

**MAIN LINE ART CENTER
FINANCIAL STATEMENTS
AUGUST 31, 2018 AND 2017**

DRAFT

Julian Sur, CPA

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Main Line Art Center
August 31, 2018 and 2017

Contents	Page
Independent Auditor's Report	1
<u>Financial Statements</u>	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 9
<u>Supplementary Information</u>	
Report on Schedules of Functional Expenses	10
Schedules of Functional Expenses	11

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Independent Auditor's Report

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To the Board of Directors
Main Line Art Center
Haverford, Pennsylvania

I have audited the accompanying financial statements of Main Line Art Center (a nonprofit organization) which comprises the statements of financial position as of August 31, 2018 and 2017 and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Main Line Art Center as of August 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Julian Sur, CPA
Berwyn, Pennsylvania

December 28, 2018

**Main Line Art Center
Statements of Financial Position
August 31, 2018 and 2017
(See Auditor's Report)**

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	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Assets:		
Cash & cash equivalents	\$ 195,180	\$ 131,749
Investments	1,448,057	1,211,399
Accounts receivable	1,849	4,505
Pledges receivable	12,700	800
Prepaid expenses	5,842	6,847
Fixed assets:		
Land & building	3,766,048	3,766,048
Equipment	76,157	96,945
Accumulated depreciation	(1,192,613)	(1,085,532)
Net fixed assets	<u>2,649,592</u>	<u>2,777,461</u>
Total assets	<u>\$ 4,313,220</u>	<u>\$ 4,132,761</u>
	<u>Liabilities and Net Assets</u>	
Liabilities:		
Accounts payable & accruals	\$ 26,211	\$ 24,006
Line of credit	19,667	19,667
Deferred revenues	116,260	100,700
Total liabilities:	<u>162,138</u>	<u>144,373</u>
Unrestricted	2,646,911	2,759,977
Board designated	1,448,057	1,211,399
Unrestricted	4,094,968	3,971,376
Temporarily restricted	56,114	17,012
Permanently restricted	-	-
Net assets	<u>4,151,082</u>	<u>3,988,388</u>
Total liabilities and net assets	<u>\$ 4,313,220</u>	<u>\$ 4,132,761</u>

The accompanying notes are an integral part of these financial statements.

Main Line Art Center
 Statements of Activities
 August 31, 2018 and 2017
 (See Auditor's Report)

	2018			2017			Total
	Permanently Restricted	Temporarily Restricted	Unrestricted	Permanently Restricted	Temporarily Restricted	Unrestricted	
Public Support and Revenues							
Public Support:							
Foundations	\$ -	\$ 21,196	\$ 129,087	\$ -	\$ -	\$ 106,875	\$ 106,875
Individual support	-	5,000	327,321	-	5,000	116,531	121,531
Corporations	-	17,500	18,686	-	3,000	33,360	36,360
Government	-	-	12,340	-	-	13,413	13,413
Release from restrictions	-	(4,594)	4,594	-	(4,468)	4,468	-
Total Public Support	-	39,102	492,028	-	3,532	274,647	278,179
Tuitions	-	-	741,229	-	-	681,144	681,144
Exhibitions	-	-	36,090	-	-	91,702	91,702
Dues	-	-	43,430	-	-	37,120	37,120
Other income	-	-	24,454	-	-	33,950	33,950
Total Earned Revenues	-	-	845,203	-	-	843,916	843,916
Net investment income	-	-	96,975	-	-	116,446	116,446
Total revenues	-	39,102	1,434,206	-	3,532	1,235,009	1,238,541
Expenses							
Program	-	-	1,063,894	-	-	1,082,871	1,082,871
Administrative	-	-	110,524	-	-	116,786	116,786
Fund raising	-	-	136,196	-	-	173,382	173,382
Total expenses	-	-	1,310,614	-	-	1,373,039	1,373,039
Change in net assets	-	39,102	123,592	-	3,532	(138,030)	(134,498)
Beginning net assets	-	17,012	3,971,376	-	13,480	4,109,406	4,122,886
Ending net assets	\$ -	\$ 56,114	\$ 4,094,968	\$ -	\$ 17,012	\$ 3,971,376	\$ 3,988,388

The accompanying notes are an integral part of these financial statements.

