

**ART OF RECYCLE**  
**Financial Statements**  
**Years Ending December 31, 2019 and 2018**

**WNC CPAs & CONSULTANTS, LLC**  
**Certified Public Accountants**  
**Ephrata, PA 17522**

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*Principals:*

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## INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors  
Art of Recycle  
Ephrata, PA

We have reviewed the accompanying financial statements of Art of Recycle (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management'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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

Without modifying our conclusion, we draw attention to the notes to financial statements, which describe the subsequent events related to the global COVID-19 pandemic declared by the World Health Organization.

**Revenue from Contracts with Customers**

Effective on January 1, 2019, accounting principles generally accepted in the United States of America required that revenue from contracts with customers be presented and disclosed in accordance with ASU No. 2014-9; Topic 606, Revenues from Contracts with Customers. Due to the impact of the COVID-19 pandemic, the Financial Accounting Standards Board (FASB) on May 20, 2020 extended the effective date of ASU No. 2014-9; Topic 606, Revenues from Contracts with Customers by one year for those nonpublic entities releasing financial statements after May 20, 2020. Accordingly, these financial statements do not include implementation of ASU No. 2014-9; Topic 606, Revenues from Contracts with Customers.

*WNC CPAs & Consultants, LLC*

December 11, 2020

**ART OF RECYCLE**  
**Statements of Financial Position**  
**December 31, 2019 and 2018**

<b>ASSETS</b>		
	<b>2019</b>	<b>2018</b>
<b>Current Assets</b>		
Cash	\$ 21,238	\$ 1,333
Accounts Receivable	700	700
Inventory:		
Arts and Crafts Supplies	91,459	62,354
Teachers Supplies	49,461	36,111
Workshop Materials	5,780	0
Security Deposits	4,210	3,750
<b>Total Current Assets</b>	<b>172,848</b>	<b>104,248</b>
<b>Property and Equipment</b>		
Furnishings And Equipment	106,797	29,651
Transportation Equipment	30,559	0
<b>Total Property and Equipment</b>	<b>137,356</b>	<b>29,651</b>
Less: Depreciation Accumulated to Date	6,567	0
<b>Net Property and Equipment</b>	<b>130,789</b>	<b>29,651</b>
<b>TOTAL ASSETS</b>	<b>303,637</b>	<b>133,899</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Line of Credit	18,299	19,575
Accounts Payable	9,879	14,496
Payroll Liabilities	760	2,084
Due to Related Party	2,659	3,454
Sales Tax Payable	662	0
Current Portion of Long-Term Debt	4,036	0
<b>Total Current Liabilities</b>	<b>36,295</b>	<b>39,609</b>
<b>Long-Term Liabilities</b>		
Notes Payable - net of current portion	24,223	0
<b>Total Liabilities</b>	<b>60,518</b>	<b>39,609</b>
<b>NET ASSETS</b>		
<b>Without Donor Restrictions</b>	<b>243,119</b>	<b>94,290</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 303,637</b>	<b>\$ 133,899</b>

See Accompanying Notes and Accountant's Report.

**ART OF RECYCLE**  
**Statements of Activities**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
	<b>Without Donor Restrictions</b>	<b>Without Donor Restrictions</b>
	<u>                    </u>	<u>                    </u>
<b>Support and Revenue</b>		
General Donations	\$ 28,090	\$ 7,396
Foundations and Grants	1,213	6,229
In-Kind Donations		
Advertising	40,950	37,350
Arts and Crafts Supplies	225,342	340,770
Furnishings And Equipment	106,797	0
Art Programs Income	163,713	142,718
Membership Dues	2,159	0
Miscellaneous Income	514	52
	<u>                    </u>	<u>                    </u>
<b>Total Support and Revenue</b>	<b>568,778</b>	<b>534,515</b>
<b>Expenses</b>		
Program Services	393,045	527,588
Management and General	24,982	14,574
Fund Raising	1,922	1,565
	<u>                    </u>	<u>                    </u>
<b>Total Expenses</b>	<b>419,949</b>	<b>543,727</b>
<b>Change in Net Assets</b>	<b>148,829</b>	<b>(9,212)</b>
<b>Net Asset, Beginning</b>	<u>94,290</u>	<u>103,502</u>
<b>Net Assets, Ending</b>	<u><u>\$ 243,119</u></u>	<u><u>\$ 94,290</u></u>

See Accompanying Notes and Accountant's Report.

