

ART OF RECYCLE
Financial Statements
Years Ended December 31, 2017 and 2016

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

CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANT'S REPORT	2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6 – 7
Notes to Financial Statements	8 – 12



Principals:

Dean A. Hoover, CPA
Randal L. Goshert, CPA
Joyce A. Hoover, CPA

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, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses 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.

WNC CPAs & Consultants, LLC

November 7, 2018

ART OF RECYCLE
Statements of Financial Position
December 31, 2017 and 2016

ASSETS

	2017	2016
Current Assets		
Cash	\$ 634	\$ 3,444
Inventory:		
Arts and Crafts Supplies	90,378	72,318
Program Tools and Supplies	36,111	36,117
Security Deposit	3,500	4,300
Total Current Assets	\$ 130,623	\$ 116,179

LIABILITIES

Current Liabilities		
Line of Credit	\$ 16,458	\$ 19,774
Accounts Payable	8,621	7,605
Payroll Liabilities	297	451
Sales Tax Payable	1,745	907
Total Current Liabilities	27,121	28,737

NET ASSETS

Total Unrestricted Net Assets	103,502	87,442
TOTAL LIABILITIES AND NET ASSETS	\$ 130,623	\$ 116,179

See Accompanying Notes and Independent Accountant's Report.

ART OF RECYCLE
Statements of Activities
Years Ended December 31, 2017 and 2016

Unrestricted Support and Revenue	<u>2017</u>	<u>2016</u>
Support		
In-Kind Donations		
Advertising	\$ 70,292	\$ 38,543
Arts and Crafts Supplies	136,749	83,234
Entertainment	0	2,200
Other	0	723
General Donations	<u>5,744</u>	<u>11,224</u>
Total Support	212,785	135,924
 Program Service Revenue		
Art Program Income	112,675	54,779
Community Outreach	0	1,100
Miscellaneous	<u>22</u>	<u>6</u>
Total Program Service Revenue	<u>112,697</u>	<u>55,885</u>
 Total Unrestricted Support and Revenue	325,482	191,809
 Expenses		
Program Services	290,075	181,078
Management and General	14,300	7,562
Fund Raising	<u>5,047</u>	<u>3,716</u>
Total Expenses	<u>309,422</u>	<u>192,356</u>
 Increase (Decrease) in Unrestricted Net Assets	16,060	(547)
 Unrestricted Net Assets, Beginning	<u>87,442</u>	<u>87,989</u>
 UNRESTRICTED NET ASSETS, ENDING	<u><u>\$ 103,502</u></u>	<u><u>\$ 87,442</u></u>

See Accompanying Notes and Independent Accountant's Report.

ART OF RECYCLE
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ 16,060	\$ (547)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash:		
In-Kind Contributions	(207,041)	(124,821)
In-Kind Expenses	188,987	101,621
Changes in Operating Assets and Liabilities:		
Security Deposit	800	(2,000)
Accounts Payable	1,016	5,140
Payroll Liabilities	(154)	364
Sales Tax Liabilities	838	241
Net Cash Provided By (Used In) Operating Activities	506	(20,002)
Cash Flows From Financing Activities		
Net Proceeds (Payments) on Line of Credit	(3,316)	19,774
Net Decrease in Cash	(2,810)	(228)
Cash at Beginning of Year	3,444	3,672
CASH AT END OF YEAR	\$ 634	\$ 3,444

See Accompanying Notes and Independent Accountant's Report.

ART OF RECYCLE
Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

	2017		
	<u>Program</u>	<u>Management and General</u>	<u>Fund Raising</u>
In-Kind Advertising	\$ 70,292	\$ 0	\$ 0
Advertising	5,403	0	0
In-Kind Arts and Crafts Supplies	83,327	0	0
In-Kind Teacher Material Donations	35,371	0	0
Equipment Rental and Maintenance	2,742	50	0
Telephone	1,391	178	88
Parking and Utilities	5,787	681	340
Rent	26,068	1,401	560
Insurance	975	68	27
Accounting and Legal	0	4,502	0
Business Registration Fees	20	262	0
Fines and Penalties	0	338	0
Payroll	37,380	3,750	3,750
Payroll Taxes	3,066	183	183
Worker's Compensation Insurance	533	0	0
Postage and Office Supplies	516	295	0
Information Technology	717	2,072	99
Travel	2,528	0	0
Materials and Supplies	10,020	0	0
Donations	1,000	0	0
Credit Card Fees	2,215	0	0
Interest Expense	413	520	0
Miscellaneous	311	0	0
Total Expenses	<u><u>\$ 290,075</u></u>	<u><u>\$ 14,300</u></u>	<u><u>\$ 5,047</u></u>

