

Independent Accountant's Review Report
And Financial Statements

Elk County Council on the Arts
Ridgway, Pennsylvania

Year Ended August 31, 2016

Elk County Council on the Arts

Financial Statements

Year Ended August 31, 2016

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Independent Accountant's Review Report

To the Board of Directors
Elk County Council on the Arts

Report on the Financial Statements

I have reviewed the accompanying statement of financial position of the Elk County Council on the Arts (a nonprofit organization) as of August 31, 2016, and the related statements of activities, functional expenses and cash flows for the 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 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, I do not express such an opinion.

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.

Reviewer's Responsibility

My responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Reviewer's Responsibility

Based on my review, I am 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.

Padraic McGrath CPA LLC
Ridgway, Elk County, Pennsylvania
April 24, 2017

Elk County Council on the Arts

Statement of Financial Position

August 31, 2016

Assets

Current assets:

| | |
|------------------------------|---------------|
| Cash and cash equivalents | \$ 77,839 |
| Accounts receivable | 108 |
| Investments - endowment fund | <u>4,210</u> |
| Total current assets | <u>82,157</u> |

Property and equipment:

| | |
|---------------------------|---------------|
| Land | 3,409 |
| Building and improvements | 76,489 |
| Furniture and equipment | <u>15,681</u> |
| | <u>95,579</u> |

Less Accumulated depreciation (30,380)

Total Property and equipment 65,199

Other asset

Restricted investments- endowment fund 5,000

Total assets \$ 152,356

Liabilities and Net Assets

Current liabilities:

| | |
|-----------------------------------|------------|
| Current portion of long-term debt | \$ 3,942 |
| Accounts payable | 2,493 |
| Payroll and sales taxes payable | 364 |
| Deferred revenue | 52,809 |
| Line of Credit | <u>769</u> |

Total Current liabilities 60,377

Noncurrent liability:

Long-term debt, net of current portion 14,813

Total liabilities 75,190

Net Assets

Unrestricted 72,166

Temporarily Restricted -

Permanently Restricted 5,000

Total Net Assets 77,166

Total Liabilities and Net Assets \$ 152,356

See accompanying notes and Independent Accountant's Review Report.

Elk County Council on the Arts

Statement of Activities

For the Year Ended August 31, 2016

| | Temporarily Permanently | | | Total |
|---------------------------------------|-------------------------|-----------------|--------------|----------------|
| | Unrestricted | Restricted | Restricted | |
| Support and Revenue: | | | | |
| Contributions -governmental | \$ 102,501 | \$ - | \$ - | \$ 102,501 |
| Contributions- public | 6,206 | - | - | 6,206 |
| Total Contributions | 108,707 | - | - | 108,707 |
| Special events: | | | | |
| Fundraising revenue | 13,269 | - | - | 13,269 |
| Less: Cost of direct benefits | (4,000) | - | - | (4,000) |
| Total Special events | 9,269 | - | - | 9,269 |
| Program income: | | | | |
| Art gallery commissions | 21,534 | - | - | 21,534 |
| Tuitions and summer camp | 4,958 | - | - | 4,958 |
| Memberships | 6,384 | - | - | 6,384 |
| PA Wilds Artisan Trail | 24,115 | - | - | 24,115 |
| Ticket Sales | 16,480 | - | - | 16,480 |
| Other income | 168 | - | - | 168 |
| Total Program income | 73,639 | - | - | 73,639 |
| Interest and investment return | (978) | - | - | (978) |
| Net assets released from restrictions | 32,259 | (32,259) | - | - |
| Total Support and Revenue | 222,896 | (32,259) | - | 190,637 |
| Expenses: | | | | |
| Program Services | 159,792 | | | 159,792 |
| Management and general | 14,647 | | | 14,647 |
| Fundraising | 6,594 | | | 6,594 |
| Total Expenses | 181,033 | - | - | 181,033 |
| Change in Net Assets | 41,863 | (32,259) | - | 9,604 |
| Net Assets - Beginning of year | 30,303 | 32,259 | 5,000 | 67,562 |
| Net Assets - End of year | 72,166 | - | 5,000 | 77,166 |

