

The Baum School of Art

Financial Statements
Year Ended June 30, 2018



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THE BAUM SCHOOL OF ART

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INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
The Baum School of Art
Allentown, Pennsylvania**

We have audited the accompanying financial statements of The Baum School of Art (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Baum School of Art as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited The Baum School of Art's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 22, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BBD, LLP.

**Philadelphia, Pennsylvania
November 30, 2018**

THE BAUM SCHOOL OF ART

STATEMENT OF FINANCIAL POSITION

June 30, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ -	\$ 24,055
Contributions receivable	99,604	144,309
Accounts receivable	18,335	17,896
Prepaid expenses and other assets	9,403	10,008
Investments	437,328	333,771
Art inventory	1,435,930	1,310,925
Permanent art collection	500,000	500,000
Property and equipment, net	<u>2,866,623</u>	<u>2,956,904</u>
Total assets	<u>\$ 5,367,223</u>	<u>\$ 5,297,868</u>
LIABILITIES		
Line of credit	\$ -	\$ 32,000
Loan payable	222,935	231,700
Accounts payable and accrued expenses	58,722	44,715
Deferred revenue	<u>3,020</u>	<u>27,675</u>
Total liabilities	<u>284,677</u>	<u>336,090</u>
NET ASSETS		
Unrestricted		
Operating	1,440,427	1,301,956
Board designated	115,837	114,728
Plant	<u>2,643,688</u>	<u>2,725,204</u>
	4,199,952	4,141,888
Temporarily restricted	233,921	172,344
Permanently restricted	<u>648,673</u>	<u>647,546</u>
Total net assets	<u>5,082,546</u>	<u>4,961,778</u>
Total liabilities and net assets	<u>\$ 5,367,223</u>	<u>\$ 5,297,868</u>

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF ACTIVITIES

Year ended June 30, 2018 with comparative totals for 2017

	Unrestricted				Temporarily Restricted	Permanently Restricted	Totals	
	Operating	Board Designated	Plant	Total			2018	2017
REVENUE AND SUPPORT								
Tuition and studio fees (net of scholarships of \$214,103 in 2018 and \$215,893 in 2017)	\$ 422,343	\$ -	\$ -	\$ 422,343	\$ -	\$ -	\$ 422,343	\$ 410,484
Grants and contributions	296,630	-	-	296,630	91,173	-	387,803	462,113
Special events (net of direct expenses of \$107,857 in 2018 and \$108,274 in 2017)	120,188	-	-	120,188	-	-	120,188	152,018
Circulating picture club	46,075	-	-	46,075	-	-	46,075	55,133
Community arts program	66,033	-	-	66,033	-	-	66,033	54,942
Other	9,577	-	-	9,577	-	-	9,577	8,677
Endowment spending policy distribution	20,845	(6,801)	-	14,044	(4,999)	(9,045)	-	-
Net assets released from restrictions	32,505	-	-	32,505	(32,505)	-	-	-
Total revenue and support	1,014,196	(6,801)	-	1,007,395	53,669	(9,045)	1,052,019	1,143,367
EXPENSES								
Program service	829,772	-	-	829,772	-	-	829,772	827,520
Support services								
Management and general	176,045	-	-	176,045	-	-	176,045	185,835
Fundraising	76,429	-	-	76,429	-	-	76,429	99,417
Total expenses	1,082,246	-	-	1,082,246	-	-	1,082,246	1,112,772
Change in net assets before other changes	(68,050)	(6,801)	-	(74,851)	53,669	(9,045)	(30,227)	30,595
OTHER CHANGES								
Investment income	-	7,910	-	7,910	7,908	10,172	25,990	25,959
In-kind contributions of art inventory	125,005	-	-	125,005	-	-	125,005	5,275
Transfers								
Property and equipment additions	(13,706)	-	13,706	-	-	-	-	-
Depreciation	103,987	-	(103,987)	-	-	-	-	-
Principal payments on loan payable	(8,765)	-	8,765	-	-	-	-	-
Total other changes	206,521	7,910	(81,516)	132,915	7,908	10,172	150,995	31,234
CHANGE IN NET ASSETS	138,471	1,109	(81,516)	58,064	61,577	1,127	120,768	61,829
NET ASSETS								
Beginning of year	1,301,956	114,728	2,725,204	4,141,888	172,344	647,546	4,961,778	4,899,949
End of year	\$ 1,440,427	\$ 115,837	\$ 2,643,688	\$ 4,199,952	\$ 233,921	\$ 648,673	\$ 5,082,546	\$ 4,961,778

