Arts & Humanities Council of Tulsa, Inc.

Consolidated Financial Statements

June 30, 2014

Preston Smith PLLC
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Arts & Humanities Council of Tulsa, Inc.

We have audited the accompanying financial statements of Arts & Humanities Council of Tulsa, Inc. and affiliate (the Council), which comprise the consolidated statement of financial position as of June 30, 2014 , and the related consolidated statement of activities 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arts & Humanities Council of Tulsa, Inc. and affiliate as of June 30, 2014, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Preston Smith Pllc

Tulsa, Oklahoma
March 19, 2015

Consolidated Statement of Financial Position

June 30, 2014

Assets	
Cash and cash equivalents	$ 856,420
Accounts receivable	63,474
Restricted cash	689,378
Pledges receivable	1,821,505
Beneficial interest in assets held by others	670,633
Property and equipment, net	16,883,924
Total assets	$ 20,985,334
Liabilities and Net Assets	
Accounts payable	39,093
Contributions held on behalf of others	111,153
Deferred revenue	54,750
Line of credit	350,000
Deferred transaction costs	292,271
Long-term debt	2,467,676
Total liabilities	3,314,943
Net Assets	
Unrestricted	14,430,474
Temporarily restricted	3,239,917
Total net assets	17,670,391
Total liabilities and net assets	$ 20,985,334

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statement of Activities
June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Contributions and grants	$ 474,902	$ 1,211,596	$ 1,686,498
Program revenue	44,943	-	44,943
Fundraising and special events	232,191	-	232,191
Rental income	160,214	-	160,214
Interest income	452	131,698	132,150
Change in beneficial interest in assets held by others	6,825	89,592	96,417
Net assets released from restrictions	3,061,977	(3,061,977)	-
Total revenue and support	3,981,504	(1,629,091)	2,352,413
Expenses			
Program services	2,220,432	-	2,220,432
Management and general	271,914	-	271,914
Fundraising	136,056	-	136,056
Total operating expenses	2,628,402	-	2,628,402
Interest expense	259,657	-	259,657
Change in net assets	1,093,445	(1,629,091)	(535,646)
Net Assets, Beginning of Year, restated	13,337,029	4,869,008	18,206,037
Net Assets, End of Year	$ 14,430,474	$ 3,239,917	$ 17,670,391

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statement of Cash Flows
June 30, 2014

Operating activities	
Change in Net Assets	$ (535,646)
Adjustment to reconcile net income to net cash from operating activities	
Depreciation	566,661
Change in discount on pledges receivable	(62,120)
Changes in operating assets and liabilities	
Restricted cash	696,062
Accounts receivable	(29,480)
Pledges receivable	841,984
Accounts payable	(111,287)
Deferred revenue	54,750
Contributions held on behalf of others	63,079
Net cash from operating activities	1,484,003
Investing activities	
Purchase of property and equipment	(248,628)
Change in beneficial interest in assets held by others	(43,076)
Net cash used in investing activities	(291,704)
Financing activities	
Borrowings on long-term debt	2,572,676
Payments on long-term debt	(3,141,307)
Net change in balance on line of credit	25,000
Reduction of deferred costs	(49,500)
Net cash used in financing activities	(593,131)
Net change in cash and cash equivalents	599,168
Cash and cash equivalents, beginning of year	257,252
Cash and cash equivalents, end of year	$ 856,420
Supplemental disclosures:	
Cash paid for interest	$ 259,657

Note 1 – Organization and Nature of Operations

Organization and Nature of Operations

The Arts & Humanities Council of Tulsa, Inc. (Council) is a private nonprofit organization incorporated under the laws of the state of Oklahoma whose mission is to cultivate and promote an awareness and understanding of the arts and humanities in the Tulsa metropolitan area. This mission is accomplished through a variety of activities including visual artists and humanities programs, education and enrichment programs, and community arts partnerships.
The Council also provides two facilities available for short-term rental of office space and events.