**Main Line Art Center
Statements of Cash Flows
August 31, 2018 and 2017
(See Auditor's Report)**

	<u>2018</u>	<u>2017</u>
Operating activities:		
Change in net assets	\$ 162,694	\$ (134,498)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	133,085	141,348
Investment income	(96,975)	(116,446)
Changes in assets and liabilities:		
Accounts receivable	2,656	(839)
Pledges receivable	(11,900)	2,173
Prepaid expenses	1,005	(272)
Accounts payable and accruals	2,205	(5,573)
Due to former employee	-	(30,000)
Deferred revenue	15,560	8,001
Net cash provided by (used in) operating activities	<u>208,330</u>	<u>(136,106)</u>
Investing activities:		
Net transfers (to) from investments	(139,683)	157,686
Equipment	<u>(5,216)</u>	<u>(3,268)</u>
Net cash (used in) provided by investing activities	(144,899)	154,418
Financing activities:		
Debt repaid	<u>-</u>	<u>-</u>
Net cash used in financing activities	-	-
Net change in cash	<u>63,431</u>	<u>18,312</u>
Cash, beginning of year	131,749	113,437
Cash, end of year	<u>\$ 195,180</u>	<u>\$ 131,749</u>
Cash paid during the year for interest	<u>\$ 675</u>	<u>\$ 604</u>
Cash paid during the year for income and excise taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2018 and 2017
(See Auditor's Report)

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Julian Sur, CPA

1. Description of activities and summary of significant accounting policies:

Organization and activities:

Main Line Art Center ("the Center") was formed in 1937 in Pennsylvania as a non-profit organization dedicated to increasing the awareness of the visual arts for the entire community. It cultivates knowledge and enjoyment of the arts by supporting the development of artists of all ages and abilities. The Center receives tuition income from visual arts instruction and programs. Contributions from foundations, corporations, individuals and the government help the Center to maintain the quality of these programs, exhibitions, lectures and other special events.

Financial statement presentation:

The significant accounting policies followed by the Center are described below. These accounting policies conform to accrual accounting principles generally accepted in the United States of America. The Center is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets: Net assets that are not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by a decision of the Board of Directors.

Temporarily restricted net assets: Net assets that are subject to donor imposed stipulations that may or will be met by actions of the Center or the passage of time.

Permanently restricted net assets: Net assets subject to donor imposed stipulations that the gifts be restricted permanently by the Center. Generally, the donors of these assets allow the Center to use the income for general or specific purposes.

Promises to give:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporary or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Tax status:

The Center is exempt from federal income taxes under IRC Section 501(c)(3) and is classified by the IRS as one that is not a private foundation within the meaning of IRC Section 509 (a). The Center is registered as required with the Pennsylvania Bureau of Corporations and Charitable Organizations. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability for any uncertain position that more likely than not would not be sustained upon examination by the taxing authorities. The Center can be subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress. Management believes that the Center is no longer subject to tax examinations for years prior to 2012.

Use of estimates and basis of accounting:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. The Center maintains its financial records on the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time the liabilities are incurred.

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2018 and 2017
(See Auditor's Report)

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Fixed assets:

The building and equipment are recorded at cost and depreciated on a straight-line method over the estimated useful lives of the assets. The Center's policy is to remove fully depreciated items from its financial statements. Land is not depreciated and is held at its historic cost of \$3,860. Additions are made to fixed assets for purchases with a useful life greater than one year and a cost greater than \$1,000.

Cash and cash equivalents:

Cash and cash equivalents consists of cash, checking and savings accounts. The Center considers all highly liquid assets available for current use to be cash equivalents unless they are held as part of the investment portfolio.

Accounts and pledges receivable:

Accounts receivable and pledges receivable are stated at the amounts billed or pledged, net of an allowance. Management writes off uncollectible amounts as incurred against a bad debt allowance. Management considers that no bad debt allowance is required for either fiscal year ended August 31, 2018 and 2017. No bad debt expense was incurred in either fiscal year.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Money market funds and certificates of deposit invested for long term purposes are included in investments. Unrealized gains and losses are included in the change of net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or fulfillment of donor imposed restrictions) in the reporting period in which the income and gains are recognized.