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018 with comparative totals for 2017

	Program Service	Management and General	Fundraising	Totals	
				2018	2017
Salaries	\$ 430,856	\$ 72,797	\$ 60,352	\$ 564,005	\$ 568,310
Payroll taxes and employee benefits	60,280	9,604	8,943	78,827	102,271
Class supplies	28,797	-	-	28,797	24,553
Credit card and bank fees	10,847	-	1,205	12,052	12,087
Depreciation	67,592	36,395	-	103,987	101,826
Interest	7,990	3,425	-	11,415	10,982
Leased equipment	2,804	2,803	-	5,607	5,352
Maintenance supplies	22,589	2,510	-	25,099	17,572
Models	7,900	-	-	7,900	8,100
Occupancy	70,114	7,790	-	77,904	70,877
Office expense	-	8,528	-	8,528	9,208
Postage	5,730	1,763	1,323	8,816	10,927
Printing	20,602	-	637	21,239	20,297
Professional fees	-	17,037	-	17,037	33,359
Promotion and publicity	56,700	-	1,157	57,857	58,849
Service contracts	8,574	8,573	-	17,147	15,537
Telephone	4,294	1,074	-	5,368	8,084
Transportation	12,007	-	-	12,007	13,173
Miscellaneous	12,096	3,746	2,812	18,654	21,408
Total expenses	\$ 829,772	\$ 176,045	\$ 76,429	\$ 1,082,246	\$ 1,112,772

See accompanying notes

THE BAUM SCHOOL OF ART

STATEMENT OF CASH FLOWS

Year ended June 30, 2018 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 120,768	\$ 61,829
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Depreciation	103,987	101,826
Unrealized and realized gain on investments	(21,950)	(24,997)
In-kind contributions of art inventory	(125,005)	(5,275)
(Increase) decrease in		
Contributions receivable	44,705	(67,167)
Accounts receivable	(439)	16,834
Prepaid expenses and other assets	605	(954)
Increase (decrease) in		
Accounts payable and accrued expenses	14,007	7,683
Deferred revenue	(24,655)	25,095
Net cash provided by operating activities	<u>112,023</u>	<u>114,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	499,431	107,863
Purchases of investments	(581,038)	(179,049)
Purchases of property and equipment	<u>(13,706)</u>	<u>(32,589)</u>
Net cash used for investing activities	<u>(95,313)</u>	<u>(103,775)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments on line of credit	(32,000)	(3,000)
Principal payments on loan payable	<u>(8,765)</u>	<u>(8,384)</u>
Net cash used for financing activities	<u>(40,765)</u>	<u>(11,384)</u>
Net decrease in cash	(24,055)	(285)
CASH		
Beginning of year	<u>24,055</u>	<u>24,340</u>
End of year	<u>\$ -</u>	<u>\$ 24,055</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 11,415</u>	<u>\$ 10,982</u>

See accompanying notes

THE BAUM SCHOOL OF ART

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(1) NATURE OF OPERATIONS

The Baum School of Art (the "**School**"), is a nonprofit organization organized under the laws of the Commonwealth of Pennsylvania for the purpose of teaching art to students and cultural enrichment of the community through seminars and exhibitions.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The School reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets include a fund that has been designated by the Board of Trustees to function as an endowment with the income to be used for scholarships.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the School and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "**net assets released from restrictions.**"

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that such assets be maintained indefinitely.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles ("**GAAP**"). Those estimates and assumptions affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Fair Value Measurements of Assets and Liabilities

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the School. Unobservable inputs reflect the School's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the School's own assumptions.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect from balances outstanding at year-end. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. Management believes all accounts were collectible and did not provide an allowance for uncollectible accounts. The School does not charge interest on outstanding balances.