**ART OF RECYCLE**  
**Statements of Functional Expenses**  
**Year Ended December 31, 2019**

	<b>Program Expenses</b>						<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>Ephrata</b>			<b>Hanover</b>			<b>Total Program Expenses</b>	<b>Management and General</b>	<b>Fund Raising</b>	
	<b>Community Arts Center</b>	<b>Creative Workshops</b>	<b>Art Is a Necessity</b>	<b>Community Arts Center</b>	<b>Creative Workshops</b>	<b>Art Is a Necessity</b>				
In-Kind Advertising	\$ 24,570	\$ 12,285	\$ 4,095	\$ 0	\$ 0	\$ 0	\$ 40,950	\$ 0	\$ 0	\$ 40,950
Advertising	200	638	212	0	0	0	1,050	30	0	1,080
In-Kind Arts and Crafts Supplies	145,254	3,120	0	3,543	0	0	151,917	0	0	151,917
In-Kind Teacher Material Donations	0	0	54,842	0	0	0	54,842	0	0	54,842
Equipment Rental and Maintenance	304	174	58	890	890	36	2,352	28	11	2,391
Telephone	1,924	1,113	371	0	0	0	3,408	695	232	4,335
Parking and Utilities	5,374	5,222	711	822	822	33	12,984	1,277	440	14,701
Rent	24,611	11,656	3,885	980	980	40	42,152	2,089	836	45,077
Insurance	548	0	0	323	0	0	871	91	36	998
Accounting and Legal	0	0	0	0	0	0	0	2,990	0	2,990
Business Registration Fees	51	0	0	0	0	0	51	180	150	381
Fines and Penalties	0	0	0	0	0	0	0	0	0	0
Payroll	31,442	15,721	5,240	0	0	0	52,403	13,489	0	65,892
Payroll Taxes	1,807	1,852	617	0	0	0	4,276	1,325	0	5,601
Worker's Compensation Insurance	283	142	47	0	0	0	472	118	0	590
Postage and Office Supplies	987	0	423	1,568	780	32	3,790	205	0	3,995
Information Technology	613	323	108	876	877	36	2,833	804	67	3,704
Travel	2,336	0	0	2,045	0	0	4,381	0	0	4,381
Materials and Supplies	1,838	932	306	0	0	0	3,076	17	0	3,093
Outside Contract Services	133	0	0	1,536	0	0	1,669	0	0	1,669
Credit Card Fees	2,467	0	0	194	0	0	2,661	0	0	2,661
Interest Expense	247	0	0	0	0	0	247	1,619	0	1,866
Staff Development	60	0	0	33	0	0	93	0	0	93
Depreciation	5,886	0	0	681	0	0	6,567	0	0	6,567
Miscellaneous	0	0	0	0	0	0	0	25	150	175
<b>Total Expenses</b>	<b>\$ 250,935</b>	<b>\$ 53,178</b>	<b>\$ 70,915</b>	<b>\$ 13,491</b>	<b>\$ 4,349</b>	<b>\$ 177</b>	<b>\$ 393,045</b>	<b>\$ 24,982</b>	<b>\$ 1,922</b>	<b>\$ 419,949</b>

See Accompanying Notes and Accountant's Report.

