a significant impact on its financial statements.

#### **Revenue from Contracts with Customers**

The FASB has issued new guidance on the recognition of revenue from contracts with customers. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity should apply a five step process to (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be required for the first fiscal year beginning after December 15, 2018. The Organization is evaluating the impact the new guidance will have on its financial statements.

#### **Inventory**

The FASB has issued new guidance on the measurement of inventory. The guidance requires the measurement of inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance will be required for the first fiscal year beginning after December 15, 2016. Based on a preliminary analysis, the Organization has not yet determined what impact, if any, this new guidance will have on its financial statements.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**Leases**

The FASB has issued new guidance on the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position. The guidance will be required for the first fiscal year beginning after December 15, 2019. Based on a preliminary analysis, the Organization does expect the new guidance will have a significant impact on its financial statements.

**3. Unconditional Promises to Give**

Unconditional promises to give at June 30, 2017 are as follows:

|                                    |                   |
|------------------------------------|-------------------|
| Less than one year                 | \$ 215,445        |
| Net unconditional promises to give | <u>\$ 215,445</u> |

**4. Property and Equipment**

Property and equipment at June 30, 2017 is as follows:

|  |                   |
|--|-------------------|
| Grand Center leasehold improvements                          | \$ 434,818        |
| Delmar and Grand Center furniture and equipment, and website | <u>593,682</u>    |
|  | 1,028,500         |
| Less accumulated depreciation and amortization               | <u>750,715</u>    |
|  | <u>\$ 277,785</u> |

Depreciation and amortization expense for the year ended June 30, 2017 totaled \$50,273.

**Craft Alliance**  
**Notes to Financial Statements**  
**June 30, 2017**

**5. Long-term Debt**

Long-term debt at June 30, 2017 is as follows:

|  |           |
|--|-----------|
| Note payable to an individual dated July 2016, interest at 5.0 percent, monthly principal and interest payments of \$2,624, maturing in June 2018. | \$ 30,748 |
|--|-----------|

|   |       |
|---|-------|
| Forgivable loan to University City, Missouri, Department of Community Development, dated February 2016. The loan is 100 percent forgivable if the operator (Craft Alliance) remains in the Delmar Loop for three years after the loan is received. The loan amount shall be reduced by 33.33 percent per annum on the anniversary of the date the agreement was fully executed. | 8,000 |
|---|-------|

|                         |          |
|-------------------------|----------|
| Less current maturities | 38,748   |
|                         | 34,748   |
|                         | \$ 4,000 |

Maturities of notes payable as of June 30, 2017, are as follows:

| <u>June 30,</u> |           |
|-----------------|-----------|
| 2018            | \$ 34,748 |
| 2019            | 4,000     |
|                 | \$ 38,748 |

**6. Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

|                   |           |
|-------------------|-----------|
| Time restrictions | \$ 80,000 |
|-------------------|-----------|

Permanently restricted net assets are restricted to:

|   |           |
|---|-----------|
| Investment in perpetuity, the income of which is expendable to support operations | \$ 22,125 |
|---|-----------|

Assets released from restrictions for the year ended June 30, 2017 are as follows:

|                                       |           |
|---------------------------------------|-----------|
| Released from restrictions of purpose | \$ 2,600  |
| Released from restrictions of time    | 41,081    |
|                                       | \$ 43,681 |

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**7. Endowment Funds**

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to the Organization, while also maintaining the purchasing power of those endowment assets over the long-term. Disbursements, other than amounts to pay investment fees, require the approval of the Board of Directors. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- ◆ The duration and preservation of the fund
- ◆ The purposes of the Organization and the donor-restricted endowment fund
- ◆ General economic conditions
- ◆ The possible effect of inflation and deflation
- ◆ The expected total return from income and the appreciation of investments
- ◆ Other resources of the Organization
- ◆ The investment policies of the Organization

Endowment funds at June 30, 2017 are as follows:

|                                 | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Assets</u> |
|---------------------------------|---------------------|-------------------------------|-------------------------------|-------------------------------|
| Assets restricted for endowment | <u>\$ -</u>         | <u>\$ -</u>                   | <u>\$ 22,125</u>              | <u>\$ 22,125</u>              |

**8. Risks and Uncertainties**

**Concentrations**

Unconditional promises to give from 2 donors were approximately 82 percent of the Organization's unconditional promises to give at June 30, 2017.

**Concentration of Credit Risk**

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents and unconditional promises to give. The Organization maintains its cash primarily with one financial institution. Deposits at this bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At June 30, 2017, there were cash balances of \$482,808 in excess of federally insured limits. The Organization performs ongoing credit evaluations of its donors and maintains allowances, as needed, for potential credit losses. Although the Organization is directly affected by the financial stability of its donor base, management does not believe significant credit risk exists at June 30, 2017.

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**9. Commitments and Contingencies**

**Leases**

The Organization leases office equipment and its Grand Center program operating space under noncancellable operating leases. Future minimum lease payments at June 30, 2017, are as follows:

| <u>Years Ending June 30,</u> |                  |
|------------------------------|------------------|
| 2018                         | \$ 21,072        |
| 2019                         | 8,972            |
| 2020                         | 7,460            |
| 2021                         | 5,400            |
| 2022                         | 5,400            |
|                              | <u>\$ 48,304</u> |

Lease commitments with respect to the Delmar location are described in Note 10. Rent expense related to operating leases for the year ended June 30, 2017 totaled approximately \$21,470.

**Capital Maintenance and Repairs Fund**

In conjunction with the sale-leaseback transaction described in Note 10, the Organization entered into an agreement to jointly fund a capital maintenance and repairs account with the landlord. The Organization is required to contribute \$2,083 per month to the account at any time the balance in the account is below \$25,000. If the balance equals or exceeds \$25,000, the Organization's contribution is reduced to \$1,250 per month. The Organization is not required to make any monthly contributions if the balance of the account equals or exceeds \$150,000. All distributions from the account require joint approval by the landlord and the Organization, and will be made solely to fund needed replacements and improvements to the Delmar location.

**10. Sale-Leaseback Transaction**

On June 28, 2017, the Organization sold its Delmar land and building for \$1,500,000. Simultaneously with the sale, the Organization entered into an agreement to lease the property back under an operating lease for an initial term of 10 years. The gain resulting from the sale has been recorded as deferred gain and is being amortized over the lease term. Deferred gain on sale totaled \$1,397,076 as of June 30, 2017. No gain was recognized for the year ended June 30, 2017.

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The deferred gain on the sale is expected to be amortized as follows:

Years Ending June 30,

|            |    |                     |
|------------|----|---------------------|
| 2018       | \$ | 139,708             |
| 2019       |    | 139,708             |
| 2020       |    | 139,708             |
| 2021       |    | 139,708             |
| 2022       |    | 139,708             |
| Thereafter |    | <u>698,536</u>      |
|            |    | <u>\$ 1,397,076</u> |

Future minimum lease payments as of June 30, 2017, are as follows:

Years Ending June 30,

|            |    |                   |
|------------|----|-------------------|
| 2018       | \$ | 90,025            |
| 2019       |    | 90,025            |
| 2020       |    | 90,025            |
| 2021       |    | 90,025            |
| 2022       |    | 90,025            |
| Thereafter |    | <u>450,125</u>    |
|            |    | <u>\$ 900,250</u> |

There was no rent expense related to the sale-leaseback for the year ended June 30, 2017.