Investments and Investment Income

Investments in debt and equity securities with readily determinable fair values are reported at fair value as determined by quoted market prices with gains and losses included in the statement of activities. Dividend and interest income is recorded as earned. Restricted investment income whose restrictions are satisfied in the same period are reported as unrestricted.

The School invests in a professionally-managed portfolio that contains various types of securities (**See Note 3**). Such investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Art Inventory

Art inventory is art held by the School for use in its Circulating Picture Club. The art items are periodically evaluated for use, and items are occasionally sold if they no longer are deemed useful to the program. They are recorded at cost, if purchased, and fair value at the date contributed if donated. Art inventory for which this information is not available has been recorded based on insurance values.

Permanent Art Collection

The School capitalizes its permanent art collection. Accessions are capitalized at cost if purchased and at fair value at the date of accession if received by donation. Gains and losses on deaccessions of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation. Proceeds from deaccessions are used to purchase new collection items.

Property and Equipment

Property and equipment are stated at cost, if purchased, and at fair value at the date contributed if donated. Depreciation is computed using the straight-line method based on estimated useful lives. The School typically capitalizes items costing or valued at \$500 or more. Routine repairs and maintenance expenses are expensed as incurred.

Furniture and equipment	3 – 10 years
Buildings and improvements	10 – 50 years

Deferred Revenue

Amounts received in advance of services being rendered are reported as deferred revenue on the accompanying statement of financial position.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

Grants and Contributions

Grants and contributions are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted grants and contributions whose restrictions are satisfied in the same period are reported as unrestricted.

Unconditional grants and contributions are recognized when the related promise to give is received. Conditional grants and contributions are recognized when the conditions are satisfied.

Advertising Costs

Advertising costs are expensed as incurred and were \$57,857 and \$58,849 for the years ended June 30, 2018 and 2017, respectively.

Functional Expenses

The School allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program or support service are allocated directly according to that function. Other expenses that are common to several functions are allocated based on estimates made for time spent by key personnel between functions, space occupied by function and other objective bases.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the School's tax-exempt purpose is subject to taxation as unrealized business income.

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The School believes that it had no uncertain tax positions.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk are cash, contributions receivable and accounts receivable. The School maintains its cash at a financial institution and, at times, such deposits may exceed federally-insured limits. Contributions receivable are from a trust and are expected to be collected in 2019. Accounts receivable are due from students currently enrolled and are expected to be collected in 2019.

Reclassifications

Certain items in the 2017 comparative totals have been reclassified in order to conform to the 2018 presentation.

(3) INVESTMENTS

Investments consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 56,037	\$ 7,416
Common stocks	59,123	-
Corporate bonds	146,223	-
Mutual funds		
Equity	46,390	150,383
Fixed income	-	106,002
Equity exchange-traded funds	<u>129,555</u>	<u>69,970</u>
	<u>\$437,328</u>	<u>\$333,771</u>

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

All investments are valued using Level 1 (quoted prices in active markets) valuation inputs, except for corporate bonds which are measured using level 2 (quoted prices in inactive markets) valuation inputs.

Investment income was comprised of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 8,441	\$ 4,140
Investment management fees	(4,401)	(3,178)
Unrealized and realized gain	<u>21,950</u>	<u>24,997</u>
	<u>\$ 25,990</u>	<u>\$ 25,959</u>

(4) PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 481,894	\$ 481,894
Buildings and improvements	4,014,366	4,014,366
Charles C. Dent Memorial Sculpture Garden	150,615	150,615
Furniture and fixtures	142,259	142,139
Equipment	<u>304,188</u>	<u>290,602</u>
	5,093,322	5,079,616
Less accumulated depreciation	<u>(2,226,699)</u>	<u>(2,122,712)</u>
	<u>\$ 2,866,623</u>	<u>\$ 2,956,904</u>

Depreciation was \$103,987 and \$101,826 for the years ended June 30, 2018 and 2017, respectively.

(5) LINE OF CREDIT

The School has a \$150,000 bank line of credit that is payable on demand. Advances under this line of credit bear interest at the prime rate (5.00% as of June 30, 2018). The line of credit matures on March 2, 2026. The outstanding balance was \$-0- and \$32,000 at June 30, 2018 and 2017, respectively.