**ART OF RECYCLE**  
**Statements of Functional Expenses**  
**Year Ended December 31, 2018**

	<b>Program Expenses</b>						<b>Supporting Services</b>			<b>Total Expenses</b>
	<b>Ephrata</b>			<b>Hanover</b>			<b>Total Program Expenses</b>	<b>Management and General</b>	<b>Fund Raising</b>	
	<b>Community Arts Center</b>	<b>Creative Workshops</b>	<b>Art Is a Necessity</b>	<b>Community Arts Center</b>	<b>Creative Workshops</b>	<b>Art Is a Necessity</b>				
In-Kind Advertising	\$ 20,543	\$ 13,073	\$ 3,735	\$ 0	\$ 0	\$ 0	\$ 37,350	\$ 0	\$ 0	\$ 37,350
Advertising	2,120	1,349	386	0	0	0	3,855	0	0	3,855
In-Kind Arts and Crafts Supplies	136,476	86,849	24,814	0	0	0	248,139	0	0	248,139
In-Kind Teacher Material Donations	0	0	91,004	0	0	0	91,004	0	0	91,004
Equipment Rental and Maintenance	0	9,013	0	0	0	0	9,013	0	0	9,013
Telephone	1,447	921	263	0	0	0	2,631	774	258	3,663
Parking and Utilities	4,589	2,920	834	0	0	0	8,343	1,665	555	10,563
Rent	15,843	10,082	2,881	0	0	0	28,806	1,549	619	30,974
Insurance	785	500	143	0	0	0	1,428	364	37	1,829
Accounting and Legal	0	0	0	0	0	0	0	5,517	0	5,517
Business Registration Fees	11	7	2	0	0	0	20	175	0	195
Fines and Penalties	0	0	0	0	0	0	0	273	0	273
Payroll	43,470	27,663	7,904	0	0	0	79,037	1,241	0	80,278
Payroll Taxes	3,649	2,322	663	0	0	0	6,634	38	0	6,672
Worker's Compensation Insurance	75	48	14	0	0	0	137	0	0	137
Postage and Office Supplies	243	154	44	0	0	0	441	0	0	441
Information Technology	458	226	65	0	0	0	750	882	96	1,728
Travel	1,907	1,213	347	0	0	0	3,467	0	0	3,467
Materials and Supplies	2,268	2,268	0	0	0	0	4,536	0	0	4,536
Credit Card Fees	1,748	194	0	0	0	0	1,942	0	0	1,942
Interest Expense	30	19	6	0	0	0	55	1,138	0	1,193
Miscellaneous	0	0	0	0	0	0	0	958	0	958
<b>Total Expenses</b>	<b>\$ 235,662</b>	<b>\$ 158,821</b>	<b>\$ 133,105</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 527,588</b>	<b>\$ 14,574</b>	<b>\$ 1,565</b>	<b>\$ 543,727</b>

See Accompanying Notes and Accountant's Report.



**ART OF RECYCLE**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	2019	2018
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 148,829	\$ (9,212)
Adjustments to Reconcile Change in Net Assets to Net Cash:		
Depreciation	6,567	0
In-Kind Contributions	(373,089)	(378,120)
In-Kind Expenses	247,709	376,498
Non Cash Donation to Purchase Transportation Equipment	(300)	0
Changes in:		
Accounts Receivable	0	(700)
Security Deposit	(460)	(250)
Accounts Payable	(4,618)	5,869
Payroll Liabilities	(1,319)	1,782
Sales Tax Liabilities	662	(1,745)
	23,981	(5,878)
<b>Net Cash Provided (Used) By Operating Activities</b>		
<b>Cash Flows From Investing Activities</b>		
Purchase of Property and Equipment	(2,000)	0
<b>Net Cash Provided (Used) By Investing Activities</b>	(2,000)	0
<b>Cash Flows From Financing Activities</b>		
Payments to Related Party	(800)	0
Advances from Related Party	0	3,459
Net Proceeds from/ (Payments To) Line of Credit	(1,276)	3,118
<b>Net Cash Provided (Used) By Financing Activities</b>	(2,076)	6,577
<b>Net Increase in Cash</b>	19,905	699
<b>Cash at Beginning of Year</b>	1,333	634
<b>CASH AT END OF YEAR</b>	\$ 21,238	\$ 1,333
<b>Supplemental Disclosure of Noncash Investing Activities</b>		
Long-Term Debt Incurred for Purchase of Property And Equipment	\$ 28,259	\$ 0
Donation of Property And Equipment	77,446	29,651
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash Paid During the Year for:		
Interest	\$ 1,866	\$ 1,193

See Accompanying Notes and Accountant's Report.

**ART OF RECYCLE**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Summary of Significant Accounting Policies**

This summary of significant accounting policies of Art of Recycle (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for the integrity and objectivity of the financial statements.