Deferred revenues:

Deferred revenues represent tuition income received by the Center prior to the fiscal year end for sessions after the fiscal year end. These amounts are reported as liabilities in the accompanying statement of financial position.

2. Credit risk:

The Center maintains all of its investments and cash at one bank. The Center regularly maintains cash balances in excess of the federally insured limit of \$250,000 at this bank.

The Center invests in stocks, bonds and mutual funds which are subject to market fluctuations.

3. Donated services, materials and facilities:

The Center receives donated services from a variety of unpaid volunteers. No amounts for donated services have been recognized in the accompanying Statements of Activities because the criteria for recognition of such volunteer effort have not been satisfied.

4. Commitments:

The Center had accrued \$160,000 previously as a retention bonus to the former executive director of the Center to reward past endeavors. The final installment of \$30,000 was paid in January 2017.

The Center leases office equipment under two operating leases requiring future monthly minimum rentals of \$730 per month through August 1, 2021.

Total rental expense for the years ended August 31, 2018 and 2017 was \$3,756 and \$5,083 respectively.

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2018 and 2017
(See Auditor's Report)

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5. Functional expenses:

The functional direct expenses are allocated by specific identification. Functional indirect expenses are allocated based upon management estimates of time spent and square footage of the Center.

6. Investments:

Investments are comprised of cash accounts, CD's, stocks, bonds and mutual funds, stated at fair value based upon publicly quoted market prices. The investments are summarized as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 51,190	\$ 51,190	\$ 20,434	\$ 20,434
Fixed income securities	507,035	493,680	413,749	413,590
Equities	<u>719,060</u>	<u>903,187</u>	<u>606,057</u>	<u>777,375</u>
	<u>\$1,277,285</u>	<u>\$1,448,057</u>	<u>\$1,040,240</u>	<u>\$1,211,399</u>

Fair Value Measurements

The Center has adopted a framework for measuring fair value which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- a) quoted prices for similar assets or liabilities in active markets;
- b) quoted prices for identical or similar assets or liabilities in inactive markets;
- c) inputs other than quoted prices that are observable for the asset or liability;
- d) inputs that are derived principally from or corroborated by observable market data by corroboration or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Valuation methodologies used for assets reported at fair value as of August 31, 2018 and 2017 are as follows:

Mutual funds – valued at the net asset value of shares held by the Center at year end.

Common stocks – valued at the closing price reported on the active markets on which the individual securities are traded.

Corporate and government bonds – valued at the closing value reported by pricing services of the security held by the Center at year end.

Money market funds and certificates of deposit (CD's) – valued at cost due to the short term maturity and the security of the FDIC coverage.

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2018 and 2017
(See Auditor's Report)

The following tables set forth by level, within the fair value hierarchy, the Center's investments at fair value as of August 31, 2018 and 2017:

	Fair Value	Level 1	Level 2	Level 3
August 31, 2018				
Equity mutual funds and common stocks	\$ 903,187	\$ 903,187	\$ -	\$ -
Corporate and government bonds	493,680	-	493,680	-
Money market funds and CD's	51,190	51,190	-	-
Total assets at fair value	<u>\$1,448,057</u>	<u>\$ 954,377</u>	<u>\$ 493,680</u>	<u>\$ -</u>
August 31, 2017				
Equity mutual funds and common stocks	\$ 777,375	\$ 777,375	\$ -	\$ -
Corporate and government bonds	413,590	-	413,590	-
Money market funds and CD's.	20,434	20,434	-	-
Total assets at fair value	<u>\$1,211,399</u>	<u>\$ 797,809</u>	<u>\$ 413,590</u>	<u>\$ -</u>

7. Investment income:

Investment income is comprised of the following categories:

	2018	2017
Interest and dividend income	\$ 27,083	\$ 24,508
Net investment gains	80,241	102,192
Investment fees	(10,349)	(10,254)
Total investment income	<u>\$ 96,975</u>	<u>\$ 116,446</u>

8. Lines of credit:

The Center had two lines of credit of \$600,000 and \$200,000 with one bank. The interest rate was 1-month LIBOR plus 1.25% with a floor of 2.5%. The \$600,000 line matured on August 31, 2017 and was cancelled. The \$200,000 line matured on June 9, 2018 and has been renewed through August 31, 2019. Both lines were secured by the investments held at the bank and borrowings cannot exceed 50% of the investment securities held as collateral at the bank.