Interest expense on the line of credit was \$1,256 and \$441 for the years ended June 30, 2018 and 2017, respectively.

(6) LOAN PAYABLE

The School has a loan payable, which is secured by the School's land and building and bears interest at 4.40%. The loan requires monthly principal and interest payments of \$1,577 through March 2020 and is secured by the School's property.

The loan payable matures as follows:

Year ending June 30,

2019	\$ 9,324
2020	<u>213,611</u>
	<u>\$222,935</u>

Interest expense on the loan balance was \$10,159 and \$10,541 for the years ended June 30, 2018 and 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

(7) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following purposes:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance June 30, 2018</u>
Scholarships				
Senior tuition assistance reward (STAR)	\$ 73,788	\$12,995	\$ (9,854)	\$ 76,929
Summer camps	4,760	43,000	(4,760)	43,000
General	71,497	2,986	(3,065)	71,418
Other	-	12,900	(1,250)	11,650
Other	<u>22,299</u>	<u>27,200</u>	<u>(18,575)</u>	<u>30,924</u>
	<u>\$172,344</u>	<u>\$99,081</u>	<u>\$(37,504)</u>	<u>\$233,921</u>
	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance June 30, 2017</u>
Scholarships				
Senior tuition assistance reward (STAR)	\$10,198	\$ 75,755	\$(12,165)	\$ 73,788
Summer camps	7,330	30,000	(32,570)	4,760
General	-	71,497	-	71,497
Other	<u>15,564</u>	<u>17,700</u>	<u>(10,965)</u>	<u>22,299</u>
	<u>\$33,092</u>	<u>\$194,952</u>	<u>\$(55,700)</u>	<u>\$172,344</u>

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30,:

	<u>2018</u>	<u>2017</u>
Contributions restricted for endowment	\$148,673	\$147,546
Permanent art collection (Da Vinci Horse)	<u>500,000</u>	<u>500,000</u>
	<u>\$648,673</u>	<u>\$647,546</u>

(9) RETIREMENT PLAN

The School has a SIMPLE IRA pension plan. The School contributed 3% of participating employees' salary to the plan. The cost to the School for the years ended June 30, 2018 and 2017 was \$10,573 and \$10,609, respectively.

(10) ENDOWMENT FUNDS

An accounting standard exists which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("*UPMIFA*"). The School is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018

In accordance with Pennsylvania statutes, the School has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The School's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of income annually distributed from the endowment funds. The current spending policy is to distribute an amount up to 6.0% of a moving three-year average of the fair value of the endowment fund.

Changes in the endowment assets for the year ended June 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$114,728	\$ 71,497	\$147,546	\$333,771
Contributions/transfer from operations	-	77,567	-	77,567
Investment income	7,910	7,908	10,172	25,990
Endowment spending policy distribution	<u>(6,801)</u>	<u>(4,999)</u>	<u>(9,045)</u>	<u>(20,845)</u>
Endowment net assets, June 30, 2018	<u>\$115,837</u>	<u>\$151,973</u>	<u>\$148,673</u>	<u>\$416,483</u>

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2016	\$ 97,588	\$ -	\$140,000	\$237,588
Contributions/transfer from operations	11,880	70,224	-	82,014
Investment income	10,140	1,273	14,546	25,959
Endowment spending policy distribution	<u>(4,880)</u>	<u>-</u>	<u>(7,000)</u>	<u>(11,880)</u>
Endowment net assets, June 30, 2017	<u>\$114,728</u>	<u>\$71,497</u>	<u>\$147,546</u>	<u>\$333,771</u>

(11) COMMITMENTS AND CONTINGENCIES

The School has elected not to be covered by Pennsylvania Unemployment Compensation. All claims for unemployment benefits must be paid by the School as they occur.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2018, which is the date the financial statements were available to be issued. Except as disclosed below, no material subsequent events have occurred since June 30, 2018 that required recognition or disclosure in the financial statements.

In July 2018, the School received a \$200,000 unrestricted contribution from a private foundation.