

BAYARTS
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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January 25, 2018

The Board of Directors BAYarts
Bay Village, Ohio

Independent Auditors' Report

We have audited the accompanying financial statements of BAYarts (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, 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 of 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 circumstance, 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 financial statement presentation.

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 BAYarts as of December 31, 2017 and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BAYARTS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Current Assets	
Cash and cash equivalents	\$ 75,773
Trade and grants receivable	32,205
Investments	<u>12,298</u>
Total Current Assets	120,276
Property and Equipment	
Furniture	51,129
Equipment	37,171
Art equipment	3,890
Leasehold Improvements	
Fuller House	427,100
Gallery House	70,815
Karen Ryel Ceramic Arts & Education Center	554,182
Playhouse	37,285
Less: accumulated depreciation	<u>(204,728)</u>
Net Property and Equipment	976,844
Other Assets	
Artwork	13,350
Website	10,900
Less amortization	<u>(5,450)</u>
Total Other Assets	<u>18,800</u>
TOTAL ASSETS	<u>\$ 1,115,920</u>

The Accompanying Notes are an Integral Part of These Financial Statements

BAYARTS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$	1,939
Credit cards payable		1,259
Deferred class revenue		69,809
Deferred other revenue		1,093
Accrued expenses		<u>2,500</u>
Total Current Liabilities		76,600
 Long-Term Liabilities		
Security deposit		<u>650</u>
Total Long-Term Liabilities		<u>650</u>
Total Liabilities		77,250
 Net Assets		
Unrestricted		1,021,726
Temporarily restricted		16,944
Permanently restricted		<u>0</u>
Total Net Assets		<u>1,038,670</u>
 TOTAL LIABILITIES AND NET ASSETS		<u>\$ 1,115,920</u>

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BAYARTS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
Revenue and Support			
Grants	\$ -	\$ 101,535	\$ 101,535
Contributions	103,780	-	103,780
Donations-non cash	40,285	-	40,285
Gallery and shop	67,633	-	67,633
Membership dues	8,315	-	8,315
Classes	471,968	-	471,968
Farm and art market	12,221	-	12,221
Catering	76,538	-	76,538
Miscellaneous	6,253	-	6,253
Fund raising-general	31,839	-	31,839
Interest income	315	-	315
Rental income	8,580	-	8,580
Gain on investments	390	-	390
Released	<u>90,385</u>	<u>(90,385)</u>	<u>-</u>
 Total Revenue and Support	 918,502	 11,150	 929,652
Expenses			
Gallery and shop expenses	152,771	-	152,771
Education	516,619	-	516,619
Management and general expenses	118,135	-	118,135
Fundraising expenses	<u>94,175</u>	<u>-</u>	<u>94,175</u>
 Total Expenses	 <u>881,700</u>	 <u>-</u>	 <u>881,700</u>
 Increase in Net Assets	 36,802	 11,150	 47,952
 Net Assets at Beginning of Year	 <u>984,924</u>	 <u>5,794</u>	 <u>990,718</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 1,021,726</u>	 <u>\$ 16,944</u>	 <u>\$ 1,038,670</u>

The Accompanying Notes are an Integral Part of These Financial Statements

BAYARTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Gallery and Shop	Education	Management and General	Fundraising	Total
Expenses	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>	<u>Expenses</u>
Payroll	\$ 47,445	\$ 182,518	\$ 55,843	\$ 56,977	\$ 342,783
Taxes-payroll	4,804	15,703	4,082	4,902	29,491
Pension expense	<u>1,070</u>	<u>4,117</u>	<u>1,260</u>	<u>1,285</u>	<u>7,732</u>
	53,319	202,338	61,185	63,164	380,006
Advertising	15,103	26,688	-	8,331	50,122
Amortization	592	872	354	362	2,180
Bank charges	4,389	14,347	3,730	4,478	26,944
Computer expense	433	1,664	4,308	520	6,925
Contract labor	16,174	174,464	12,456	-	203,095
Food/beverage	2,147	-	1,411	2,000	5,558
Insurance	2,347	9,029	2,762	2,819	16,957
Licenses and fees	1,335	-	-	-	1,335
Maintenance	18,780	-	2,925	-	21,705
Miscellaneous	5,569	400	4,084	1,983	12,036
Postage	814	814	815	814	3,257
Professional fees	-	-	3,561	-	3,561
Program fees	1,515	4,001	-	-	5,516
Equipment-rental	457	1,758	537	549	3,301
Security	-	-	460	-	460
Seminars/meetings	-	699	1,740	470	2,910
Supplies	11,634	41,854	5,821	2,767	62,076
Trash removal	865	1,018	3,328	1,039	6,250
Telephone	952	3,663	1,121	1,144	6,880
Utilities	<u>2,913</u>	<u>11,204</u>	<u>3,428</u>	<u>3,498</u>	<u>21,043</u>
Expenses before depreciation	139,338	494,813	114,026	93,938	842,115
Depreciation	<u>13,433</u>	<u>21,806</u>	<u>4,109</u>	<u>237</u>	<u>39,585</u>
Total Expenses	<u>\$ 152,771</u>	<u>\$ 516,619</u>	<u>\$ 118,135</u>	<u>\$ 94,175</u>	<u>\$ 881,700</u>

