

Independent Accountant's Review Report
And Financial Statements

Elk County Council on the Arts
Ridgway, Pennsylvania

Year Ended August 31, 2017

Elk County Council on the Arts

Financial Statements

Year Ended August 31, 2017

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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, 2017, 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
September 29, 2017

Elk County Council on the Arts

Statement of Financial Position

August 31, 2017

Assets	
Current assets:	
Cash and cash equivalents	\$ 89,077
Investments - endowment fund	<u>7,479</u>
Total current assets	96,556
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	<u>(32,301)</u>
Total Property and equipment	63,278
Other asset	
Restricted investments- endowment fund	<u>5,000</u>
Total assets	<u>\$ 164,834</u>
Liabilities and Net Assets	
Current liabilities:	
Accounts payable	\$ 443
Other current liabilities	1,341
Current portion of long-term debt	4,050
Deferred program revenue	67,428
Line of Credit	<u>-</u>
Total Current liabilities	73,262
Noncurrent liability:	
Long-term debt, net of current portion	<u>9,927</u>
Total liabilities	83,189
Net Assets	
Unrestricted	76,645
Temporarily Restricted	-
Permanently Restricted	<u>5,000</u>
Total Net Assets	<u>81,645</u>
Total Liabilities and Net Assets	<u>\$ 164,834</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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions -governmental	\$ 11,530	\$ -	\$ -	\$ 11,530
Contributions- public	10,718	-	-	10,718
Total Contributions	<u>22,248</u>	-	-	<u>22,248</u>
Special events:				
Fundraising revenue	11,020	-	-	11,020
Less: Cost of direct benefits	(4,573)	-	-	(4,573)
Total Special events	<u>6,447</u>	-	-	<u>6,447</u>
Program income:				
Pennsylvania Council on the Arts	133,527	-	-	133,527
Art gallery commissions	18,378	-	-	18,378
Tuitions and summer camp	5,052	-	-	5,052
Memberships	10,832	-	-	10,832
PA Wilds Center for Entrepreneurship	8,996	-	-	8,996
Other income	457	-	-	457
Total Program income	<u>177,242</u>	-	-	<u>177,242</u>
Interest and investment return	1,246	-	-	1,246
Net assets released from restrictions	-	-	-	-
Total Support and Revenue	<u>207,183</u>	-	-	<u>207,183</u>
Expenses:				
Program Services	181,727			181,727
Management and general	15,965			15,965
Fundraising	5,012			5,012
Total Expenses	<u>202,704</u>	-	-	<u>202,704</u>
Change in Net Assets	4,479	-	-	4,479
Net Assets - Beginning of year	72,166	-	5,000	77,166
Net Assets - End of year	<u>\$ 76,645</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 81,645</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, 2017

	Program Services	Management and General	Fundraising	Total
Expenses:				
Compensation	\$ 41,731	\$ 7,303	\$ 3,130	\$ 52,164
Payroll taxes	908	159	68	1,135
Professional services	-	3,182	-	3,182
Advertising	1,586	278	119	1,983
Contracted services	4,098	717	307	5,122
Administrative expenses	1,468	257	110	1,835
Office equipment	2,929	512	220	3,661
Internet and website	617	108	46	771
Occupancy	4,434	776	334	5,544
Interest expense	-	1,085	-	1,085
Depreciation	1,530	268	114	1,912
Insurance	4,205	736	315	5,256
Supplies	2,231	390	167	2,788
Dues	422	74	31	527
Program production	99,826	-	-	99,826
Artist commissions	15,057	-	-	15,057
Bank charges	685	120	51	856
Total Expenses	\$ 181,727	\$ 15,965	\$ 5,012	\$ 202,704

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, 2017

Cash Flows from Operating Activities	
Change in net assets	\$ 4,479
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	1,912
Unrealized and realized gain on investments	(907)
Decrease in Accounts receivable	108
Increase in Accounts payable	(2,050)
Increase in Deferred program revenue	14,619
Decrease in Other current liabilities	977
Net Cash provided by operating activities	<u>19,138</u>
Cash Flows from Financing Activities	
Additions to Investments- endowment	(2,362)
Principal payment on long term debt	(4,769)
Payments on line of credit	(769)
Net Cash used by financing activities	<u>(7,900)</u>
Increase in cash	11,238
Cash and cash equivalents, beginning of year	77,839
Cash and cash equivalents, end of year	<u>\$ 89,077</u>
Supplemental disclosures of cash flow information	
Interest paid	<u>\$ 1,085</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, 2017

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 and the surrounding area by expanding the opportunity for public participation in the arts. The Organization's goal is to enhance the lives of those residents and the various local artists 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, 2017.

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, 2017 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, 2017

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, 2017, depreciation expense was \$1,912.

Concentration of Revenue

Program Revenue from the Commonwealth of Pennsylvania's Pennsylvania Partners in the Arts programs represent approximately 64% of the Organization's total Revenue for the year ended August 31, 2017. If this funding was discontinued or delayed, this could affect the cash flow and operations of the Organization adversely.

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 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, 2017

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, 2017, 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, 2017 were as follows:

	Unrestricted	Permanently Restricted	Total
Balance beginning of year	\$4,210	\$5,000	\$ 9,210
Investment income	907	-	907
Additions to Funds	<u>2,362</u>	<u>-</u>	<u>2,362</u>
Balance end of year	<u>\$7,479</u>	<u>\$5,000</u>	<u>\$ 12,479</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, 2017:

Interest and dividend income	\$ 246
Net realized and unrealized gains	<u>661</u>
Total investment return	<u>\$ 907</u>

Note 5. Deferred Program Revenue

The Organization was awarded two grants from the Pennsylvania Council on the Arts. The grants fund local and community arts activities, artist residency programs and program administration costs. At times, The grants are funded in advance by the Commonwealth of Pennsylvania. When the grant funds are received, the Organization records the received amount as Deferred Program Revenue until revenue is able to be recognized. Revenue related to the arts activities and the residency programs is earned when an activity or program occurs. Revenue related to the administration is earned on a monthly basis. As of August 31, 2017, the total Deferred Program Revenue value was \$67,428. If the Organization is not able to complete all of the artist residency programs, the unearned portion of the grant will have to be returned to the Commonwealth of Pennsylvania. That amount is approximately \$45,000 as of August 31, 2017.

Elk County Council on the Arts

Notes to Financial Statements

For the Year Ended August 31, 2017

Note 6. Debt

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:

Year Ending <u>August 31</u>	
2018	\$ 4,050
2019	4,278
2020	4,873
2021	<u>777</u>
	<u>\$13,977</u>

Line of Credit

In July 2016, the Organization increased its line of credit with a local bank from \$10,000 to \$30,000. The interest rate is 5.5%. The line of credit is secured by the building at 237 Main Street in Ridgway, PA. As of August 31, 2017 the line of credit was unutilized and the full amount was available to be drawn upon. The revolving line of credit renews bi-annually.

Note 7. Subsequent Events

Subsequent events were evaluated through September 29, 2017 which is the date the financial statements were available to be issued.