

ART OF RECYCLE
Financial Statements
Year Ended December 31, 2018

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

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Principals:

Dean A. Hoover, CPA
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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 statement of financial position as of December 31, 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. 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 engagement 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 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 accounting principles generally accepted in the United States of America.

WNC CPAs & Consultants, LLC

November 14, 2019

ART OF RECYCLE
Statement of Financial Position
December 31, 2018

ASSETS

Current Assets

Cash	\$ 1,333
Accounts Receivable	700
Inventory:	
Arts and Crafts Supplies	92,005
Program Tools and Supplies	36,111
Security Deposit	<u>3,750</u>
Total Current Assets	<u><u>133,899</u></u>

LIABILITIES

Current Liabilities

Line of Credit	19,575
Accounts Payable	14,496
Payroll Liabilities	2,079
Due to Related Party	<u>3,459</u>
Total Current Liabilities	39,609

NET ASSETS

Without Donor Restrictions	<u>94,290</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 133,899</u></u>

See Accompanying Notes and Accountant's Report.

ART OF RECYCLE
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions
Support and Revenue	
General Donations	\$ 7,396
Foundations and Grants	6,229
In-Kind Donations	
Advertising	37,350
Arts and Crafts Supplies	340,770
Art Programs Income	142,718
Miscellaneous Income	52
	534,515
Total Support and Revenue	534,515
 Expenses	
Program Services	527,588
Management and General	14,574
Fund Raising	1,565
	543,727
Total Expenses	543,727
 Change in Net Assets	 (9,212)
 Net Asset, Beginning	 103,508
	94,290
Net Assets, Ending	\$ 94,290

See Accompanying Notes and Accountant's Report.

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

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

See Accompanying Notes and Accountant's Report.

ART OF RECYCLE
Statement of Cash Flows
Year Ended December 31, 2018

Cash Flows From Operating Activities	
Decrease in Net Assets	\$ (9,212)
Adjustments to Reconcile Change in Net Assets to Net Cash:	
In-Kind Contributions	(378,120)
In-Kind Expenses	376,498
Changes in Operating Assets and Liabilities:	
Accounts Receivable	(700)
Security Deposit	(250)
Accounts Payable	5,869
Payroll Liabilities	1,782
Sales Tax Liabilities	<u>(1,745)</u>
Net Cash Used In Operating Activities	(5,878)
 Cash Flows From Financing Activities	
Advances from Related Party	3,459
Net Proceeds from Line of Credit	<u>3,118</u>
Net Cash Provided By Operating Activities	<u>6,577</u>
Net Increase in Cash	699
Cash at Beginning of Year	<u>634</u>
CASH AT END OF YEAR	<u><u>\$ 1,333</u></u>

Supplemental Disclosures of Cash Flow Information

Cash Paid During the Year for:

Interest	\$ 1,193
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See Accompanying Notes and Accountant's Report.

ART OF RECYCLE
Notes to Financial Statements
December 31, 2018

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 the following programs:

- Community Arts Center
The Community Arts Center provides a free crafting area which is utilized by the general Ephrata community. Latchkey kids and the mentally disabled are two significant groups serviced in the craft area. 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 uses the accrual basis of accounting for financial reporting.

Recently Issued Accounting Standard

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.

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.

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

Summary of Significant Accounting Policies (cont'd)

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.

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, 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.

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.

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

Summary of Significant Accounting Policies (cont'd)

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 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 performed.

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.

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, 2018 was \$19,575 with an interest rate of 6.5%.

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

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, 2018, 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 \$24,800 for the year ending December 31, 2018.

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 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 \$200 for January through August and \$206 for November through December. Rental expense under this lease was \$2,424 for the year ending December 31, 2018.

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

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

Operating Leases (cont'd)

On August 6, 2018, the Organization entered into an eight 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, 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 \$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

Minimum future rental payments as of December 31, 2018 for the next five years and in the aggregate are:

	<u>Lease 1</u>	<u>Lease 2</u>	<u>Lease 3</u>	<u>Total</u>
2019	\$ 27,200	\$ 2,496	\$ 12,100	\$ 41,796
2020	29,600	2,568	12,340	44,508
2021	31,300	2,644	12,585	46,529
2022	31,600	2,724	12,837	47,161
2023	31,900	2,800	13,094	47,794
Due A fter	86,500	7,880	35,016	129,396

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

Related Party Transactions

The Organization received funds during the year for cash flow purposes from the Executive Director. As of December 31, 2018 the amount due to the Executive Director was \$3,459.

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. As a result, at the end of 2018 and on into 2019 public support has increased even further in the anticipation of opening a new location. We requested and received in-kind support of materials to stock that location. In addition, in-kind contributions are sold in the Community Arts Center.

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 a \$20,000 line of credit available with Members 1st Federal Credit Union and credit available on revolving credit cards. The Organization was able to meet the operating cash needs in 2018.

Subsequent Events

Management has evaluated subsequent events through November 14, 2019, the date the financial statements were available to be issued.

On August 12, 2019, the Organization entered into a multi-year lease beginning on September 1, 2019 and terminating, if not extended, on October 31, 2022. The lease agreement is for a second location in Hanover, PA. This location will be autonomous in that it will be financially independent of the existing location 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. There will be no rent due for September and October, 2019 and \$1,000 month for the remainder of 2019. The lease is guaranteed personally by the Executive Director of the Organization.