

**ARTS & HUMANITIES COUNCIL OF  
TULSA, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

**JUNE 30, 2013**

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**

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## INDEPENDENT AUDITORS' REPORT

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The Board of Directors  
Arts & Humanities Council of Tulsa, Inc.  
Tulsa, Oklahoma

We have audited the accompanying consolidated financial statements of Arts & Humanities Council of Tulsa, Inc. (a nonprofit organization) and affiliates, which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arts & Humanities Council of Tulsa, Inc. and affiliates as of June 30, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Curzon, Cumbeys & Kunhel, PLLC*

Tulsa, Oklahoma  
October 30, 2013

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**

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**ASSETS**

**CURRENT ASSETS**

Cash	\$ 257,252
Restricted cash	1,385,440
Contributions receivable, current portion	<u>1,391,168</u>
Total current assets	<u>3,033,860</u>

**NON-CURRENT ASSETS**

Long-term portion of contributions receivable	1,345,000
Investments	567,770
Beneficial interest in assets held by community foundation	59,787
Property and equipment, net	<u>17,201,957</u>
Total non-current assets	<u>19,174,514</u>

Total assets	<u><u>\$ 22,208,374</u></u>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 150,344
Line of credit	325,000
Current maturities of long-term debt	955,000
Current maturities of long-term deferred transaction costs	114,455
Contributions held on behalf of others	<u>34,650</u>
Total current liabilities	<u>1,579,449</u>

**NON-CURRENT LIABILITIES**

Long-term deferred transaction costs, less current maturities	227,316
Long-term debt, less current maturities	<u>2,081,307</u>
Total non-current liabilities	<u>2,308,623</u>

Total liabilities	<u>3,888,072</u>
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**NET ASSETS**

Unrestricted	13,429,758
Temporarily restricted	<u>4,890,544</u>
Total net assets	<u>18,320,302</u>

Total liabilities and net assets	<u><u>\$ 22,208,374</u></u>
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**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**CHANGES IN UNRESTRICTED NET ASSETS**

**OPERATING REVENUES AND OTHER SUPPORT**

Contributions	\$ 282,907
Program revenue	21,587
Fundraising and special events	114,307
Rental income	174,403
Interest income	580
Net assets released from restriction	<u>14,637,971</u>

Total operating revenues and other support	<u>15,231,755</u>
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**OPERATING EXPENSES**

Program services	1,312,336
General and administrative	220,918
Fundraising and special events	<u>217,237</u>

Total operating expenses	<u>1,750,491</u>
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<b>INTEREST EXPENSE</b>	<u>197,290</u>
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Increase in unrestricted net assets	<u>13,283,974</u>
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**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	1,612,689
Income earned on restricted investments	132,636
Net realized and unrealized gains on investments	62,954
Net assets released from restriction	<u>(14,637,971)</u>

Decrease in temporarily restricted net assets	<u>(12,829,692)</u>
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Increase in total net assets	454,282
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NET ASSETS, beginning of year	<u>17,866,020</u>
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NET ASSETS, end of year	<u><u>\$ 18,320,302</u></u>
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**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in net assets	\$ 454,282
Adjustments to reconcile increase in net assets to net cash used in operating activities	
Depreciation	259,412
Net realized and unrealized gains on investments	(62,954)
Changes in assets and liabilities	
Restricted cash	8,493,561
Contributions receivable	1,394,209
Accounts payable	(932,226)
Contributions held on behalf of others	10,646

Net provided by operating activities 9,616,930

**CASH FLOWS FROM INVESTING ACTIVITIES**

Payments for the purchase of property and equipment	(8,323,514)
Proceeds from the sale of investments	68,293
Payments for the purchase of investments	<u>(78,261)</u>

Net cash used in investing activities (8,333,482)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Borrowings on long-term debt	3,036,307
Payments on long-term debt	(4,129,000)
Payments on lines of credit	<u>(5,000)</u>

Net cash used in financing activities (1,097,693)

Net increase in cash 185,755

Cash, beginning of year 71,497

Cash, end of year \$ 257,252

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid for interest, net of interest capitalized	<u><u>\$ 16,732</u></u>
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**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

The Arts and Humanities Council of Tulsa, Inc. (Council) is an Oklahoma nonprofit organization whose mission is to cultivate and promote an awareness and understanding of the arts and humanities in the Tulsa metropolitan area.

