

LEHIGH VALLEY ARTS COUNCIL, INC.

FINANCIAL REPORT

AUGUST 31, 2020

DRAFT

LEHIGH VALLEY ARTS COUNCIL, INC.

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors  
Lehigh Valley Arts Council, Inc.

We have reviewed the accompanying statement of assets, liabilities and net assets – modified cash basis of the Lehigh Valley Arts Council, Inc. (the “Organization”) as of August 31, 2020, and the related statement of support and revenue, expenses and changes in net assets – modified cash basis, statement of functional expenses – modified cash basis and statement of cash flows – modified cash basis for the fiscal 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 Organization 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 the cash basis of accounting; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 the cash basis of accounting. 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 the modified cash basis of accounting.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

CUNNINGHAM, CAREY AND PHILLIPS, LLC  
Certified Public Accountants

February 12, 2021

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LEHIGH VALLEY ARTS COUNCIL, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

AUGUST 31, 2020

(See Accountants' Review Report)

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 79,378
Deposits	<u>8,282</u>

<u>TOTAL CURRENT ASSETS</u>	87,660
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NON-CURRENT ASSETS

Equipment (Net of Depreciation)	<u>2,673</u>
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<u>TOTAL ASSETS</u>	<u>\$ 90,333</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 4,809
Payroll Liabilities	2,629
Unearned Income	4,975
Notes Payable - CARES Act	<u>20,200</u>

<u>TOTAL LIABILITIES</u>	32,613
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<u>NET ASSETS WITHOUT DONOR RESTRICTIONS</u>	<u>57,720</u>
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 90,333</u>
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The accompanying notes are an integral part of the financial statements.

LEHIGH VALLEY ARTS COUNCIL, INC.

STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS - MODIFIED CASH BASIS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2020

(See Accountants' Review Report)

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTONS	TOTAL
<u>PUBLIC SUPPORT AND REVENUE</u>			
Contributions, Gifts and Grants	\$ 76,456	\$ -	\$ 76,456
Program Service Revenue	89,525	-	89,525
Advertising and Other Income	192	-	192
Investment Income	323	-	323
	<u>166,496</u>	<u>-</u>	<u>166,496</u>
<u>EXPENSES</u>			
Program Services	169,086	-	169,086
General and Administrative	30,349	-	30,349
Fund Raising	17,342	-	17,342
	<u>216,777</u>	<u>-</u>	<u>216,777</u>
<u>EXCESS (DEFICIT) OF SUPPORT AND REVENUE OVER (UNDER) EXPENSES</u>	(50,281)	-	(50,281)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>108,001</u>	<u>-</u>	<u>108,001</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 57,720</u>	<u>\$ -</u>	<u>\$ 57,720</u>

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

LEHIGH VALLEY ARTS COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2020

(See Accountants' Review Report)

	<u>PROGRAM SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUND RAISING</u>	<u>TOTAL</u>
Salaries, Payroll Taxes and Benefits	\$ 92,383	\$ 16,581	\$ 9,475	\$ 118,439
Occupancy, Rent and Utilities	14,213	2,551	1,458	18,222
Printing, Publications and Postage	7,932	1,424	814	10,170
Travel	365	66	37	468
Program Costs and Grants	42,475	7,624	4,356	54,455
Insurance	2,218	398	227	2,843
Professional and Consulting Fees	2,557	459	262	3,278
Public Relations and Marketing	604	108	62	774
Office Supplies and Expenses	4,943	887	507	6,337
Dues and Subscriptions	218	39	22	279
Website and IT Service	1,179	212	121	1,512
<u>TOTAL</u>	<u>\$ 169,087</u>	<u>\$ 30,349</u>	<u>\$ 17,342</u>	<u>\$ 216,777</u>

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

LEHIGH VALLEY ARTS COUNCIL, INC.

