

Art of Recycle
Financial Statements

December 31, 2020



226 S Reading Rd
Ephrata, PA 17522
717-733-2218

2733 Willow Street Pike
Willow Street, PA 17584
717-464-2951



Stephen J. Musser, CPA, CMA, MS
Joyce N. Martin, EA
Wendy L. Findley, EA
Christina N. Grebinger, EA

Independent Accountants' Review Report

To the Board of Directors of
Art of Recycle
Ephrata, PA

We have reviewed the accompanying financial statements of Art of Recycle (a nonprofit non-stock corporation), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, 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 the 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.

Accountants' Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain 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 the 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.

We are required to be independent of Art of Recycle and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

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

Covenant CPA LLC
Lancaster, PA

January 21, 2022

2733 Willow Street Pike
Willow Street PA 17584
Phone: 717-464-2951 Fax: 717-464-2013

226 South Reading Road
Ephrata PA 17522
Phone: 717-733-2218 Fax: 717-464-2013

Art of Recycle
Statement of Financial Position
(See Accompanying Notes and Independent Accountants' Review Report)
December 31, 2020

ASSETS

CURRENT ASSETS

| | |
|---------------------------|----------------|
| Cash and Cash Equivalents | \$ 83,844 |
| Inventory | 179,046 |
| Prepaid Expenses | 7,861 |
| Security Deposits | <u>5,106</u> |
| Total Current Assets | <u>275,857</u> |

PROPERTY AND EQUIPMENT

| | |
|-------------------------------|-------------------|
| Furnishings and Equipment | 106,797 |
| Transportation Equipment | 55,878 |
| Less Accumulated Depreciation | <u>(28,358)</u> |
| Net Property and Equipment | <u>134,317</u> |
| TOTAL ASSETS | <u>\$ 410,174</u> |

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|-----------------------------------|--------------|
| Accounts Payable | \$ 832 |
| Credit Card Payable | 5,798 |
| Line of Credit | 7,411 |
| Payroll Taxes Accrued and Payable | 1,115 |
| Wages Accrued | 2,129 |
| Sales Tax Payable | 183 |
| Current Portion of Long-Term Debt | <u>7,244</u> |
| Total Current Liabilities | 24,712 |

LONG-TERM LIABILITIES

| | |
|--|----------------|
| Notes Payable - Net of Current Portion | <u>178,598</u> |
| TOTAL LIABILITIES | 203,310 |

NET ASSETS

| | |
|----------------------------------|-------------------|
| Without Donor Restrictions | |
| Total Net Assets | <u>206,864</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 410,174</u> |

Covenant CPA LLC - Willow Street Ephrata



Art of Recycle
Statement of Cash Flows
(See Accompanying Notes and Independent Accountants' Review Report)
For the Year Ended December 31, 2020

| | 2020 |
|--|--------------|
| Cash Flow From Operating Activities | |
| Change in Net Assets | \$ (36,255) |
| Adjustments to Reconcile Change in Net Assets | |
| Depreciation | 21,791 |
| In-Kind Contributions | (525,215) |
| In-Kind Expenses | 492,869 |
| Decrease in Accounts Receivable | 700 |
| Increase in Prepaid Expenses | (7,861) |
| Increase in Security Deposits | (896) |
| Decrease in Accounts Payable | (9,706) |
| Increase in Credit Card Payable | 3,798 |
| Increase in Payroll Taxes Accrued and Payable | 355 |
| Increase in Wages Accrued | 2,129 |
| Decrease in Sales Tax Payable | (479) |
| Net Cash Used in Operating Activities | (58,770) |
| Cash Flows from Investing Activities: | |
| Purchase of Property and Equipment | (10,000) |
| Net Cash Used in Investing Activities | (10,000) |
| Cash Flows from Financing Activities | |
| Net Payments To Line of Credit | (10,888) |
| Proceeds from new borrowing | 150,000 |
| Payments on debt | (7,736) |
| Net Cash Provided By Financing Activities | 131,376 |
| Net Increase in Cash and Cash Equivalents | 62,606 |
| Cash and Cash Equivalents at Beginning of Year | 21,238 |
| Cash and Cash Equivalents at End of Year | \$ 83,844 |
| Supplemental Disclosure of Noncash Investing Activities | |
| Long-Term Debt Incurred for Acquisition of Property and Equipment | \$ 15,320 |
| Supplemental Disclosure of Cash Flow Information | |
| Cash Paid During the Year for: | |
| Interest | \$ 2,386 |