Visual Arts Center, LLC (VACLLC) is an Oklahoma limited liability company, of which the Council owns 99%. The sole purpose of VACLLC is to receive funding through the new markets tax credit transaction.

*Basis of accounting*

The consolidated financial statements of the Council have been prepared on the accrual basis of accounting.

*Consolidation*

The consolidated financial statements include the accounts of the Council and VACLLC. The VACLLC had no operating activity except for the debt and equity transaction as described in Note F. All significant intercompany accounts and transactions have been eliminated in consolidation. Outside ownership interests are accounted for as non-controlling interests. The non-controlling interest did not make a capital contribution to VACLLC, and the VACLLC had no operations in the current year. Therefore, no non-controlling interest is included on these financial statements.

*Cash and cash equivalents*

For the purpose of the statement of cash flows, the Council considers all investment instruments purchased with maturities of three months or less to be cash equivalents.

*Restricted cash*

Cash with donor imposed restrictions are separately identified in the statement of financial position as temporarily restricted net assets. Temporarily restricted cash equals advances and deferred revenues of restricted programs.

*Contributions receivable*

Contributions receivable consist of unconditional promises to give from various companies, individuals and private foundations. Unconditional promises to give are carried at their estimated realizable amount. The Council has not experienced any significant uncollectible accounts and, therefore, has provided no allowance for uncollectible accounts.



**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
*(continued)*

*Contributed goods, services, and use of facilities*

The Council recognizes contribution revenue and an expense for certain goods and services received at the fair value of those goods and services. The Council recorded approximately \$20,000 in contributed goods and services revenue and expense during the year ended June 30, 2013.

*Contributions held on behalf of others*

The Council acts as a pass-through recipient for contributions to various other area organizations. The cash is released by the Council to, or on behalf of, the beneficiaries only with the permission of the donor.

*Net assets*

Net assets are classified in the accompanying financial statements based on the existence or absence of donor imposed restrictions as follows:

- Unrestricted - Net assets free of donor imposed restrictions. All unrestricted revenue and support, gains and losses, and expenses are included as changes in unrestricted net assets in the statement of activities and changes in net assets.
- Temporarily restricted - Net assets for which use by the Council is limited by donor imposed stipulations that either (1) expire by the passage of time, or (2) can be fulfilled or removed by actions of the Council pursuant to those stipulations. Temporarily restricted revenue and support received with donor-imposed restrictions that are met in the same year as the amounts are received are recognized as unrestricted support and revenue. Other temporarily restricted net assets are reclassified to unrestricted net assets and reported as balances released from restrictions when donor imposed restrictions are satisfied.
- Permanently restricted - Net assets for which the donor has imposed permanent restrictions. Permanently restricted net assets can be reclassified to unrestricted net assets and reported as balances released from restrictions when donor permission is obtained. The Council did not have any permanently restricted net assets as of June 30, 2013.

The Council has adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topic 958-605-25, *Contributions*, formerly SFAS 116, which prescribe a comprehensive model for how an organization should record contributions in the financial statements.

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**  
*(continued)*

*Investments*

The Council reports all investments for which a quoted market price is available at fair value based upon information obtained from published sources.

*Property and equipment*

Depreciation of building and equipment is provided on a straight-line basis over the estimated useful lives of the assets. Property and equipment are recorded at cost when purchased, or at estimated fair value at date of donation. The Council had depreciation expense of approximately \$260,000 for the year ended June 30, 2013.

*Construction in progress*

Costs that clearly relate to construction in progress are capitalized, including related interest costs.

*Deferred transaction costs*

In connection with the new markets tax credit transaction, the Council is responsible for certain deferred transaction costs that are due by December 31, 2015. Payments are due annually in the amount of approximately \$114,500 to maturity.

*Management estimates*

The preparation of the Council's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

*Income taxes*

The Council is exempt from tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is included in the financial statements. The Council is required to file annual information tax returns. The Council evaluates its uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings and discussion with outside experts. Management believes all tax positions taken or expected to be taken would more likely than not be sustained upon examination.

The Council's federal exempt organization tax returns for 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they are filed.

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE B - INVESTMENTS**

Investments are subject to the Council's investment policy, which documents investment guidelines providing for investments in equity securities of up to 65% of the funds, with the balance invested in fixed income securities or cash reserves.