The Accompanying Notes are an Integral Part of These Financial Statements

BAYARTS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities	
Net Change in Net Assets	\$ 47,952
Adjustments to reconcile Net Change to net cash provided by (used in) operating activities	
Depreciation and Amortization	41,765
(Gain) on Investments	(390)
Donation of furniture	(40,285)
Increase (Decrease) in Operating Assets:	
Accounts receivable	2,074
(Decrease) Increase in Operating Liabilities:	
Accounts payable	(38,674)
Accrued expenses	1,044
Deferred revenue	(3,612)
Total Adjustments	<u>(38,078)</u>
 Net Cash Provided By Operating Activities	 9,874
 Cash Flows From Investing Activities	
Capital expenditures	(898)
Proceeds from sale of investments	<u>15,000</u>
 Net Cash Provided By Investing Activities	 14,102
 Cash Flows From Financing Activities	
 Net Cash Provided By (Used In) Financing Activities	 <u>-</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 23,976
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	 <u>51,797</u>
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	 <u>\$ 75,773</u>
 Supplemental information	
Amount of interest paid on all indebtedness	<u>\$ -</u>

The Accompanying Notes are an Integral Part of These Financial Statements

BAYARTS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1- Background and Structure of the Organization

BAYarts has been granted nonprofit status under Section 501 (c) (3) of the Internal Revenue Code. The mission of BAYarts is to create a welcoming, lakeside environment to stimulate, encourage, and support professional and aspiring artists of all ages through collaboration, education and exhibition.

NOTE 2- Summary of Significant Accounting Policies

- A. General Methods- The accompanying financial statements have been prepared as prescribed in the American Institute of Certified Public Accountants' Guide for Not-For-Profit Organizations.
- B. Accrual Basis- The organization records transactions on an accrual basis. Revenue (if any) is recognized when earned, support is recognized when receivable, and expenses are recognized when incurred.
- C. BAYarts complies with FASB ASC 958-605-25, which affects the timing of revenue recognition with regard to temporarily restricted net assets.

BAYarts also complies with FASB ASC 958-205, which establishes standards for general purpose external financial statements of not-for-profit organizations. This standard requires classification of an organization's net assets and its support and revenue, expenses and distributions based on the existence or absence of donor-imposed restrictions into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- D. Allocation of Expenses- Expenses are generally charged to the specific program for which they are incurred. In some cases, however, common expenses are incurred which support the work performed under program services as well as for support services. Such expenses are allocated among the various program services and support services based on the relationship of functionalized payroll costs to total payroll.
- E. Depreciation - Property and equipment are depreciated using the straight-line method over estimated useful lives.
- F. Use of Estimates- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

See Auditors ' Report

BAYARTS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 2- Summary of Significant Accounting Policies (Continued)

- G. Advertising Costs- BAYarts expenses advertising costs when the cost is incurred.
- H. BAYarts complies with FASB ASC 740- Accounting for Uncertainty in Income Taxes. FASB ASC 740 details how companies should recognize, measure, present and disclose uncertain tax positions that have been or are expected to be taken. As such, the financial statements would reflect expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the position and all relevant facts, if they existed. Management believes that there are no uncertain tax positions. The organization's tax years that remain subject to examination by the Internal Revenue Service are 2014 and forward.
- I. Recently issued pronouncements - From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) and are adopted by the organization as of the specified effective date. Unless otherwise discussed, BAYarts believes that the impact of other recently issued accounting pronouncements will not have a material impact on its financial position, statements of activities, changes in net deficit, and cash flows, or do not apply to the organization's operations.

In May 2014, the FASB issued an amendment to the accounting guidance for recognition of revenue from contracts with customers. In 2015, the effective date of the new revenue recognition guidance was deferred by three years, making the new guidance effective for private companies for annual periods beginning after December 15, 2019. Early adoption is permitted, but not before annual periods beginning after December 15, 2016. Management is evaluating the impact of this update on the organization's financial statements.

