

ELK COUNTY COUNCIL OF THE ARTS

Ridgway, Pennsylvania

INDEPENDENT ACCOUNTANTS' REVIEW REPORT  
AND FINANCIAL STATEMENTS

Year Ended August 31, 2013

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CERTIFIED PUBLIC ACCOUNTANTS  
DuBois, Pennsylvania 15801

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors  
Elk County Council on the Arts

We have reviewed the accompanying statement of financial position of the Elk County Council on the Arts (a nonprofit organization) as of August 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Elk County Council on the Arts 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

*Sharkey Piccirillo Keen + Hanzely, LLP*  
SHARKEY PICCIRILLO KEEN & HANZELY, LLP  
July 10, 2014

ELK COUNTY COUNCIL ON THE ARTS

STATEMENT OF FINANCIAL POSITION

August 31, 2013

ASSETS

Current Assets:	
Cash	\$ 3,570
Bank certificate of deposit	25,617
Investments - endowment fund	3,649
Total Current Assets	<u>32,836</u>
Property and Equipment:	
Land	3,409
Building and improvements	76,489
Furniture and equipment	15,681
	<u>95,579</u>
Less: Accumulated depreciation	<u>(24,652)</u>
Total Property and Equipment	70,927
Other Assets:	
Restricted investments – endowment fund	<u>5,000</u>
Total Assets	<u>\$ 108,763</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable	\$ 7,086
Payroll taxes payable	2,338
Sales tax payable	107
Line of credit	19,833
Current portion of long-term debt	3,397
Total Current Liabilities	<u>32,761</u>
Long-Term Liabilities:	
Notes payable	30,229
Less: Current portion of long-term debt	<u>(3,397)</u>
Total Long-Term Liabilities	<u>26,832</u>
Total Liabilities	<u>59,593</u>
Net Assets:	
Unrestricted	18,569
Temporarily restricted	25,601
Permanently restricted	5,000
Total Net Assets	<u>49,170</u>
Total Liabilities and Net Assets	<u>\$ 108,763</u>

See accompanying notes and Independent Accountant's Review Report.

ELK COUNTY COUNCIL ON THE ARTS

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Contributions - governmental	\$ 56,515	\$ 25,601	\$ -	\$ 82,116
Contributions - public	13,477	-	-	13,477
Special events:				
Annual Gala revenue	11,240			
Less: Costs of direct benefits	<u>(5,600)</u>	5,640	-	5,640
Program income:				
Summer concert series	800			
Art gallery commissions	14,775			
Tuition	3,057			
Summer camp	3,641			
Ticket sales	1,069			
Memberships	3,984			
Taste of the Wilds	610			
Other events	431			
Photocopies	<u>746</u>	29,113	-	29,113
Interest and investment return	861	-	-	861
Net assets released from restrictions	<u>25,000</u>	<u>(25,000)</u>	-	-
 Total Support and Revenue	 <u>130,606</u>	 <u>601</u>	 <u>-</u>	 <u>131,207</u>
 Expenses:				
Program services	102,450	-	-	102,450
Management and general	18,895	-	-	18,895
Fundraising	<u>11,173</u>	<u>-</u>	<u>-</u>	<u>11,173</u>
 Total Expenses	 <u>132,518</u>	 <u>-</u>	 <u>-</u>	 <u>132,518</u>
 Change in Net Assets	 <u>(1,912)</u>	 <u>601</u>	 <u>-</u>	 <u>(1,311)</u>
 Net Assets - Beginning of Year:				
Originally reported	44,279	-	5,000	49,279
Prior period adjustments	<u>(23,798)</u>	<u>25,000</u>	<u>-</u>	<u>1,202</u>
Restated	<u>20,481</u>	<u>25,000</u>	<u>5,000</u>	<u>50,481</u>
 Net Assets - End of Year	 <u>\$ 18,569</u>	 <u>\$ 25,601</u>	 <u>\$ 5,000</u>	 <u>\$ 49,170</u>

See accompanying notes and Independent Accountant's Review Report.

ELK COUNTY COUNCIL ON THE ARTS

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended August 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Compensation	33,141	10,273	7,534	50,948
Payroll taxes	3,190	989	726	4,905
Accounting fees	-	1,500	-	1,500
Advertising	1,720	-	-	1,720
Telephone	1,355	339	298	1,992
Postage and shipping	1,043	-	421	1,464
Photocopier rental	2,517	629	555	3,701
Printing	64	-	127	191
Internet and website	729	-	-	729
Occupancy	2,282	571	503	3,356
Travel	534	-	241	775
Conferences	45	-	-	45
Interest expense	-	2,195	-	2,195
Depreciation	841	382	306	1,529
Insurance	2,095	524	462	3,081
Supplies	2,063	1,030	-	3,093
Dues	-	463	-	463
Program production	37,957	-	-	37,957
Artist commissions	11,780	-	-	11,780
Credit card and bank fees	888	-	-	888
Miscellaneous	206	-	-	206
	<u>102,450</u>	<u>18,895</u>	<u>11,173</u>	<u>132,518</u>
Total Expenses	<u>102,450</u>	<u>18,895</u>	<u>11,173</u>	<u>132,518</u>

See accompanying notes and Independent Accountant's Review Report.