**Description of Organizational Activities**

Art of Recycle is a 501(c)(3) non-profit Organization that provides a community art center using recycled materials. The Organization maintains art centers in Ephrata, Pennsylvania and Hanover, Pennsylvania which service the respective surrounding communities.

The Organization provides the following programs:

- **Community Arts Center**  
The Community Arts Center provides a free crafting area which is utilized by the general public. Latchkey kids and the mentally disabled are two significant groups serviced in the craft areas. Revenue is generated from sales of donated craft supplies.
- **Creative Workshops**  
Creative Workshops provides free and low-cost workshops, teaching skills on how to creatively reuse resources which are readily available and often thrown away.
- **Art Is A Necessity**  
Art Is A Necessity supplies free classroom and educational materials to teachers of children or senior citizens or special needs students.

**Basis of Accounting**

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

**Recently Issued Accounting Standards**

During the year ending December 31, 2019, the Organization adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Management believes that the adoption of the new accounting standard provides a better presentation of cash flows to the users of its financial statements. Before the change, restricted cash was not included with cash when reconciling the beginning-of-year and end-of-year total amounts reported on the statement of cash flows.

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The Organization adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources, and disclosures related to functional allocation of expenses were expanded.

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Summary of Significant Accounting Policies (cont'd)**

**Accounting Estimates**

The preparation of financial statements in conformity with professional standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Basis of Presentation**

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions—Net assets that are not subject to or are no longer subject to donor imposed stipulations.

Net Assets With Donor Restrictions—Net assets whose use is limited by donor-imposed time and/or purpose restrictions. There were no net assets with donor restrictions at December 31, 2019 and 2018.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

**Concentration of Credit Risk**

The financial instruments which potentially subject the Organization to credit risk consist primarily of deposits held in financial institutions. The Organization maintains bank deposits at a high quality financial institution. Balances are subject to limitations established by the Federal Deposit Insurance Corporation (FDIC). As of December 31, 2019 and 2018, none of the Organization's deposits were uninsured.

**Inventories**

Inventories are valued at market and consist of donated arts and crafts supplies and tools and supplies used to render program services.

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Summary of Significant Accounting Policies (cont'd)**

**Property and Equipment**

Property and equipment purchased by the Organization is stated at cost. Assets donated to the Organization are valued at the estimated fair market value at the time of donation. The Organization does not have a written capitalization policy. Maintenance and repairs are charged to expense as incurred. The Organization computes depreciation using the straight-line method.

**Donated Services**

A number of volunteers have made significant contributions of their time to all of the programs. The value of this contributed time is not reflected in these statements because the criteria for recognition have not been satisfied.

**Tax Exempt Status**

Art of Recycle is a corporation exempt from United States federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

**Support and Revenues**

The majority of the Organization's support and revenue comes from local businesses and individuals. All contributions are considered to be used for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. When restrictions expire, assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted donations whose restrictions are met in the same reporting period are accounted for as support without donor restrictions.

**Advertising Expense**

Advertising costs are expensed as incurred. Donated advertising is expensed in the period in which it was provided.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program expenses, management and general expenses, and fundraising expenses. Occupancy expenses have been allocated based on an estimate of time spent between program services, management and general, and fundraising. Occupancy for program expenses are further allocated among the programs based on square footage. Payroll and related expenses are allocated among the programs by an estimate of time and effort spent in each program.

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Line of Credit**

The Organization has a line-of-credit available for working capital purposes with a local financial institution in the amount of \$20,000. The outstanding balance was \$18,299 and \$19,575 at December 31, 2019 and 2018, respectively. Interest accrued at 5.75 % and 6.50% for the years ending December 31, 2019 and 2018, respectively, and was payable monthly. The line-of-credit is collateralized by property.