Art of Recycle
Statement of Functional Expenses
(See Accompanying Notes and Independent Accountants' Review Report)
For the Year Ended December 31, 2020

| | Program Expenses | | | | | | | | | |
|----------------------------------|--------------------------|-----------------------|-----------------------|--------------------------|-----------------------|-----------------------|---------------------|-----------------|---------------------------|-------------------|
| | Ephrata | | | Hanover | | | Total | | | |
| | Community Arts Center | Creative Workshops | Art is a Necessity | Community Arts Center | Creative Workshops | Art is a Necessity | Program Expenses | Fundraising | Management and General | Total Expenses |
| Accounting and Legal | \$ 753 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 753 | \$ - | \$ 894 | \$ 1,647 |
| Advertising | 774 | 387 | 129 | 24 | 12 | 4 | 1,330 | - | 119 | 1,449 |
| In-Kind Advertising | 42,050 | - | - | - | - | - | 42,050 | - | - | 42,050 |
| Business Registration Fees | 104 | - | - | - | - | - | 104 | - | 270 | 374 |
| Credit Card Fees | 1,083 | 6 | - | 274 | - | - | 1,363 | 48 | - | 1,411 |
| Depreciation | 17,280 | - | - | 4,511 | - | - | 21,791 | - | - | 21,791 |
| Equipment Rental and Maintenance | 1,872 | 586 | 195 | 977 | 489 | 163 | 4,282 | 122 | 366 | 4,770 |
| Information Technology | 2,655 | 1,328 | 442 | 375 | 187 | 63 | 5,050 | 277 | 3,503 | 8,830 |
| In-Kind Arts and Crafts Supplies | 41,270 | - | - | 7,475 | - | - | 48,745 | - | - | 48,745 |
| In-Kind Material Donations | 84,000 | - | 272,955 | 30,002 | - | 7,397 | 394,354 | - | - | 394,354 |
| Insurance | 227 | 216 | 72 | 144 | 72 | 24 | 755 | - | - | 755 |
| Interest | 902 | 451 | 150 | 58 | 29 | 10 | 1,600 | - | 786 | 2,386 |
| Materials and Supplies | - | - | - | - | - | - | - | - | - | - |
| Outside Contract Services | - | - | - | 700 | - | - | 700 | - | - | 700 |
| Payroll | 18,878 | 9,409 | 3,117 | 8,990 | 4,495 | 1,498 | 46,387 | - | 13,545 | 59,932 |
| Payroll Taxes | 2,489 | 1,241 | 410 | 1,185 | 593 | 198 | 6,116 | - | 1,786 | 7,902 |
| Postage and Office Supplies | 7,484 | 3,726 | 5,743 | 570 | 683 | 591 | 18,797 | 81 | 24 | 18,902 |
| Rent | 29,953 | 14,976 | 4,992 | 10,200 | 5,100 | 1,700 | 66,921 | 2,773 | 2,773 | 72,467 |
| Staff Development | 565 | 283 | 94 | 194 | 97 | 32 | 1,265 | - | - | 1,265 |
| Telephone | 1,492 | 665 | 222 | 217 | 108 | 36 | 2,740 | 139 | 416 | 3,295 |
| Travel | 1,121 | 1,659 | 554 | - | - | - | 3,334 | - | - | 3,334 |
| Utilities | 3,837 | 2,416 | 820 | 3,923 | 1,776 | 592 | 13,364 | 1,275 | 3,824 | 18,463 |
| Worker's Compensation Insurance | 201 | 100 | 33 | 96 | 48 | 16 | 494 | - | 144 | 638 |
| Miscellaneous | - | - | - | - | 429 | - | 429 | 275 | - | 704 |
| Total Expenses | \$ 258,990 | \$ 37,449 | \$ 289,928 | \$ 69,915 | \$ 14,118 | \$ 12,324 | \$ 682,724 | \$ 4,990 | \$ 28,450 | \$ 716,164 |