Investments consist of the following at June 30, 2013:

Equity funds	\$ 362,694
Mortgage backed funds	197,041
Money market funds	<u>8,035</u>
	<u>\$ 567,770</u>

*Beneficial interest in assets held by Community Foundation*

The Council has investments in the Tulsa Community Foundation (the TCF Fund), an Oklahoma not-for-profit corporation and community foundation. The mutual intent of the Council and the TCF Fund is to create a permanent endowment for the benefit of the Council. The objective of the investment management and distribution policies is to provide for sufficient fund growth after distribution and investment expenses in order to preserve the inflation-adjusted value of the investment portfolio. Investment management policies are directed by the TCF Fund. The fair value of the Council's contributions to the TCF Fund was approximately \$60,000 at June 30, 2013, and is included in beneficial interest in assets held by community foundation in the accompanying statement of financial position in accordance with FASB ASC 740-10.

The TCF Fund has also received contributions for the Council which are not included on the Council's financial statements due to the council granting variance power to the TCF Fund. The fair value of funds held by the TCF Fund for the benefit of the Council, but not reported as an asset in accordance with FASB ASC 958-605-05, was approximately \$42,000 at June 30, 2013.

*Fair value measurements*

The Council implemented FASB ASC 820-10-50-2, *Fair Value Measurements*. FASB ASC 820-10-50-2 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10-50-2 are described below:

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE B - INVESTMENTS (continued)**

*Basis of fair value measurements*

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. The council did not have any investments that were classified as a level 3 investment at year end.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a summary of the inputs used as of June 30, 2013, in valuing the Council's securities carried at fair value:

	Level 1	Level 2	Level 3	Total
Cash and mutual funds	\$ 370,729	\$ -	\$ -	\$ 370,729
Non-traded fixed-income securities and other pooled investment funds	-	197,041	-	197,041
Beneficial interest in assets held by community foundation	2,283	57,504	-	59,787
Total assets at fair value	<u>\$ 373,012</u>	<u>\$ 254,545</u>	<u>\$ -</u>	<u>\$ 627,557</u>

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE C - PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30, 2013:

Building and improvements	\$ 16,754,911
Construction in progress	14,969
Equipment	724,714
Land	53,679
Furniture and fixtures	<u>804,677</u>
 Total cost	 18,352,950
 Accumulated depreciation	 <u>(1,150,993)</u>
 Net property and equipment	 <u><u>\$ 17,201,957</u></u>

Interest expense capitalized was approximately \$333,000 for the year ended June 30, 2013.

The Council provides for depreciation on the straight-line method using the following useful lives:

Buildings and improvements	30-40 years
Equipment, furniture and fixtures, and other	3-10 years

**NOTE D - DEBT OBLIGATIONS**

Long-term debt consists of a note payable to a bank in yearly installments as scheduled below, plus interest at Prime plus 0.75% (4.75% at June 30, 2013). The note has a final balloon payment of any unpaid balance due August 24, 2016, and is collateralized by a building.

The future maturities of long-term debt are as follows:

2014	\$ 955,000
2015	880,000
2016	329,000
2017	<u>872,307</u>
 Total debt	 <u><u>\$ 3,036,307</u></u>

**ARTS & HUMANITIES COUNCIL OF TULSA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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**NOTE D - DEBT OBLIGATIONS** *(continued)*

*Revolving line of credit*

The Council has a line of credit for up to \$350,000 with an interest rate of 5% at June 30, 2013. This line is secured by certain investments and expires October 1, 2013. The balance outstanding at June 30, 2013 was \$325,000.

**NOTE E - NET ASSETS**

Temporarily restricted net assets restricted for specific purposes or uses are as follows as of June 30, 2013:

Visual Arts Center	\$ 4,034,041
Westby	567,770
Other temporarily restricted assets	<u>288,733</u>
Total	<u>\$ 4,890,544</u>

**NOTE F - TAX CREDIT CONTRIBUTION**

The Council entered into a New Markets Tax Credit transaction involving Cherokee Nation Sub-CDE LLC, BOKFCDC Fund I LLC, and Visual Arts Center LLC, an entity in which the Council holds a 99% ownership interest. The Transaction employs debt and equity financing, as well as federally-issued tax credits available for development in certain economic zones. The Council has recorded the resulting net tax credits equity as a contribution directly to temporarily restricted net assets.

**NOTE G - SUBSEQUENT EVENTS**

The Council has evaluated subsequent events and their related disclosures through the audit report date which coincides with the financial statement issuance date and identified no such events.