In 2016, the FASB issued an accounting standard on the Presentation of Not-for-Profit Entities. This standard decreases net asset classes from three to two, enhances disclosures for underwater endowments, changes functional expense reporting, requires disclosure of qualitative information on how the organization manages its liquid availability and liquidation risks, and eliminates the requirement for those who use the direct method cash flow statement to perform reconciliation with the indirect method. The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and early application of the standard is permitted. Management is evaluating the impact of this standard on the organization's financial statements.

The FASB issued an accounting standard update for leases. The guidance is effective for private companies for fiscal years beginning after December 15, 2019. Management is evaluating the impact of the adoption of this guidance on the organization's financial statements.

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BAYARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 2- Summary of Significant Accounting Policies (Continued)

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements - Going Concern." The amendments in this update cover the evaluation of an entity by management and disclosures related to the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The ASU provides guidance on specific disclosures if: (1) conditions or events raise substantial doubt about an entity's ability to continue as a going concern, but the substantial doubt is alleviated as a result of consideration of management's plan, (2) conditions or events raise substantial doubt about an entity's ability to continue as a going concern, and substantial doubt is not alleviated after consideration of management's plans. Management has adopted this standard and has evaluated the organization's ability to continue as a going concern within one year of the financial statement date and has determined that no substantial doubt exists.

- J. Investments (if any)- Initial valuation- Pursuant to FASB ASC 958-320 and FASB ASC 958-325, BAYarts initially measures investments at acquisition cost (including brokerage cost and transaction fees) if they are purchased. If they are received as a donation they are recorded at estimated fair value.

Subsequent valuation- BAYarts complies with FASB ASC 958-320, which requires investments in equity securities with readily determined fair value and all investments in debt securities to be measured at fair value in the statement of financial position. With regard to other investments, such as real estate, BAYarts values the investment at lower of cost or managements estimate of fair value.

Valuation hierarchy- FASB ASC 820-10-50 Fair Value Measurements and Disclosures requires categorization of applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). For BAYarts the financial assets and liabilities reported at fair value are based upon quoted prices for identical assets or liabilities in an active market (Level 1).

- K. Donated Services- A significant portion of BAYarts' functions are conducted by unpaid officers, board members, and volunteers. The value of this contributed time is not included in the financial statements.

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BAYARTS
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 3- Cash

BAYarts considers all highly-liquid investments with a maturity of three months or less when purchased to be cash equivalents. There are no bank restrictions on the cash accounts. Cash and cash equivalents consist of the following:

Petty cash		\$ 1,583
Paypal and atm machine	Draft	2,679
Checking -PNC Bank	For Discussion Purposes Only	1,124
Deposit account-PNC Bank		<u>70,387</u>
Total cash and cash equivalents		<u>\$ 75,773</u>

NOTE 4- Investments

As discussed in Note 2 (J), investments are stated at the fair market value as required by FASB ASC 958-320. The cost and value are as follows:

Money market funds	\$1,783
Stock funds	4,796
Other investments	<u>5,719</u>
Total Investments	<u>\$12,298</u>

Fair market values are determined based on quoted market prices. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the Statement of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or bylaw.

NOTE 5- Trade and Grants Receivable

Based upon a review of specific accounts, BAYarts considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required.

NOTE 6- Artwork

BAYarts has various pieces of art that have been donated through the years. This art work is valued at fair market value at the date of donation. The artwork is not publicly traded and may not be readily marketable. During fiscal year ended June 30, 2009, BAYarts had the work appraised for a total of \$28,500. During fiscal year ended June 30, 2012, several pieces were sold. During FYE June 30, 2015 additional pieces were purchased and donated. Management believes the value of the remaining pieces is \$13,350.

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BAYARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 7- Property and Equipment

Property and equipment are stated at cost, if purchased or at the fair market value on the date of donation, if contributed. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Estimated useful life</u>
Furniture & Fixtures	7 years
Equipment	5 years
Leasehold Improvements	7 years
Gallery House	7 years
Playhouse	5 years
Irene Lawrence Fuller House	39 years
Karen Ryel Ceramic Arts & Education Center	39 years

Costs of maintenance and repairs are charged to expenses. Costs of renewals and betterments, where significant in amount, are capitalized.