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2020

(See Accountants' Review Report)

CASH FLOWS FROM OPERATING ACTIVITIES

Excess (Deficit) of Support and Revenue Over (Under) Expenses	\$ (50,280)
Adjustment to Reconcile Excess (Deficit) of Support and Revenue Over (Under) Expenses to Net Cash Provided By (Used By) Operating Activities:	
Depreciation and Amortization	758
(Increase) Decrease in Prepaid Expenses	(8,282)
Increase (Decrease) in Liabilities	<u>(30,763)</u>
<u>NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES</u>	(88,567)
<u>CASH FLOWS FROM FINANCING ACTIVITIES - CARES Act</u>	\$ 20,200
<u>CASH FLOWS PROVIDED (USED BY) FROM INVESTING ACTIVITIES</u>	
Equipment Purchases	<u>(1,995)</u>
<u>NET CASH PROVIDED (USED BY) INVESTING ACTIVITIES</u>	<u>(1,995)</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(70,362)
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>149,740</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 79,378</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash Paid For:

Interest	\$ -
Income Taxes	-

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



LEHIGH VALLEY ARTS COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed by the Lehigh Valley Arts Council, Inc. (the "Organization") are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

The accompanying financial statements of the Lehigh Valley Arts Council, Inc. have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when a liability is incurred. Modifications to the cash basis of accounting include the accrual of payroll taxes. The Statement of Support and Revenue, Expenses and Changes in Net Assets – Modified Cash Basis presents the results of the Organization's activities; it does not purport to present the net income or loss for the period.

Revenue Recognition

In accordance with the modified cash basis of accounting, contributions are recognized as revenues in the period received. Unconditional promises to give are not recognized as revenues until the related assets are received. Conditional promises to give are not recognized until the assets are received and become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on date of donation.

All donor-restricted contributions are reported as increases in temporarily 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 satisfied), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Support and Revenue, Expenses and Changes in Net Assets – Modified Cash Basis as Net Assets Released from Restrictions.

All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. For the fiscal year ended August 31, 2020 no temporarily restricted assets were received.

Use of Estimates

The process of preparing financial statements on the modified cash basis of accounting requires the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LEHIGH VALLEY ARTS COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Lehigh Valley Arts Council, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Lehigh Valley Arts Council, Inc. had no restricted assets or temporarily restricted net assets as of August 31, 2020.

Donated Services

A substantial number of volunteers donated significant amounts of their time to the Lehigh Valley Arts Council, Inc.'s program services and administrative functions. The Organization has regular volunteers each month who work on the Arts Calendar, membership, mailing and distribution, and planning for the yearly benefit. Many of the conferences and workshops are given by volunteers. The Board members are also volunteers. The value of these services, however, has not been reflected in the accompanying financial statements, since there is no objective basis available by which to measure it.

Cash Flows

The Lehigh Valley Arts Council, Inc. presents its cash flows statement using the indirect method. For purposes of cash flow presentation, the Organization considers currency on hand, demand deposits and savings accounts with financial institutions to be cash and cash equivalents.

Functional Allocation of Expenses

The Lehigh Valley Arts Council, Inc. allocates its expenses on a functional basis among its program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common are allocated based on estimates made for time spent by key personnel on each function, space occupied by function, and other objective bases.

Advertising

The Organization uses advertising to promote its programs among the audience it serves. It is the Organization's policy to expense advertising costs as incurred.

Depreciation and Amortization

Furniture and equipment are being depreciated over estimated useful lives of five years using a straight-line method, with a half of a year's depreciation recognized in the years of acquisition and disposal. Furniture and equipment in the amount of \$15,714 was fully depreciated as of August 31, 2020. The original cost of the equipment was \$18,264 and accumulated depreciation as of August 31, 2020 was \$15,382.

LEHIGH VALLEY ARTS COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

2. ENTITY AND EXEMPT STATUS

Form of Entity

Lehigh Valley Arts Council, Inc., was incorporated on October 25, 1989, under the nonprofit corporation law of the Commonwealth of Pennsylvania and was organized on a non-stock basis. Lehigh Valley Arts Council, Inc., is a not-for-profit corporation as described in Section 501 (c) (3) of the Internal Revenue Code (the "Code"). The Organization is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The IRS determined that the Organization is not a private foundation within the meaning of Section 509 (a) of the Code because it is an organization described in Sections 509 (a) (1) and 170 (b) (A) (vi).