ELK COUNTY COUNCIL ON THE ARTS

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2013

Cash Flows from Operating Activities:	
Decrease in net assets	\$ (1,311)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,529
Unrealized and realized gains on investments	(644)
Decrease in:	
Bank certificate of deposit	5,110
Increase (Decrease) in:	
Accounts payable	6,380
Payroll taxes payable	900
Sales tax payable	(4)
Net Cash Provided by Operating Activities	<u>11,960</u>
Cash Flows from Investing Activities:	
Purchases of building improvements	(30,698)
Increase in investments and net purchases and sale proceeds	(145)
Net Cash Used by Investing Activities	<u>(30,843)</u>
Cash Flows from Financing Activities:	
Principal payments on long-term debt	(3,773)
Advances from line of credit	22,075
Principal payments on line of credit	(2,242)
Net Cash Provided by Financing Activities	<u>16,060</u>
Net Decrease in Cash	(2,823)
Cash - Beginning of Year	<u>6,393</u>
Cash - End of Year	<u><u>\$ 3,570</u></u>

See accompanying notes and Independent Accountant's Review Report.

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Elk County Council on the Arts (Organization) is a nonprofit corporation incorporated in the Commonwealth of Pennsylvania. The Organization is dedicated to the promoting the cultural enrichment of the residents of Elk County by expanding the opportunity for public participation in the arts. The Organization's goal is to enhance the lives of county residents and the various local arts by offering experiences in the arts, providing educational opportunity and advice, and by supporting performers, musicians, artists and writers.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

In accordance with FASB ASC 958, *Not-for-Profit Entities*, the Organization 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization had no cash equivalents at August 31, 2013.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at fair value in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the Statement of Activities. Investment income and gains or losses, including realized gains and losses on investments, interest and dividends are reported as changes in net assets in the Statement of Activities.

Property and Equipment

Expenditures for land, building and improvements, and equipment are recorded at cost. Donated assets are recorded at their fair market values at the date of donation. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation of property and equipment other than land is computed using the straight-line method. At August 31, 2013 depreciation expense was \$1,529.



ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Revenue

Contributions from the Pennsylvania Partners in the Arts represent approximately 43% of the Organization's total revenue for the year ended August 31, 2013.

Compensated Absences

Expenditures for compensated absences are recognized in the period when paid.

Donated Services

The Organization receives a significant amount of donated services from unpaid volunteers who serve as directors and assist in fundraising and other projects. No amounts have been recognized in the Statement of Activities because the criteria for recognition have not been satisfied.

Restricted and Unrestricted Revenue

Revenues received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Revenues that are donor-restricted are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenues are recognized. All other donor-restricted revenues are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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.

Income Taxes

The Organization is a not-for-profit organization that is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes is made in the financial statements.

NOTE 2 – CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits at financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation, which fully insures all noninterest bearing accounts and up to \$250,000 of interest bearing accounts per institution. At August 31, 2013, the Organization had no uninsured cash deposits.

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2013

NOTE 3 – ENDOWMENT FUND

In a prior year, the Organization received \$5,000 to fund an endowment account for the purpose of generating income to support the Organization's mission and operations, with the principal balance of \$5,000 to be maintained permanently. At August 31, 2013, the fair market value of the endowment fund was \$8,649, with \$5,000 classified as permanently restricted and \$3,649 classified as unrestricted.

NOTE 4 – INVESTMENT RETURN

Investment return consists of earnings from the endowment fund described in Note 3, as well as interest earned on cash deposits and certificates of deposit. Return on investments is summarized as follows for the year ended August 31, 2013:

Interest and dividend income	\$	279
Net realized and unrealized gains		644
Investment fees		<u>(62)</u>
Total investment return	\$	<u>861</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of donor-restricted amounts for various purposes including certain programs and building improvements. At August 31, 2013, temporarily restricted net assets consisted of grant funds from the Pennsylvania Partners in the Arts in the amount of \$25,601. These funds are restricted for use in the fiscal year ended August 31, 2014.

NOTE 6 – LEASES

In a previous year, the Organization signed an operating lease for the rental of a photocopier. The minimum future lease payments are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2014	\$ 2,925
2015	2,925
2016	2,925
2017	<u>975</u>
	<u>\$ 9,750</u>

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2013

NOTE 7 – DEBT

Short-Term Debt

The Organization has a \$20,000 revolving line of credit, of which \$167 was unused at August 31, 2013. Bank advances on the line of credit are payable on demand and carry an interest rate of 5.00%.

Long-Term Debt

On March 6, 2006, the Organization purchased the building at 237 Main Street in Ridgway, Pennsylvania. A mortgage loan of \$53,000 was provided by a local bank. The original loan agreement provided for one hundred eighty monthly payments of \$502, including interest at 7.75%. The loan agreement was modified March 5, 2013, reducing the interest rate to 5.00% through March 5, 2018, after which the interest will be adjusted to the monthly average yield of U.S. Treasury Securities plus 3.00%. Monthly payments were also decreased to \$403 through the maturity date of March 5, 2021. The Organization has elected to pay additional monthly principal payments on the loan, which will accelerate the loan payoff date.

The scheduled principal maturities of the mortgage loan are presented in the following schedule:

<u>Year Ending August 31,</u>	
2014	\$ 3,397
2015	3,570
2016	3,753
2017	3,945
2018	4,147
2019 - 2021	<u>11,417</u>
	<u>\$ 30,229</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment related to a correction in the classification of net assets was required for the year ending August 31, 2012. The adjustment resulted in the following changes in net assets:

	<u>Increase (Decrease)</u>
Unrestricted net assets	\$ (25,000)
Temporarily restricted net assets	<u>25,000</u>
Net change	<u>\$ —</u>

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2013

NOTE 8 – PRIOR PERIOD ADJUSTMENTS (Continued)

Additionally, a separate prior period adjustment was required for the endowment fund, which was understated by \$1,202 on the Organization's Statement of Financial Position as of August 31, 2012. This resulted in an increase in unrestricted net assets of \$1,202.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events were evaluated through July 10, 2014, which is the date the financial statements were available to be issued.