Covenant CPA LLC - Willow Street Ephrata



Art of Recycle
Statement of Cash Flows
(See Accompanying Notes and Independent Accountants' Review Report)
For the Year Ended December 31, 2020

| | 2020 |
|---|-------------------|
| Cash Flow From Operating Activities | |
| Change in Net Assets | \$ (36,255) |
| Adjustments to Reconcile Change in Net Assets | |
| Depreciation | 21,791 |
| In-Kind Contributions | (525,215) |
| In-Kind Expenses | 492,869 |
| Decrease in Accounts Receivable | 700 |
| Increase in Prepaid Expenses | (7,861) |
| Increase in Security Deposits | (896) |
| Decrease in Accounts Payable | (9,706) |
| Increase in Credit Card Payable | 3,798 |
| Increase in Payroll Taxes Accrued and Payable | 355 |
| Increase in Wages Accrued | 2,129 |
| Decrease in Sales Tax Payable | (479) |
| Net Cash Used in Operating Activities | (58,770) |
| Cash Flows from Investing Activities: | |
| Purchase of Property and Equipment | (10,000) |
| Net Cash Used in Investing Activities | (10,000) |
| Cash Flows from Financing Activities | |
| Net Payments To Line of Credit | (10,888) |
| Proceeds from new borrowing | 150,000 |
| Payments on debt | (7,736) |
| Net Cash Provided By Financing Activities | 131,376 |
| Net Increase in Cash and Cash Equivalents | 62,606 |
| Cash and Cash Equivalents at Beginning of Year | 21,238 |
| Cash and Cash Equivalents at End of Year | \$ 83,844 |
| Supplemental Disclosure of Noncash Investing Activities | |
| Long-Term Debt Incurred for Acquisition of Property and Equipm. | \$ 15,320 |
| Supplemental Disclosure of Cash Flow Information | |
| Cash Paid During the Year for: | |
| Interest | \$ 2,386 |

Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note A – Summary of Significant Accounting Policies

Organization

Art of Recycle is a Pennsylvania nonprofit corporation formed on January 31, 2014 with locations in Ephrata and Hanover, Pennsylvania. The purpose of the Organization is to develop, heal, and grow community through recycled art. Their objective is to teach people how to create “art with purpose” reusing discarded, unwanted, and excess items; creating generations of artists and crafters who are more environmentally conscious.

The Organization has three main programs. Their Art Centers provide free spaces for people of all ages to make art. Adults with special needs and latchkey kids are populations that often use the space. Free and low-cost creative workshops teach how items can be reused and recycled into art pieces. Their Art is a Necessity program provides free art supplies to teachers of children, senior citizens, and individuals with special needs to help make art accessible in classrooms.

Basis of Accounting

The Organization uses the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donor Restrictions

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

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, 2020.

Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note A – Summary of Significant Accounting Policies – Continued

Donor Restrictions - continued

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expense 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 the 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 contribution as without donor restrictions to the extent that donor restrictions were net in the year the contribution was received.

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Organization places its cash with high credit quality institutions. Balances are subject to limitations established by the FDIC. As of December 31, 2020, none of the Organizations deposits were uninsured.

Inventory

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

Property and Equipment

Property and equipment are carried at cost. Property or equipment which is donated to the Organization is carried at fair market value on the date donated. Maintenance and repairs are charges to expense as incurred.