Principles of Consolidation

The accompanying consolidated financial statements as of June 30, 2014, include the financial statements of the Council and Visual Arts Center, LLC (VAC, LLC). The VAC, LLC had no operating activity except for the debt and equity transaction as described in Note 11. Intercompany transactions and balances have been eliminated in consolidation.

Note 2 - Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Council and changes therein are classified and reported as follows:

> *Unrestricted net assets* – Net assets whose expenditure is not subject to donor-imposed stipulations.
>
> *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Council or the passage of time.
>
> *Permanently Restricted Net Assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Council. Generally, the donors of these assets permit the Council to use all or part of the income earned on any related investments for general or specific purposes.

Basis of Presentation (continued)

Contributions are recorded when the donor makes a promise to give to the organization that is in substance, unconditional. All donor-imposed restricted contributions are reported as increases to temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash Equivalents

The Council defines cash equivalents as all highly liquid investments with an initial maturity of three months or less.

Restricted Cash

Cash with donor imposed restrictions and contractually imposed restrictions is separately identified in the consolidated statement of financial position. Temporarily restricted cash equals contributions held for the benefit of others, donor restricted contributions and cash restricted for debt servicing.

Fair Value Measurements

The Council reports fair value measurements using a fair value hierarchy defined by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy prioritizes the valuation inputs into three broad levels based on the quality of the inputs used.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are observable inputs other than quoted market prices. Level 3 inputs are unobservable inputs related to the asset or liability.

The Council employs valuation techniques which maximize the use of observable inputs and minimize the use of unobservable inputs.

Use of Estimates

The preparation of financial statements in conformity with GAAP, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounts Receivable

Receivables consist of rental revenue and are stated at net realizable value. No allowance for doubtful accounts is included as management feels that the balances are fully collectible based on past experience.

Pledges Receivable

Pledges receivable represent unconditional promises to give. The Council has elected the fair value option for valuing pledges receivable. Pledges are recorded at their estimated fair value when received and are revalued annually using present value techniques and a discount rate of 4.75%.

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.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Additions and improvements that extend the useful lives of the assets are capitalized. Expenditures for repairs and maintenance are expensed as incurred. The Council follows the practice of capitalizing all expenditures greater than $1,000 with an estimated useful life of more than one year.

The Council expenses property, building, and equipment using the straight line method over estimated useful lives of 39 years for buildings and 10 years for office furniture and equipment.

Revenue Recognition

Revenues from rental of facilities are recognized when the rental contract is complete. Deferred revenue results from prepayments received related to the rental agreement.

Advertising

The Council expenses advertising costs as incurred. Advertising costs totaled approximately $22,000 for 2014.

Income Taxes

The Council is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and comparable state law and, accordingly, no provision for federal or state taxes is necessary.

The Council files an annual information tax return with the IRS. The federal tax returns of the Council for 2011, 2013 and 2013 are subject to examination by taxing authorities. It is the Council's policy that penalties and interest assessed by income taxing authorities, if any, are included in operating expenses. The Council's management annually evaluates its various tax positions and assesses the likelihood of these positions being upheld by examination with relevant tax authorities.

Sales Taxes

The Council collects sales tax from gift shop sales and remits these amounts to the State taxing authority. The Council's accounting policy is to exclude the taxes collected and remitted from revenue and expenses.

Subsequent Events

The Council has evaluated subsequent events through March 19, 2015, the date the financial statements were available to be issued.

Concentration of Credit Risk

The Council maintains several bank accounts at high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Cash exceeds the FDIC limits at times. The Council has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Council does not require accounts receivable to be collateralized. Credit risk is mitigated by the relatively small individual balances which serves to diversify the risk of loss.

Note 3 – Restricted Cash

Cash is restricted for the following purposes at June 30, 2014:

Contributions held on behalf of others	$	110,401
Donor restricted cash		5,546
Cash restricted for debt servicing		573,431
	$	689,378

Note 4 – Pledges Receivable

Pledges receivable for June 30, 2014 are as follows:

Due within one year	$ 1,241,726
Due in 1-5 years	618,500
Total gross pledges receivable	1,860,226
Discount	38,721
Pledges receivable, net	$ 1,821,505

The discount rate used in determining the net present value of pledges receivable was 4.75% at June 30, 2014   The Council has not experienced any significant uncollectible pledges and, therefore, has provided no allowance for uncollectible pledges.