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, 2016

| | Program Services | Management and General | Fundraising | Total |
|-------------------------|---------------------|---------------------------|-----------------|-------------------|
| Expenses: | | | | |
| Compensation | \$ 29,263 | \$ 3,547 | \$ 2,660 | \$ 35,470 |
| Payroll taxes | 12,982 | 1,574 | 1,180 | 15,736 |
| Professional services | - | 3,978 | - | 3,978 |
| Advertising | 1,679 | 203 | 153 | 2,035 |
| Contracted services | 8,158 | 989 | 742 | 9,889 |
| Administrative expenses | 4,566 | 553 | 415 | 5,534 |
| Office equipment | 2,856 | 346 | 260 | 3,462 |
| Internet and website | 517 | 63 | 47 | 627 |
| Occupancy | 4,216 | 511 | 383 | 5,110 |
| Interest expense | - | 1,237 | - | 1,237 |
| Depreciation | 1,576 | 191 | 143 | 1,910 |
| Insurance | 3,555 | 431 | 323 | 4,309 |
| Supplies | 2,027 | 246 | 184 | 2,457 |
| Dues | - | 640 | - | 640 |
| Program production | 69,943 | - | - | 69,943 |
| Artist commissions | 17,313 | - | - | 17,313 |
| Bank charges | 1,141 | 138 | 104 | 1,383 |
| Total Expenses | \$ 159,792 | \$ 14,647 | \$ 6,594 | \$ 181,033 |

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, 2016

| | |
|--|------------------|
| Cash Flows from Operating Activities | |
| Change in net assets | \$ 9,604 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation | 1,912 |
| Unrealized and realized loss on investments | (1,417) |
| Decrease in Accounts receivable | 447 |
| Increase in Accounts payable | 1,793 |
| Increase in Deferred revenue | 52,809 |
| Decrease in Payroll and sales tax payable | 548 |
| Net Cash provided by operating activities | <u>65,696</u> |
| Cash Flows from Financing Activities | |
| Principal payment on long term debt | (4,216) |
| Payments on line of credit | (8,864) |
| Net Cash used by financing activities | <u>(13,080)</u> |
| Increase in cash | 52,616 |
| Cash and cash equivalents, beginning of year | <u>25,223</u> |
| Cash and cash equivalents, end of year | <u>\$ 77,839</u> |
| Supplemental disclosures of cash flow information | |
| Interest paid | <u>\$ 1,237</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, 2016

1. Organization and Nature of Business

The Elk County Council on the Arts (Organization) is a non-profit corporation incorporated in the Commonwealth of Pennsylvania. The Organization is dedicated to 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.

2. Significant Accounting Policies

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 (GAAP) 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 has no cash equivalents at August 31, 2016.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at fair value in 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, 2016 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, 2016

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, 2016, depreciation expense was \$1,912.

Concentration of Revenue

Contributions from the Pennsylvania partners in the Arts represents approximately 44% of the Organization's total Revenue for the year ended August 31, 2016.

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 reports in the Statement of Activities as net assets released for 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 preceding two 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, 2016

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 Corporations, which fully insures all noninterest bearing accounts and up to \$250,000 of interest bearing accounts per institution. At August 31, 2016, the Organization had no uninsured cash deposits.

Note 3. Endowment Funds

In prior years, 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 end August 31, 2016 were as follows:

| | Unrestricted | Permanently Restricted | Total |
|---------------------------------|----------------|---------------------------|-----------------|
| Balance beginning of year | \$5,188 | \$5,000 | \$10,188 |
| Investment income | 439 | - | 439 |
| Net depreciation on investments | <u>(1,417)</u> | <u>-</u> | <u>(1,417)</u> |
| Balance end of year | <u>\$4,210</u> | <u>\$5,000</u> | <u>\$ 9,210</u> |

Note 4. Investment Returns

Investment returns consist 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, 2016:

| | |
|-----------------------------------|-----------------|
| Interest and dividend income | \$ 439 |
| Net realized and unrealized gains | <u>(1,417)</u> |
| Total investment return | <u>\$ (978)</u> |

Note 5. 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, 2016 was \$2,865. The remaining lease payments due will be made in the 2017 fiscal year. The total of the remaining payments due is \$975.

Elk County Council on the Arts

Notes to Financial Statements

For the Year Ended August 31, 2016

Note 6. Debt

Short-Term Debt

The Organization has a \$10,000 revolving line of credit with a local bank. The interest rate is 5.25%. The outstanding balance at August 31, 2016 was \$769. The revolving line of credit renews annually. Subsequent to year end, the entire balance on the revolving line of credit was paid in full. There are no assets held as collateral for the revolving line of credit.

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 in March, 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 \$406 through the maturity date of March 5, 2021.

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

| <u>Year Ending</u> <u>August 31</u> | |
|--|-----------------|
| 2017 | \$ 3,942 |
| 2018 | 4,227 |
| 2019 | 4,444 |
| 2020 | 4,671 |
| 2021 | <u>1,471</u> |
| | <u>\$18,775</u> |

Note 7. Subsequent Events

Subsequent events were evaluated through April 24, 2017 which is the date the financial statements were available to be issued.