Depreciation

The Organization capitalizes equipment and transportation vehicles in excess of \$150. The Organization uses the straight-line method of depreciation to recover the cost of property and equipment during their estimated useful lives. The estimated useful lives are as follows:

| | |
|---------------------------|--------------|
| Furnishings and Equipment | 5 - 10 years |
| Transportation Vehicles | 5 - 10 years |

Depreciation expense charged to operations amounted to \$21,791 for the year ended December 31, 2020.

Total accumulated depreciation as of December 31, 2020 was \$28,358.



Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note A – Summary of Significant Accounting Policies – Continued

Income Tax

The organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization is not a private foundation as defined in Sections 170 and 509 of the Internal Revenue Code.

Contributions

The majority of the organizations support comes from in kind donations from local businesses and cash contributions from local individuals. In-kind donations are valued at the retail prices in the Organization's thrift store or other aftermarket venues. In 2020 the organization received government grants totaling \$80,800 related to Covid mitigation programs. These grants are not expected to occur in the future.

Contributions are considered unrestricted unless specifically restricted by the donor. Amounts that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restricted. 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 restriction. In the year ended December 31, 2020 there were no contributions subject to donor restriction.

Contributed Services and Materials

The Organization receives contributed services and materials in connection with its program activities. These items are included in contributions, program expenses, and inventory and amounted to \$525,215 for the year ended December 31, 2020. In addition, a significant number of individuals volunteer time in the art centers. The value of these services has not been included on the financial statements as the criteria for recognition has not been met.

Program Service Revenue

Program service revenue is recognized when earned and consists primarily of sales of donated art supplies and registration fees for classes and events.

Presentation of Sales Tax

The state of Pennsylvania imposes sales tax on certain products and services of the Organization. The Organization collects that sales tax from customers and remits the entire amount to the state. The Organization's accounting policy is to include sales tax collected with current liabilities until it is paid.

Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note A – Summary of Significant Accounting Policies - Continued

Functional Expenses Allocation

The financial statement may report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. 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.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. Donated advertising is recorded as income and an expense in the period in which it is provided. Cash advertising expenses and donated advertising were \$1,449 and \$42,050 respectively for the year ended December 31, 2020.

Subsequent Events

The Organization has evaluated subsequent events through January 21, 2022 the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. To date, the COVID-19 outbreak is still classified as a pandemic. The Organization’s operations are heavily dependent on private donations from individuals. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. This situation may depress donations during 2021. As such, this may hinder the Organization’s ability to advance its mission. As such, the financial condition and liquidity may be negatively impacted for 2021.

As of the date of this report the Organization experienced limited impact to its financial position and management believes its cash position will sustain operations.

On August 8, 2021 the Organization’s EIDL loan was amended to increase the loan an additional \$150,000 for a total EIDL loan of \$300,000. Payment terms are 2.75% interest per annum and will start June 3, 2022. Payments will be \$1,329 per month and the loan is payable in full June 3, 2050. In January 2022 the Board authorized management to pursue an additional \$200,000 in EIDL.

The Organization’s first PPP loan of \$13,642 was forgiven in January 2021. On March 16, 2021 the Organization received a second PPP loan for \$13,940. The Organization also expects this loan to be forgiven.



Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note A – Summary of Significant Accounting Policies – Continued

Subsequent Events - continued

On October 1, 2021 the Organization entered into a five year lease agreement for additional program activity space in Ephrata, PA. The rent will be on a graduating scale starting at \$1,046 per month from October 1, 2021 to September 20, 2022.

Note B – Related Party Transactions

The Organization received funds in prior year for cash flow purposes from the Executive Director. As of December 31, 2020 the Organization had paid back the Executive Director all the funds.

Note C – Short Term Debt

The Organization has a revolving line of credit with Member's 1st Bank under which it can borrow up to \$20,000. Interest accrued at 4.25%. The line of credit is collateralized by property. The balance was \$7,411 as of December 31, 2020.