Note 5 – Beneficial Interest in Assets Held by Others

The Council has a beneficial interest in an investment owned by the Westby Foundation.
The Board of Trustees of the Westby Foundation has restricted distributions from the fund to the maintenance and upkeep of the Harweldon Mansion. These funds have been recorded as an asset at fair market value, which, at June 30, 2014 is $604,250.

Note 5 – Beneficial Interest in Assets Held by Others (continued)

The Council has established an agency reserve fund with the Tulsa Community Foundation (TCF), creating an agency fund and naming itself the beneficiary. The Board of Trustees of TCF shall have the power to modify any restriction or condition on distributions from the fund for any specific charitable purposes or to specific organizations, if in the sole judgment of the Board of Trustees the restriction or conditions become, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by TCF. All contributions to this fund shall be irrevocable once accepted by TCF. These funds have been recorded as an asset at fair market value, which, at June 30, 2014 is $66,383.

Note 6 – Property and Equipment

Property and equipment consists of the following:

Building improvements	$ 16,949,381
Equipment	770,584
Furniture and fixtures	827,934
Land	53,679
Total	18,601,578
Accumulated depreciation	(1,717,654)
Property and equipment, net	$ 16,883,924

Depreciation charged to income for 2014 was $566,661.

Note 7 – Line of Credit

The Council maintains a line of credit for up to $350,000 at a local bank with a variable interest rate of 4% at June 30, 2014. The loan is secured by certain investments and matures October 1, 2014. The balance outstanding at June 30, 2014 was $350,000.

Note 8 – Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2014 are as follows:

	Level 1	Level 2	Level 3
Assets			
Pledges receivable	$ -	$ -	$ 1,821,505
Beneficial interest in assets held by others	-	670,633	-
Total assets	$ -	$ 670,633	$ 1,821,505
Liabilities			
Note payable	$ -	$ 2,467,676	$ -

Reconciliation of activity for assets measured at fair value based on significant unobservable (Level 3) information:

Balance, beginning of year	$ 2,601,369
Pledges collected	(1,649,234)
New pledges	807,250
Change in discount to net present value	62,120
Balance, end of year	$ 1,821,505

Note 9 – Note Payable

Long-term debt consists of a note payable to a bank in yearly installments as scheduled below, plus interest at Bank of Oklahoma Financial Corporation National Prime Rate plus 0.75% (4.75% at June 30, 2014). The note is guaranteed personally by a board member of the Council and collateralized by outstanding pledges receivable.

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

2014	$ 267,676
2015	1,100,000
2016	1,100,000
Total debt	$ 2,467,676

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2014:

Purpose restriction:	
Debt servicing	$ 2,226,407
Harweldon Mansion maintenance	604,250
Other purpose	409,260
Total	$ 3,239,917

Investment income is included as temporarily restricted net assets based on the contractual arrangement for the debt servicing agreement described in Note 11.

Note 11 – 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 12 – Prior Year Adjustment

During the year, management made adjustments to amounts previously reported. The result of these adjustments on current year financial statements was restatement of net assets as of the beginning of the year.

The adjustments corrected errors in previously reported amounts as follows:

Amounts of $13,424 were incorrectly classified as temporarily restricted net assets rather than amounts held on behalf of others, discounts of pledges receivable of $100,841 were not included in the prior year financial statements, and temporarily restricted net assets were overstated by $8,113 due to an incorrectly recorded change in value of beneficial interest in assets held by others.

Note 12 – Prior Year Adjustment (continued)

The net effect of the prior period adjustments on the accompanying Statement of Activities is as follows:

	Unrestricted	Temporarily restricted
Net assets as previously reported	$ 13,429,758	$ 4,890,544
Net effect of prior period adjustments	(92,729)	(21,536)
Net Assets, Beginning of Year, restated	$ 13,337,029	$ 4,869,008