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Julian Sur, CPA

Draft #5

**MAIN LINE ART CENTER
FINANCIAL STATEMENTS
AUGUST 31, 2019 AND 2018**

Main Line Art Center
August 31, 2019 and 2018

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Independent Auditor's Report

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, 2019 and 2018 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, 2019 and 2018, 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 17, 2019

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Julian Sur, CPA

Main Line Art Center
Statements of Financial Position
August 31, 2019 and 2018
(See Auditor's Report)

	Assets	
	2019	2018
Assets:		
Cash & cash equivalents	\$ 203,963	\$ 195,180
Investments	1,459,299	1,448,057
Accounts receivable	2,148	1,849
Pledges receivable	11,920	12,700
Prepaid expenses	4,884	5,842
Total current assets	1,682,214	1,663,628
Fixed assets:		
Land & building	3,795,663	3,766,048
Equipment	88,096	76,157
Accumulated depreciation	(1,313,204)	(1,192,613)
Net fixed assets	2,570,555	2,649,592
Total assets	\$ 4,252,769	\$ 4,313,220
	Liabilities and Net Assets	
Liabilities:		
Accounts payable & accruals	\$ 53,731	\$ 26,211
Line of credit	-	19,667
Deferred revenues	120,581	116,260
Total current liabilities	174,312	162,138
Net assets without donor restrictions:		
Undesignated	2,537,837	2,646,911
Board designated	1,459,299	1,448,057
Net assets without donor restrictions	3,997,136	4,094,968
Net assets with donor restrictions	81,321	56,114
Net assets	4,078,457	4,151,082
Total liabilities and net assets	\$ 4,252,769	\$ 4,313,220

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

**Main Line Art Center
Statements of Activities
August 31, 2019 and 2018
(See Auditor's Report)**

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	2019			2018		
	With Donor Restrictions	Without Donor Restrictions	Total	With Donor Restrictions	Without Donor Restrictions	Total
Public Support and Revenues						
Public Support:						
Foundations	\$ 11,200	\$ 81,764	\$ 92,964	\$ 21,196	\$ 129,087	\$ 150,283
Individual support	-	143,194	143,194	5,000	327,321	332,321
Corporations	56,000	19,233	75,233	17,500	18,686	36,186
Government	-	12,340	12,340	-	12,340	12,340
Release from restrictions	(41,993)	41,993	-	(4,594)	4,594	-
Total Public Support	25,207	298,524	323,731	39,102	492,028	531,130
Tuitions	-	782,659	782,659	-	741,229	741,229
Exhibitions	-	26,980	26,980	-	36,090	36,090
Dues	-	38,144	38,144	-	43,430	43,430
Other income	-	32,263	32,263	-	24,454	24,454
Total Earned Revenues	-	880,046	880,046	-	845,203	845,203
Net investment income	-	9,770	9,770	-	96,975	96,975
Total revenues	25,207	1,188,340	1,213,547	39,102	1,434,206	1,473,308
Expenses						
Program	-	1,034,824	1,034,824	-	1,063,894	1,063,894
Administrative	-	105,436	105,436	-	110,524	110,524
Fundraising	-	145,912	145,912	-	136,196	136,196
Total expenses	-	1,286,172	1,286,172	-	1,310,614	1,310,614
Change in net assets	25,207	(97,832)	(72,625)	39,102	123,592	162,694
Beginning net assets	56,114	4,094,968	4,151,082	17,012	3,971,376	3,988,388
Ending net assets	\$ 81,321	\$ 3,997,136	\$ 4,078,457	\$ 56,114	\$ 4,094,968	\$ 4,151,082

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

**Main Line Art Center
Statements of Cash Flows
August 31, 2019 and 2018
(See Auditor's Report)**

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	<u>2019</u>	<u>2018</u>
Operating activities:		
Change in net assets	\$ (72,625)	\$ 162,694
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	132,680	133,085
Investment income	(9,770)	(96,975)
Changes in assets and liabilities:		
Accounts receivable	(299)	2,656
Pledges receivable	780	(11,900)
Prepaid expenses	958	1,005
Accounts payable and accruals	27,520	2,205
Deferred revenue	4,321	15,560
Net cash provided by operating activities	<u>83,565</u>	<u>208,330</u>
Investing activities:		
Net transfers to investments	(1,472)	(139,683)
Equipment	<u>(53,643)</u>	<u>(5,216)</u>
Net cash used in investing activities	(55,115)	(144,899)
Financing activities:		
Debt repaid	<u>(19,667)</u>	-
Net cash used in financing activities	(19,667)	-
Net change in cash	<u>8,783</u>	<u>63,431</u>
Cash, beginning of year	195,180	131,749
Cash, end of year	<u>\$ 203,963</u>	<u>\$ 195,180</u>
Cash paid during the year for interest	<u>\$ 136</u>	<u>\$ 675</u>

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

Main Line Art Center
Notes to Financial Statements
Years ended August 31, 2019 and 2018
(See Auditor's Report)

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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 two classes of net assets:

Without donor restrictions: 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.

With donor restrictions: Net assets that are subject to donor-imposed stipulations that may or may not be met by actions of the Center or the passage of time.

Promises to give:

Contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net 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.

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 2013.

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.

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

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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 consist 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, 2019 and 2018. 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 net assets without donor restrictions 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 scheduled after the fiscal year end. These amounts are reported as liabilities in the accompanying statement of financial position.