The organization has two unsecured credit cards. The Member's 1st Visa credit card has a limit of \$5,000 with a 10.25% variable interest rate. The American Express credit card has a limit of \$15,000 with a 18.24% variable interest rate. As of December 31, 2020 the balances on the Member's 1st Visa and American Express were \$2,673.44 and \$3,124.22 respectively.

Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note D – Long-Term Debt

Long-Term Debt consists of the following

In December 2019, an installment loan was obtained from Nissan Motor Acceptance Corp. to purchase a vehicle. The terms are 72 monthly payments of \$468 per month with interest accruing at 5.94% per annum. The loan is set to mature in December 2025. The loan is secured by the vehicle. \$ 20,722

In June 2020, an Economic Injury Disaster Loan was obtained from the Small Business Administration. No payments were required in 2020. In 2021, the SBA delayed payments until 2022. The revised terms are monthly payments of \$641 starting June 3, 2022 with interest accruing at 2.75% per annum. The loan matures June 3, 2050. The loan is secured by all tangible and intangible property of the Organization. 150,000

In December 2020, an installment loan was obtained from Nissan Motor Acceptance Corp. to purchase a vehicle. The terms are 60 monthly payments of \$295.01 with interest accruing at 5.74% per annum. The loan is set to mature in November 2025. The loan is secured by the vehicle. 15,120

Total 185,842

Less: Current Portion (7,244)

Total Long-Term Debt \$ 178,598

Principal payments are due as follows:

| | |
|------------|------------------|
| 2021 | \$7,244 |
| 2022 | 7,683 |
| 2023 | 11,599 |
| 2024 | 12,189 |
| 2025 | 7,772 |
| Thereafter | <u>139,355</u> |
| Total | <u>\$185,842</u> |



Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note E – Assets Pledged as Collateral for Debt

Property and Equipment and related accumulated depreciation on the Statement 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> |
|------|--------------------|----------------------|-------------------------------------|-------------------|--------------------------------|
| 2019 | Nissan White Van | 30,559 | 6,112 | 24,447 | 20,722 |
| 2020 | Nissan Black Rogue | 25,319 | 844 | 24,475 | 15,120 |

Note F – Operating Leases

On September 1, 2016 the Organization entered into a ten-year lease agreement for program activity and retail space in Ephrata, PA. To aid the Organization, the lessor agreed to a graduating scale of payments over the term of the lease as described below. For the year ending December 31, 2020, the lease called for monthly rental payments of \$2,400 for January through August and \$2,600 for September through December. Rental Expense under this lease was \$29,600 for the year ending December 31, 2020.

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 |
| November 1, 2017 to August 31, 2018 | 24,000 | Payable in monthly installments of \$2,000 |
| November 1, 2018 to August 31, 2019 | 26,400 | Payable in monthly installments of \$2,200 |
| November 1, 2019 to August 31, 2020 | 28,800 | Payable in monthly installments of \$2,400 |
| November 1, 2020 to August 31, 2021 | 31,200 | Payable in monthly installments of \$2,600 |
| November 1, 2021 to August 31, 2022 | 31,500 | Payable in monthly installments of \$2,625 |
| November 1, 2022 to August 31, 2023 | 31,800 | Payable in monthly installments of \$2,650 |
| November 1, 2023 to August 31, 2024 | 32,100 | Payable in monthly installments of \$2,675 |
| November 1, 2024 to August 31, 2025 | 32,400 | Payable in monthly installments of \$2,700 |
| November 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. To aid the Organization, the lessor agreed to a graduating scale of payments over the terms of the lease described below. For the year ending December 31, 2020 the lease called for monthly rental payments of \$212 from January through August and \$218 for September through December. Rent expense under this lease was \$2,568 for the year ended December 31, 2020.



Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note F – Operating Leases - Continued

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 |
| September 1, 2025 to August 31, 2026 | 3,036 | Payable in monthly installments of \$253 |

On August 6, 2018, the Organization entered into an eight-year lease agreement for additional program activity space in Ephrata, PA. To aid the Organization, the lessor agreed to a graduating scale of payments over the terms of the lease described below. For the year ending December 31, 2020 the lease called for monthly rental payments of \$1,020 from January through July and \$1,040 for August through December. Rent expense under this lease was \$12,340 for the year ended December 31, 2020.