The net borrowing outstanding under the line of credit of \$200,000 was \$19,667 as of August 31, 2018 and 2017, respectively.

9. Unrestricted net assets:

The Center has adopted investment and spending policies for Board designated assets that attempt to provide a predictable stream of funding for the Center's programs while seeking to maintain the principal of the Board designated assets.

The Center has a policy of transferring approximately 5% of the average value (over the preceding 3 years) of the Board designated endowment fund to other unrestricted net assets. Accordingly, \$236,658 and \$54,011 were

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2018 and 2017
(See Auditor's Report)

transferred from the Board designated endowment fund to support the ongoing programs of the Center in fiscal years 2018 and 2017, respectively.

The Center's investments are classified under the following designations:

	2018	2017
Board designated endowment fund	\$1,188,653	\$1,111,732
Board designated operating reserve	207,891	85,160
Board designated capital reserve	51,513	14,507
Other unrestricted funds	-	-
Investments	<u>\$1,448,057</u>	<u>\$1,211,399</u>

The Board has designated assets as follows:

	2018	2017
Board designated endowment fund	\$1,188,653	\$1,111,732
Board designated operating reserve	207,891	85,160
Board designated capital reserve	51,513	14,507
Undesignated	<u>2,646,911</u>	<u>2,759,977</u>
Total unrestricted funds	<u>\$4,094,968</u>	<u>\$ 3,971,376</u>

10. Temporarily restricted net assets:

The composition of the temporarily restricted net assets was:

	2018	2017
Pledges receivable restricted to future years	\$ -	\$ -
Pledges receivable restricted for specific purposes	12,700	-
Gifts received restricted to future years	-	-
Gifts received restricted for specific purposes	<u>43,414</u>	<u>17,012</u>
	<u>\$ 56,114</u>	<u>\$17,012</u>

Pledges receivable, that were not restricted to future years or for specific purposes, were \$0 and \$800 as of August 31, 2018 and 2017, respectively.

11. Subsequent events:

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 28, 2018, the date on which these financial statements were available for issue. There were no subsequent events that require recognition of, or disclosure in, the financial statements.

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Independent Auditor's Report on Additional Information

To the Board of Directors
Main Line Art Center
Haverford, Pennsylvania

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Julian Sur, CPA

I have audited the financial statements of Main Line Art Center as of and for the years ended August 31, 2018 and 2017, and have issued my report thereon dated December 28, 2018, which contained an unmodified opinion on those financial statements. My audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Julian Sur, CPA
Berwyn PA

December 28, 2018

Main Line Art Center
Supplementary Information
Schedules of Functional Expenses
August 31, 2018 and 2017
(See Auditor's Report)

	2018			2017				
	Program	General	Fund raising	Total	Program	General	Fund raising	Total
Payroll & Benefits	\$ 378,082	\$ 85,928	\$ 108,842	\$ 572,852	\$ 392,020	\$ 90,824	\$ 141,045	\$ 623,889
Instructors	244,159	-	-	244,159	222,208	-	-	222,208
Program supplies	114,626	1,207	4,826	120,659	134,705	1,421	5,153	141,279
Facilities	193,746	8,424	8,424	210,594	194,729	8,844	10,844	214,417
Printing	28,595	681	4,766	34,042	30,882	768	2,944	34,594
Professional fees	44,655	8,169	1,634	54,458	41,980	9,583	6,352	57,915
Miscellaneous	23,282	1,012	1,012	25,306	22,849	2,217	2,004	27,070
Postage	16,150	202	3,836	20,188	21,258	466	2,620	24,344
Supplies	9,264	3,595	968	13,827	10,753	1,826	1,297	13,876
Insurance	11,335	1,306	1,888	14,529	11,487	837	1,123	13,447
	<u>\$ 1,063,894</u>	<u>\$ 110,524</u>	<u>\$ 136,196</u>	<u>\$ 1,310,614</u>	<u>\$ 1,082,871</u>	<u>\$ 116,786</u>	<u>\$ 173,382</u>	<u>\$ 1,373,039</u>

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Julian Sur, CPA

The accompanying notes are an integral part of these financial statements.