ART OF RECYCLE
Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

	2016		
	<u>Program</u>	<u>Management and General</u>	<u>Fund Raising</u>
In-Kind Advertising	\$ 39,643	\$ 0	\$ 0
Advertising	4,350	0	0
In-Kind Community Outreach Entertainment	1,100	0	0
In-Kind Arts and Crafts Supplies	60,878	0	0
Equipment Rental and Maintenance	2,064	0	0
Telephone	1,401	165	82
Parking and Utilities	6,894	811	406
Rent	18,928	2,227	1,113
Insurance	731	86	43
Accounting and Legal	0	3,789	0
Taxes, Licenses, and Permits	0	0	464
Payroll	32,758	0	0
Postage and Office Supplies	892	0	0
Information Technology	1,163	0	0
Travel	1,591	0	0
Materials and Supplies	7,822	0	0
Dues and Subscriptions	0	110	0
Donations	60	0	0
Fundraising	0	0	1,608
Interest Expense	0	235	0
Miscellaneous	803	139	0
Total Expenses	<u>\$ 181,078</u>	<u>\$ 7,562</u>	<u>\$ 3,716</u>

See Accompanying Notes and Independent Accountant's Review Report.

ART OF RECYCLE
Notes to Financial Statements
December 31, 2017 and 2016

Summary of Significant Accounting Policies

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 is located in Ephrata, Pennsylvania and services the surrounding community. The Organization provides free and low-cost workshops teaching skills on how to creatively reuse resources which are readily available and often thrown away. The Organization also supplies free classroom and educational materials to teachers of children or senior citizens or special needs students.

Basis of Accounting

The Organization uses the accrual basis of accounting for financial reporting.

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.

Financial Statement Presentation

Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets—Net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed stipulations. Expenses are recorded as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated passage of time has elapsed) are reported as net assets released from restrictions.

ART OF RECYCLE
Notes to Financial Statements - Continued
December 31, 2017 and 2016

Summary of Significant Accounting Policies (cont'd)

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, 2017 and 2016, 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.

Donated Services

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

Income Taxes

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 available 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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of unrestricted support, revenues, expenses and changes in net assets as net assets released from restrictions. Restricted donations whose restrictions are met in the same reporting period are accounted for as unrestricted net assets.

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.

Advertising Expense

Advertising costs are expensed as incurred. Donated advertising is expensed in the period in which it was performed. Advertising expense for the years ended December 31, 2017 and 2016 was \$75,695 and \$43,993, respectively.

ART OF RECYCLE
Notes to Financial Statements - Continued
December 31, 2017 and 2016

Related Party Transactions

The Organization leases storage space on a month-to-month basis from the Executive Director/Board President. The amount of rent paid during the years ended December 31, 2017 and 2016 was \$510 and \$1,700 per year, respectively. The Organization had an accounts payable related to this rent expense of \$170 and \$680 as of December 31, 2017 and 2016, respectively.

The Executive Director/Board President donated \$0 and \$1,100 in entertainment services for the years ended December 31, 2017 and 2016, respectively.

Major Contributors

For the years ended December 31, 2017 and 2016, the Organization received \$44,030 and \$21,335 respectively in contributed advertising from one donor. This constitutes 14% and 11%, respectively, of total support and revenue for the years then ended.

Operating Leases

On September 1, 2016, the Organization entered into a ten year lease agreement for program activity and retail space. 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, 2017, the lease called for monthly rental payments of \$1,800 for January through August and \$2,000 for September through December. For the year ending December 31, 2016, the lease called for monthly rental payments of \$500 for September and October and \$1,800 for November and December. Rental expense under this lease was \$22,400 and \$4,600 for the years ending December 31, 2017 and 2016, 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

ART OF RECYCLE
Notes to Financial Statements - Continued
December 31, 2017 and 2016

Operating Leases (cont'd)

On September 1, 2017, the Organization entered into a ten year lease agreement for additional program activity space. 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, 2017, the lease called for monthly rental payments of \$200 for September through December. Rental expense under this lease was \$800 for the year ending December 31, 2017.

Monthly payments under the lease are as follows:

September 1, 2017 to October 31, 2018	\$ 1,200	Payable in monthly installments of \$200
November 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

Minimum future rental payments as of December 31, 2017 for the next five years and in the aggregate are:

	<u>Lease 1</u>	<u>Lease 2</u>	<u>Total</u>
2018	\$ 24,800	\$ 2,424	\$ 27,224
2019	27,200	2,496	29,696
2020	29,600	2,568	32,168
2021	31,300	2,644	33,944
2022	31,600	2,724	34,324
Due After	118,400	10,680	129,080

ART OF RECYCLE
Notes to Financial Statements - Continued
December 31, 2017 and 2016

Line of Credit

During 2016, the Organization obtained a working line of credit from Member's 1st Federal Credit Union in the amount of \$20,000. The Organization is making monthly payments of interest only at the bank's variable rate. The total outstanding balance at December 31, 2017 and 2016 was \$16,458 with an interest rate of 5.50% and \$19,774 with an interest rate of 4.75%, respectively.

Subsequent Events

Management has evaluated subsequent events through November 7, 2018, the date the financial statements were available to be issued.

On August 6, 2018 the Organization entered into an eight year lease agreement for additional program space, garages, and parking. In order to aid the Organization the lessor has agreed to a graduating scale of payments over the term of the lease.