**Long-Term Debt**

Long-Term Debt consists of the following:

	<u>2019</u>	<u>2018</u>
In December of 2019, an installment loan was obtained from Nissan Motor Acceptance Corp. to purchase a vehicle. The terms are 72 payments of \$468 per month maturing in December 2025. Interest accrues at 5.94% per annum. The loan is secured by the vehicle.	\$ 28,259	\$ 0
Less: Current Portion	<u>4,036</u>	<u>0</u>
Total Long-Term Debt	<u>\$ 24,223</u>	<u>\$ 0</u>

Long-Term Debt is due to mature as follows:

2020	\$	4,036
2021		4,285
2022		4,548
2023		4,829
2024		5,126
After 2024		5,435

**Assets Pledged as Collateral for Debt**

Property and Equipment and related accumulated depreciation on the Statements of Financial Position include assets that have been pledged as collateral for long-term debt as follows:

		<u>Original Cost</u>		<u>Accumulated Depreciation</u>		<u>Book Value</u>		<u>Debt Collateralized</u>
<u>2019</u>								
Transportation Equipment	\$	30,259	\$	0	\$	30,259	\$	28,259

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Operating Leases**

On September 1, 2016, the Organization entered into a ten year lease agreement for program activity and retail space in Ephrata, PA. In order to aid the Organization the lessor has agreed to a graduating scale of payments over the term of the lease as described below. For the year ending December 31, 2018, the lease called for monthly rental payments of \$2,200 for January through August and \$2,400 for September through December. For the year ending December 31, 2019, the lease called for monthly rental payments of \$2,000 for January through August and \$2,200 for September through December. Rental expense under this lease was \$27,200 and \$24,800 for the years ending December 31, 2019 and 2018, respectively.

Monthly payments under the lease are as follows:

September 1, 2016 to October 31, 2016	\$ 1,000	Payable in monthly installments of \$500
November 1, 2016 to August 31, 2017	18,000	Payable in monthly installments of \$1,800
September 1, 2017 to August 31, 2018	24,000	Payable in monthly installments of \$2,000
September 1, 2018 to August 31, 2019	26,400	Payable in monthly installments of \$2,200
September 1, 2019 to August 31, 2020	28,800	Payable in monthly installments of \$2,400
September 1, 2020 to August 31, 2021	31,200	Payable in monthly installments of \$2,600
September 1, 2021 to August 31, 2022	31,500	Payable in monthly installments of \$2,625
September 1, 2022 to August 31, 2023	31,800	Payable in monthly installments of \$2,650
September 1, 2023 to August 31, 2024	32,100	Payable in monthly installments of \$2,675
September 1, 2024 to August 31, 2025	32,400	Payable in monthly installments of \$2,700
September 1, 2025 to August 31, 2026	32,700	Payable in monthly installments of \$2,725

On September 1, 2017, the Organization entered into a nine year lease agreement for additional program activity space in Ephrata, PA. In order to aid the Organization the lessor has agreed to a graduating scale of payments over the term of the lease as described below. For the year ending December 31, 2019, the lease called for monthly rental payments of \$206 for January through August and \$212 for September through December. For the year ending December 31, 2018, the lease called for monthly rental payments of \$200 for January through August and \$206 for September through December. Rental expense under this lease was \$2,496 and \$2,424 for the years ending December 31, 2019 and 2018, respectively.

Monthly payments under the lease are as follows:

September 1, 2017 to August 31, 2018	\$2,400	Payable in monthly installments of \$200
September 1, 2018 to August 31, 2019	2,472	Payable in monthly installments of \$206
September 1, 2019 to August 31, 2020	2,544	Payable in monthly installments of \$212
September 1, 2020 to August 31, 2021	2,616	Payable in monthly installments of \$218
September 1, 2021 to August 31, 2022	2,700	Payable in monthly installments of \$225
September 1, 2022 to August 31, 2023	2,772	Payable in monthly installments of \$231
September 1, 2023 to August 31, 2024	2,856	Payable in monthly installments of \$238
September 1, 2024 to August 31, 2025	2,940	Payable in monthly installments of \$245

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Operating Leases (cont'd)**

On August 6, 2018, the Organization entered into an eight year lease agreement for additional program activity space in Ephrata, PA. In order to aid the Organization the lessor has agreed to a graduating scale of payments over the term of the lease as described below. For the year ending December 31, 2019, the lease called for monthly payments of \$1,000 for January through July and \$1,020 for August through December. For the year ending December 31, 2018 the lease called for a monthly rental payment of \$500 in August and monthly rental payments of 1,000 for September through December. Rental expense under this lease was \$12,100 for the year ending December 31, 2019. Rental expense under this lease was \$4,500, less credits of \$750 for repairs made to the property by volunteers who donated time and materials for the year ending December 31, 2018.

