

ELK COUNTY COUNCIL OF THE ARTS

Ridgway, Pennsylvania

INDEPENDENT ACCOUNTANTS' REVIEW REPORT
AND FINANCIAL STATEMENTS

Year Ended August 31, 2014

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Accountants' Review Report	3
Statement of Net Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

SHARKEY PICCIRILLO KEEN & HANZELY, LLP

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, 2014, 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 9, 2015

ELK COUNTY COUNCIL ON THE ARTS

STATEMENT OF FINANCIAL POSITION

August 31, 2014

ASSETS

Current Assets:	
Cash	\$ 1,217
Bank certificate of deposit	25,620
Accounts receivable	6,704
Investments - endowment fund	4,954
Total Current Assets	<u>38,495</u>
Property and Equipment:	
Land	3,409
Building and improvements	76,489
Furniture and equipment	15,681
	<u>95,579</u>
Less: Accumulated depreciation	(26,564)
Total Property and Equipment	<u>69,015</u>
Other Assets:	
Restricted investments – endowment fund	<u>5,000</u>
Total Assets	<u>\$ 112,510</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Bank overdraft	\$ 3,570
Accounts payable	220
Payroll taxes payable	2,955
Sales tax payable	145
Line of credit	22,879
Current portion of long-term debt	3,631
Total Current Liabilities	<u>33,400</u>
Long-Term Liabilities:	
Notes payable	26,577
Less: Current portion of long-term debt	(3,631)
Total Long-Term Liabilities	<u>22,946</u>
Total Liabilities	<u>56,346</u>
Net Assets:	
Unrestricted	24,508
Temporarily restricted	26,656
Permanently restricted	5,000
Total Net Assets	<u>56,164</u>
Total Liabilities and Net Assets	<u>\$ 112,510</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Contributions - governmental	\$ 49,845	\$ 25,601	\$ -	\$ 75,446
Contributions - public	13,434	-	-	13,434
Total Contributions	<u>63,279</u>	<u>25,601</u>	<u>-</u>	<u>88,880</u>
Special events:				
Annual Gala revenue	10,708	-	-	10,708
Less: Costs of direct benefits	(4,078)	-	-	(4,078)
Total Special events	<u>6,630</u>	<u>-</u>	<u>-</u>	<u>6,630</u>
Program income:				
Art gallery commissions	18,852	-	-	18,852
Tuition	3,098	-	-	3,098
Summer camp	4,760	-	-	4,760
Ticket sales	2,787	-	-	2,787
Memberships	5,771	-	-	5,771
Arts in Education	6,665	-	-	6,665
PA Wilds Artisan Trail	11,334	1,055	-	12,389
Taste of the Wilds	375	-	-	375
Other events	860	-	-	860
Photocopies	404	-	-	404
Total Program income	<u>54,906</u>	<u>1,055</u>	<u>-</u>	<u>55,961</u>
Interest and investment return	1,337	-	-	1,337
Net assets released from restrictions	<u>25,601</u>	<u>(25,601)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>151,753</u>	<u>1,055</u>	<u>-</u>	<u>152,808</u>
Expenses:				
Program services	113,074	-	-	113,074
Management and general	20,063	-	-	20,063
Fundraising	12,677	-	-	12,677
Total Expenses	<u>145,814</u>	<u>-</u>	<u>-</u>	<u>145,814</u>
Change in Net Assets	5,939	1,055	-	6,994
Net Assets - Beginning of Year	<u>18,569</u>	<u>25,601</u>	<u>5,000</u>	<u>49,170</u>
Net Assets - End of Year	<u>\$ 24,508</u>	<u>\$ 26,656</u>	<u>\$ 5,000</u>	<u>\$ 56,164</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, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Compensation	\$ 31,518	\$ 11,054	\$ 8,107	\$ 50,679
Payroll taxes	3,304	1,159	850	5,313
Professional services	-	1,400	-	1,400
Advertising	783	-	-	783
Telephone	851	213	188	1,252
Postage and shipping	863	-	427	1,290
Photocopier rental	2,659	665	586	3,910
Printing	113	-	227	340
Internet and website	1,024	-	-	1,024
Occupancy	3,820	955	843	5,618
Travel and conferences	1,406	-	548	1,954
Interest expense	-	2,370	-	2,370
Depreciation	1,052	478	382	1,912
Insurance	2,353	588	519	3,460
Supplies	1,389	693	-	2,082
Dues	-	488	-	488
Program production	46,212	-	-	46,212
Artist commissions	14,865	-	-	14,865
Credit card and bank fees	777	-	-	777
Miscellaneous	85	-	-	85
	<u>85</u>	<u>-</u>	<u>-</u>	<u>85</u>
Total Expenses	<u>\$ 113,074</u>	<u>\$ 20,063</u>	<u>\$ 12,677</u>	<u>\$ 145,814</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, 2014