Monthly payments under the lease are as follows:

| | | |
|------------------------------------|--------|--|
| August 15, 2018 to August 31, 2018 | \$ 500 | Payable at signing of lease of \$500 |
| 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 agreement for a second location in Hanover, PA to house program activity and retail space. This lease will automatically extend for two additional periods of three 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 months but no more than twelve months prior to the expiration date. To aid the Organization, the lessor agreed to a graduating scale of payments over the terms of the lease described below. For the year ending December 31, 2020 the lease called for monthly rental payments of \$1,300 from January through October and \$2,000 from November through December. Rent expense under this lease was \$17,000 for the year ended December 31, 2020.



Art of Recycle
Notes to Financial Statements
(See Accountants' Review Report)
December 31, 2020

Note F – Operating Leases - Continued

In 2020 the lessor forgave rent for the months of April through August totaling \$7,720. The organization reported the rent forgiven as an in kind contribution and reported full rent expense for the year.

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 |

On February 28, 2020, the Organization entered into an six-year lease agreement for additional program activity space in Ephrata, PA. The agreement includes a 3% annual escalation as described below. For the year ending December 31, 2020 the lease called for monthly rental payments of \$1,220 from April through December. The lessor abated November's \$1,220 rent. It is included in rent expense and rent abatement income. Rent expense under this lease was \$10,980 for the year ended December 31, 2020.

Monthly payments under the lease are as follows:

| | | |
|--------------------------------------|-----------|--|
| April 1, 2020 to August 31, 2021 | \$ 20,740 | Payable in monthly installments of \$1,220 |
| September 1, 2021 to August 31, 2022 | 15,072 | Payable in monthly installments of \$1,256 |
| September 1, 2022 to August 31, 2023 | 15,516 | Payable in monthly installments of \$1,293 |
| September 1, 2023 to August 31, 2024 | 15,972 | Payable in monthly installments of \$1,331 |
| September 1, 2024 to August 31, 2025 | 16,440 | Payable in monthly installments of \$1,370 |
| September 1, 2025 to August 31, 2026 | 16,920 | Payable in monthly installments of \$1,410 |

Art of Recycle
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Note F – Operating Leases - Continued

Minimum future rental payments as of December 31, 2020 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>Lease 5</u> | <u>Total</u> |
|-----------|----------------|----------------|----------------|----------------|----------------|--------------|
| 2021 | \$ 31,300 | \$ 2,644 | \$ 12,585 | \$ 24,800 | \$ 14,980 | \$ 86,309 |
| 2022 | 31,600 | 2,724 | 12,837 | 29,160 | 15,220 | 91,541 |
| 2023 | 31,900 | 2,800 | 13,094 | 30,960 | 15,668 | 94,422 |
| 2024 | 32,200 | 2,884 | 13,358 | 30,960 | 16,128 | 95,530 |
| 2025 | 32,500 | 2,972 | 13,622 | 31,350 | 16,600 | 97,044 |
| Due After | 21,800 | 2,024 | 8,036 | 94,350 | 11,280 | 137,490 |

Note G – Concentrations

In 2020 there was in-kind donations of goods of \$256,355 from the top three donors. This is approximately 54% of the total in-kind donations of goods for the year ending December 31, 2020.

Note H – Liquidity and Availability of Assets

The Organization is funded through public contributions of funds and donations of art supplies. Art supplies are then sold at the Community Arts Center of the Ephrata location which also generates revenue. Donations received are generally without donor restriction; however, if the donor requests for the donation to be applied toward a specific purpose, the request is honored and appropriate documentation is made. As of December 31, 2020 the Organization has \$83,844 of financial assets available within one year to meet cash needs for general expenditure consisting of cash and savings. The Organization also has a \$20,000 line of credit as discussed in Note D.