Monthly payments under the lease are as follows:

September 1, 2018 to July 31, 2019	\$11,000	Payable in monthly installments of \$1,000
August 1, 2019 to July 31, 2020	12,240	Payable in monthly installments of \$1,020
August 1, 2020 to July 31, 2021	12,480	Payable in monthly installments of \$1,040
August 1, 2021 to July 31, 2022	12,732	Payable in monthly installments of \$1,061
August 1, 2022 to July 31, 2023	12,984	Payable in monthly installments of \$1,082
August 1, 2023 to July 31, 2024	13,248	Payable in monthly installments of \$1,104
August 1, 2024 to July 31, 2025	13,512	Payable in monthly installments of \$1,126
August 1, 2025 to July 31, 2026	13,776	Payable in monthly installments of \$1,148

On August 12, 2019, the Organization entered into a three year lease for a second location in Hanover, PA to house program activity and retail space. This lease will automatically extend for two (2) additional periods of three (3) years. The Organization has the right to terminate the lease at the end of the initial term or the extension term by providing written notice to terminate at least six (6) months but no more than twelve (12) months prior to the expiration date. In order to aid the Organization, the lessor has agreed to a graduating scale of payments over the term of the lease as described below. For the year ending December 31, 2019, there were no rent payments due for September and October and monthly rental payments of \$1,000 for November and December. Rent expense under this lease was \$2,000 for the year ending December 31, 2019.

Monthly payments under the lease are as follows:

September 1, 2019 to October 31, 2019	\$ 0	
November 1, 2019 to December 31, 2019	2,000	Payable in monthly installments of \$1,000
January 1, 2020 to October 31, 2020	13,300	Payable in monthly installments of \$1,300
November 1, 2020 to October 31, 2021	24,000	Payable in monthly installments of \$2,000
November 1, 2021 to October 31, 2022	28,800	Payable in monthly installments of \$2,400
November 1, 2022 to October 31, 2023	30,960	Payable in monthly installments of \$2,580
November 1, 2023 to October 31, 2024	30,960	Payable in monthly installments of \$2,580
November 1, 2024 to October 31, 2025	30,960	Payable in monthly installments of \$2,580
November 1, 2025 to October 31, 2026	33,300	Payable in monthly installments of \$2,775
November 1, 2026 to October 31, 2027	33,300	Payable in monthly installments of \$2,775
November 1, 2027 to October 31, 2028	33,300	Payable in monthly installments of \$2,775

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Operating Leases (cont'd)**

Minimum future rental payments as of December 31, 2019 for the next five years and in the aggregate are:

	<u>Lease 1</u>	<u>Lease 2</u>	<u>Lease 3</u>	<u>Lease 4</u>	<u>Total</u>
2020	\$ 29,600	\$ 2,568	\$ 12,340	\$ 17,000	\$ 61,508
2021	31,300	2,644	12,585	24,800	71,329
2022	31,600	2,724	12,837	29,160	76,321
2023	31,900	2,800	13,094	30,960	78,754
2024	32,200	2,884	13,358	30,960	79,402
Due After	54,300	4,996	21,658	125,700	206,654

**Related Party Transactions**

The Organization received funds in prior years for cash flow purposes from the Executive Director. As of December 31, 2019 and 2018 the amount due to the Executive Director was \$2,659 and \$3,459, respectively.

**Major Contributors**

In 2019 and 2018, there were In Kind donations of \$113,945 and \$0, respectively, from two major contributors. These donations represent approximately 28% and 0% of the Organization's donations for the years ending December 31, 2019 and 2018.

**Reclassifications**

Property and Equipment donated in 2018 was inadvertently recorded as \$29,651 of Inventory - Arts and Crafts Supplies on the Statements of Financial Position as of December 31, 2018. This amount was reclassified on the December 31, 2018 Statements of Financial Position to properly reflect the donation. Net assets and changes in net assets were unchanged as a result of this reclassification.