The Irene Lawrence Fuller House– In the spring of 2010, BAYarts began the restoration of this historic house, thanks to the generous grants from The Ohio Cultural Facilities Commission, (now called the Ohio Facilities Construction Commission) The Cleveland Metroparks, Mapleleaf Landscaping , local businesses and friends of BAYarts. After the two year renovation, the Fuller House began a new journey as the home of a new gallery, classrooms and a gathering place. \$11,109 of the total \$39,585 depreciation expense is directly related to this renovation.

Karen Ryel Ceramic Arts & Education Center– During FYE June 30, 2015, BAYarts completed the construction on the Karen Ryel Ceramic Arts & Education Center, thanks to the generous donations from Gretchen Coleran. \$14,210 of the total \$39,585 depreciation expense is directly related to this renovation.

NOTE 8- Lines of Credit

BAYarts has applied for and been approved for a line of credit at PNC Bank. The credit line has a limit of \$15,000. The interest rate, which is a variable and based on the bank's prime commercial rate, was 4.5% at year end. The balance as of December 31, 2017 was \$0. This loan is secured by a blanket lien on all business assets.

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BAYARTS
 NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9- Restrictions on Net Assets

Net assets were temporarily restricted as of December 31, 2017 for the following:

Scholarship Fund (expenditure)	\$ 5,794
Ohio Arts Council (time)	<u>11,150</u>
Total	<u>\$ 16,944</u>
	<u> </u>
	<u> </u>

Temporarily restricted net assets released by expenditures during 2017 were \$33,829 . In addition \$56,556 of temporarily restricted net assets were released by time. 2017 temporarily restricted net assets consist of \$5,794 of cash and \$11,150 in receivables.

NOTE 10- Leases

BAYarts leases its office and gallery from the Cleveland Metroparks. BAYarts is not required to pay any fee for rent; however, it is required to pay all utilities. This lease agreement is valid as long as BAYarts maintains its exempt mission.

BAYarts also sublets part of its space to a for-profit restaurant (Vento La Trattoria). The sublease is for a period of five years expiring December 2019. Per the terms of the sublease, the restaurant pays all of its own utilities and is required to pay BAYarts \$715/month.

BAYarts also leases office equipment. The lease requires monthly lease payments of \$209 through December 2020. The following is a schedule of the minimum future payments:

2018	\$ 2,505
2019	2,505
2020	2,505
2021	-
2022	-
Thereafter	-
	<u>\$ 7,515</u>

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11- Grants Awarded to BAYarts

Cleveland Foundation	\$ 6,250
PNC Foundation	7,500
Community West Foundation	2,000
Kelvin and Eleanor Smith Foundation	5,000
Char and Chuck Fowler Foundation	3,000
Ohio Arts Council	27,299
Cuyahoga Arts and Culture	49,054
Other	1,432
Total	<u>\$ 101,535</u>

NOTE 12- Fundraising -Related Party Transactions

BAYarts holds an annual fall event for fund-raising purposes. The revenue raised is shown net of direct expenses and is calculated as follows:

Gross revenue		Direct expenses	
Ticket sales	\$ 37,100	Food and beverages	\$ 8,625
Other collections	150	Rentals	8,629
Raffle tickets	840	Labor	3,700
Wine pull	2,160	Mobile bidding	3,430
Silent auction	<u>10,589</u>	Other miscellaneous	<u>7,922</u>
Total Gross Revenue	\$ 50,839	Total direct expenses	\$ 32,306
Net proceeds from fall event		\$18,533	
Other event (net)		<u>13,306</u>	
Total fundraising		<u>\$ 31,839</u>	

BAYarts collected an additional \$61,322 in corporate sponsorships (included in contributions in the financial statements).

NOTE 13-Consignment Sales

BAYarts sells consignment artwork of local artists. The artist receives 60% of the sale and BAYarts receives 40% of the sale. Consignment sales are shown net of \$79,556 which was paid to the individual artists.

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BAYARTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14- Income Taxes

BAYarts is a not-for-profit organization exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been reported in the financial statements.

NOTE 15- Subsequent Events

BAYarts has evaluated subsequent events through February 15, 2018; which is the date the financial statements were available to be issued.

NOTE 16-Contingent Liabilities

It is the policy of the organization to make sick days available as they accrue. The allowed number of sick days is based on an allowance for each year of service and can accumulate to a maximum amount and will be carried forward. Since there is no requirement that the employee be compensated for unused absences upon separation of employment, no liability is reported as of December 31, 2017.

NOTE 17-Pension Plan

BAYarts has established an employee benefit plan under which employees can make elective deferrals as provided for under Internal Revenue Code section 403 B. BAYarts is required to match 100% of the first 3% of each participant's salary. BAYarts matched \$7,732 in employee contributions.

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