2. Liquidity and availability of resources:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use past one year of the statement of financial position date, comprise the following:

Cash	\$ 203,963
Investments	1,459,299
Accounts receivable	2,148
Pledges receivable	11,920
Total financial assets	1,677,330
Less financial assets not available for general operations within one year:	
Board designated	(1,459,299)
Restricted by donor for specific purposes or periods	(81,321)
Total financial assets available for general expenditure	\$ 136,710

Liquidity Management:

The Center manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long term obligations will be discharged. The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

Main Line Art Center
Notes to Financial Statements
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3. Credit risk:

The Center maintains all 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.

4. 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.

5. Commitments:

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, 2019 and 2018 was \$4,074 and \$3,756 respectively.

6. 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.

7. 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:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 40,004	\$ 40,076	\$ 51,190	\$ 51,190
Fixed income securities	496,261	504,352	507,035	493,680
Equities	778,240	914,871	719,060	903,187
	\$ 1,314,505	\$ 1,459,299	\$ 1,277,285	\$ 1,448,057

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.

Main Line Art Center
Notes to Financial Statements
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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, 2019 and 2018 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.

The following tables set forth by level, within the fair value hierarchy, the Center's investments at fair value as of August 31, 2019 and 2018:

August 31, 2019	Fair Value	Level 1	Level 2	Level 3
Equity mutual funds and common stocks	\$ 914,871	\$ 914,871	\$ -	\$ -
Corporate and government bonds	504,352	-	504,352	-
Money market funds and CD's	40,076	40,076	-	-
Total assets at fair value	<u>\$ 1,459,299</u>	<u>\$ 954,947</u>	<u>\$ 504,352</u>	<u>\$ -</u>

August 31, 2018	Fair Value	Level 1	Level 2	Level 3
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>

8. Investment income:

Investment income is comprised of the following categories:

	2019	2018
Interest and dividend income	\$ 34,123	\$ 27,083
Net investment gains / (losses)	(12,711)	80,241
Investment fees	(11,642)	(10,349)
Total investment income	<u>\$ 9,770</u>	<u>\$ 96,975</u>

9. Lines of credit:

The Center has a line of credit of \$200,000 with a bank. The interest rate was 1-month LIBOR plus 1.25% with a floor of 2.5%. The line of credit originally matured on August 31, 2019 and has been renewed through June 9, 2023. The line is 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 was \$0 and \$19,667 as of August 31, 2019 and 2018, respectively.

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Notes to Financial Statements
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(See Auditor's Report)

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10. Net assets without donor restrictions:

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 5% of the average value (over the preceding 3 years) of the Board designated endowment fund to other unrestricted net assets. \$55,884 and \$53,937 was available to be transferred from the Board designated endowment fund to support the ongoing programs of the Center in fiscal years 2019 and 2018, respectively. No such transfers from the Board designated endowment fund were made in fiscal years 2019 or 2018.

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

	2019	2018
Board designated endowment fund	\$ 1,155,219	\$ 1,188,653
Board designated operating reserve	209,505	207,891
Board designated capital reserve	94,575	51,513
Other unrestricted funds	-	-
Investments	\$ 1,459,299	\$ 1,448,057

The Board has designated assets as follows:

	2019	2018
Board designated endowment fund	\$ 1,155,219	\$ 1,188,653
Board designated operating reserve	209,505	207,891
Board designated capital reserve	94,575	51,513
Undesignated	2,537,837	2,646,911
Total net assets without donor restrictions	\$ 3,997,136	\$ 4,094,968

11. Net assets with donor restrictions:

The composition of net assets with donor restrictions was:

	2019	2018
Pledges receivable restricted to future years	\$ -	\$ -
Pledges receivable restricted for specific purposes	11,920	12,700
Gifts received restricted to future years	-	-
Gifts received restricted for specific purposes	69,401	43,414
	\$ 81,321	\$ 56,114

Pledges receivable, that were not restricted to future years or for specific purposes, were \$0 as of August 31, 2019 and 2018. The Center expects that all donor restrictions associated with its net assets will be fulfilled prior to the conclusion of the fiscal year ended August 31, 2020.

12. Subsequent events:

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 17, 2019, 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

I have audited the financial statements of Main Line Art Center as of and for the years ended August 31, 2019 and 2018, and have issued my report thereon dated October 31, 2019, 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 17, 2019

Main Line Art Center
 Supplementary Information
 Schedules of Functional Expenses
 August 31, 2019 and 2018
 (See Auditor's Report)

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	2019				2018			
	Program	General	Fundraising	Total	Program	General	Fundraising	Total
Payroll & Benefits	\$ 371,363	\$ 56,353	\$ 110,069	\$ 537,785	\$ 378,082	\$ 85,928	\$ 108,842	\$ 572,852
Instructors	255,792	-	-	255,792	244,159	-	-	244,159
Program supplies	112,891	2,402	4,804	120,097	114,626	1,207	4,826	120,659
Facilities	61,973	9,707	2,987	74,667	71,308	3,100	3,101	77,509
Depreciation	124,720	3,980	3,980	132,680	122,438	5,324	5,323	133,085
Professional fees	21,802	24,957	9,690	56,449	44,655	8,169	1,634	54,458
Printing	30,864	491	6,284	37,639	28,595	681	4,766	34,042
Miscellaneous	22,318	2,261	2,126	26,705	23,282	1,012	1,012	25,306
Postage	14,880	966	3,479	19,325	16,150	202	3,836	20,188
Insurance	11,043	1,274	1,840	14,157	11,335	1,306	1,888	14,529
Supplies	7,178	3,045	653	10,876	9,264	3,595	968	13,827
	<u>\$ 1,034,824</u>	<u>\$ 105,436</u>	<u>\$ 145,912</u>	<u>\$ 1,286,172</u>	<u>\$ 1,063,894</u>	<u>\$ 110,524</u>	<u>\$ 136,196</u>	<u>\$ 1,310,614</u>

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