**Available Resources and Liquidity**

The Organization receives cash contributions, grants and significant in-kind contributions each year from individuals, churches and local businesses. The in-kind donations are sold in the Community Arts Center program to generate revenue. Donations received are generally without donor restrictions; however, if the donor requests for the donation to be applied toward a specific purpose, the request is honored and appropriate documentation is made.

The public has demonstrated overwhelming support for the "Art is a Necessity" program which provides free supplies to teachers. Teachers spread word of what we are doing which has a compounding effect in generating additional donations. Public support increased even further to fund the opening of the Hanover, PA location. In 2019, substantial in-kind support of furniture and materials were received to fully stock that location. In addition, in-kind contributions are sold in the Community Arts Center to fund the Organization.



**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Available Resources and Liquidity (cont'd)**

If all of the above listed support and revenue received during the year do not meet the annual operating expenses of the Organization, the Organization has access to obtain additional monies from a line of credit available with Members 1<sup>st</sup> Federal Credit Union, credit available on various revolving credit cards, and surplus funds in the bank as a result of the EIDL (see below) loan that was awarded in June 2020. The Organization was able to meet the operating cash needs in 2019 and 2018.

**Subsequent Events**

Management has evaluated subsequent events through December 11, 2020, the date the financial statements were available to be issued.

In February of 2020, the Organization leased additional space at the Ephrata location for the purpose of adding additional meeting space and increasing the retail area. A security deposit in the amount of \$1,200 was paid at the signing of the lease, with monthly lease payments of \$1,220 starting April 1, 2020 through August 31, 2021. A 3% escalation clause will be applied to the monthly rent on an annual basis starting September 1, 2021 to adjust the monthly rent for inflation.

The Covid-19 outbreak in the United States has caused disruptions in the economy through mandated and voluntary closing of many businesses and organizations. The Organization was closed due to safety concerns from the middle of March 2020 through June 2020. Beginning in July 2020, the Organization reopened the Ephrata and Hanover locations by appointment only. Any future impact of the pandemic on the Organization is unknown at this time.

As a result of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) the U.S. Small Business Administration implemented a loan program titled the Paycheck Protection Program (PPP) to provide economic relief to small entities nationwide. The Organization received a PPP loan in the amount of \$13,642. The loan may be partially or fully forgivable depending if certain conditions are met by the Organization,

The Organization received an Emergency Injury and Disaster Loan. (EIDL) in the amount of \$150,000 from the Small Business Association. These loans provide temporary relief to Organizations who are experiencing economic hardship as a result of a disaster. COVID-19 was declared to be a Federal disaster. Terms of loan call for a 30 year period at 2.75% interest .

The Organization received an Emergency Injury and Disaster (EIDL) grant in the amount of \$7,000 from the Small Business Association. These grants provide temporary relief to Organizations who are experiencing economic hardship as a result of a disaster.

**ART OF RECYCLE**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Subsequent Events (cont'd)**

As a result of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) the Organization received a grant in the amount of \$35,000 from the County of Lancaster under the Small Business Recovery and Sustainability Fund. The grant funds are to be used to reimburse the Organization for business interruption as a result of mandated closures due to the COVID-19 pandemic.

The Organization received a grant in the amount of \$25,000 from the York County COVID-19 Restart Program who received the funds from the U.S. Department of the Treasury. The grant funds are to be used for expenses incurred for payroll, benefits, paid sick leave, mortgage or rent, costs to re-open after a government-mandated shut down, or for any other COVID-19 related expenses not already paid for with other relief measures such as state grants or loans, US SBA PPP Loans, local or regional grant and/or loan programs.

Due to the business interruption as a result of the state-mandated shut down, the Organization received rent abatements in the amount of \$8,940 from the two landlords.

In November of 2020, the Organization purchased a 2018 Nissan Rogue for \$25,319. The vehicle was purchased with a cash down payment of \$10,000 and a five year loan with Nissan Motor Acceptance Corp in the amount of \$15,319.