Cash Flows from Operating Activities:	
Change in net assets	\$ 6,994
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,912
Unrealized and realized gains on investments	(1,181)
(Increase) Decrease in:	
Bank certificate of deposit	(3)
Accounts receivable	(6,704)
Increase (Decrease) in:	
Accounts payable	(6,866)
Payroll taxes payable	617
Sales tax payable	38
Net Cash Used by Operating Activities	<u>(5,193)</u>
Cash Flows from Investing Activities:	
Increase in investments and net purchases and sale proceeds	<u>(124)</u>
Net Cash Used by Investing Activities	<u>(124)</u>
Cash Flows from Financing Activities:	
Bank overdraft	3,570
Principal payments on long-term debt	(3,652)
Advances from line of credit	13,000
Principal payments on line of credit	<u>(9,954)</u>
Net Cash Used by Financing Activities	<u>2,964</u>
Net Decrease in Cash	(2,353)
Cash - Beginning of Year	<u>3,570</u>
Cash - End of Year	<u><u>\$ 1,217</u></u>
Supplemental Cash Flows Disclosure:	
Cash paid during the year for interest	<u><u>\$ 2,370</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, 2014

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, 2014.

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.

Accounts Receivable and Bad Debts

The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for losses is required. If amounts become uncollectible, they will be charged to operations when that determination is made. At August 31, 2014 there were no direct bad debts charged to operations.

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2014 depreciation expense was \$1,912.

Concentration of Revenue

Contributions from the Pennsylvania Partners in the Arts represent approximately 37% of the Organization's total revenue for the year ended August 31, 2014.

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. The Organization's income tax returns for the current and two preceding years are subject to examination by the Internal Revenue Service. There are currently no pending income tax examinations by taxing authorities.

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

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, 2014, the Organization had no uninsured cash deposits.

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. The current policy is to not distribute any amounts from the endowment account. Composition and changes in endowment net assets for the year ended August 31, 2014 were as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 3,649	\$ 5,000	\$ 8,649
Investment income	195	–	195
Net appreciation of investments	1,181	–	1,181
Investment fees	<u>(71)</u>	<u>–</u>	<u>(71)</u>
Balance, end of year	<u>\$ 4,954</u>	<u>\$ 5,000</u>	<u>\$ 9,954</u>

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, 2014:

Interest and dividend income	\$ 227
Net realized and unrealized gains	1,181
Investment fees	<u>(71)</u>
Total investment return	<u>\$ 1,337</u>

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of donor-restricted amounts for either a specific purpose or for use in a certain time period. At August 31, 2014, temporarily restricted net assets consisted of funds from the following sources:

Pennsylvania Partners in the Arts	\$ 25,601
PA Wilds Artisan Trail	<u>1,055</u>
	<u>\$ 26,656</u>

These funds are restricted for use in the fiscal year ended August 31, 2015.

NOTE 6 – LEASES

In a previous year, the Organization signed an operating lease for the rental of a photocopier. Rental expense related to this lease for the year ended August 31, 2014 was \$2,925. The minimum future lease payments are as follows:

<u>Year Ending</u> <u>August 31,</u>	
2015	\$ 2,925
2016	2,925
2017	<u>975</u>
	<u>\$ 6,825</u>

NOTE 7 – DEBT

Short-Term Debt

The Organization has a revolving line of credit with a local bank, terms of which include an interest rate of 5.00% and a maximum amount of \$23,000, with advances of the line of credit being payable on demand. The outstanding balance at August 31, 2014 was \$22,879.

ELK COUNTY COUNCIL ON THE ARTS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

NOTE 7 – DEBT (Continued)

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</u> <u>August 31,</u>	
2015	\$ 3,631
2016	3,769
2017	3,962
2018	4,165
2019	4,378
2020 - 2021	<u>6,672</u>
	<u>\$ 26,577</u>

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events were evaluated through July 9, 2015, which is the date the financial statements were available to be issued.