Nature of Operations and Markets

The Lehigh Valley Arts Council is a non-profit arts-service umbrella organization, serving the Greater Lehigh Valley region. The Arts Council's mission is to promote the arts; to encourage and support artists and their development; to assist arts organizations; and to facilitate communication and cooperation among artists, art groups, and the community. Services include informational publications, professional development workshops, artist residencies and educational programming, and cooperative regional marketing initiatives. Furthermore, LVAC continues to stage arts advocacy presentations to community groups and engages in arts market research that focuses on the arts and cultural resources in the region and their impact on the local economy and quality of life.

Sources of Revenues

The Organization receives the majority of its revenues from three major sources: public support, program services and special events. The public support comes in the form of contributions, gifts and grants. The contributions include memberships to households, individuals and to other non-profit organizations.

Program services include workshops, conferences, the Directory of the Arts and a newsletter. Workshops, conferences and forums are held for the arts community and the general public on a regular basis. The Lehigh Valley Arts Council charges various fees for each of these programs. Listings in the online Directory of the Arts are free to members and the newsletter is distributed free to everyone. A fee is charged for advertising in each.

The Arts Council operates an online box office for ticket sales for the benefit of small and midsized arts groups for which it earns a commission on each ticket sale. Gross revenues were \$5,242 for the year ended August 31, 2020.

In December, 2004, The Organization was named a Pennsylvania Partner in the Arts (PPA) Program Partner by the Pennsylvania Council on the Arts (PCA). During the fiscal year The Organization received grants of \$81,904 and in return re-granted \$52,647 in support of local artistic endeavors throughout Carbon, Northampton and Lehigh Counties. The Organization has adopted FASB No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The Organization considers the re-grants to be an agency transaction.

LEHIGH VALLEY ARTS COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS

As of August 31, 2020, cash and cash equivalents consisted of cash on hand, and cash on deposit at a financial institution. At August 31, 2020, all demand deposit balances were insured by the Federal Deposit Insurance Corporation (the "FDIC").

4. RENT/LEASE COMMITMENTS

The Organization leased office space under the terms of a five-year non-cancelable operating lease effective January, 2011. It was renewed for an additional year. Total rent expense for the fiscal year ending August 31, 2020 amounted to \$15,739. The lease was renewed on a month to month basis.

5. PROGRAM SERVICES AND EXPENSE ALLOCATION

Program services are comprised of amounts expensed in accordance with the organization's objectives in promoting and supporting the arts in the Lehigh Valley. The costs of providing various programs and support have been summarized in the Statement of Functional Expenses – Modified Cash Basis. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Indirect expenses that are common to several functions are allocated among the programs and supporting services benefited, based on estimates made by the organization's management.

6. CONCENTRATIONS OF REVENUE RISK AND UNCERTAINTIES

Under Generally Accepted Accounting Principles, a major customer is one who provides 10% or more of an entity's revenues from sales to non-affiliates. During the fiscal year ended August 31, 2020, Lehigh Valley Arts Council, Inc. received grants from The Pennsylvania Partners in the Arts that totaled 50% of the Organization's total revenue. In addition, the Organization's funding base is located predominately in the greater Lehigh Valley. Accordingly, this represents a geographical concentration of risk.

7. CONTRIBUTIONS

Contributed property is recorded at fair value at the date of donation.

8. CARES ACT

On April 17, 2020, the Association received a loan of \$20,200 under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") through the Peoples Security Bank & Trust Company. The loan was forgiven by the Small Business Administration on December 22, 2020.

LEHIGH VALLEY ARTS COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

9. SUBSEQUENT EVENTS

As of February 12, 2021 the Council is in negotiations with the Cultural Coalition of Allentown to enter into a joint partnership and merge with one another as a single new organization. The merger was approved effective April 15, 2021.

Management has evaluated subsequent events through February 12, 2021, the date on which the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.

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