

Arts & Humanities Council of Tulsa, Inc.
Consolidated Financial Statements

June 30, 2017 and 2016



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Arts & Humanities Council of Tulsa, Inc.

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June 30, 2017 and 2016

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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 statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years 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 audits. We conducted our audits 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, 2017 and 2016, 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
November 29, 2017

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statements of Financial Position
June 30, 2017 and 2016

Assets	2017	2016
Cash and cash equivalents	\$ 55,350	\$ 150,243
Accounts receivable	11,177	43,012
Restricted cash	305,906	334,574
Prepaid expenses	5,541	1,847
Pledges receivable, net	125,752	457,064
Beneficial interest in assets held by others	758,690	751,692
Property and equipment, net	15,220,377	15,759,929
Total assets	\$ 16,482,793	\$ 17,498,361
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 216,756	\$ 65,566
Funds held on behalf of others	86,842	64,677
Deferred revenue	4,568	25,850
Line of credit	750,000	677,000
Deferred transaction costs	145,771	193,273
Long-term debt	251,010	526,010
Total liabilities	1,454,947	1,552,376
Net Assets		
Unrestricted	13,517,291	14,204,864
Temporarily restricted	1,510,555	1,741,121
Total net assets	15,027,846	15,945,985
Total liabilities and net assets	\$ 16,482,793	\$ 17,498,361

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Contributions and grants	\$ 348,210	\$ 300,614	\$ 648,824
Program revenue	284,102	-	284,102
Special events income, net	47,170	-	47,170
Rental income	67,744	-	67,744
Interest income	13,720	131,763	145,483
Change in beneficial interest in assets held by others	1,537	79,900	81,437
Net assets released from restrictions	<u>742,843</u>	<u>(742,843)</u>	<u>-</u>
Total revenue and support	<u>1,505,326</u>	<u>(230,566)</u>	<u>1,274,760</u>
Expenses			
Program services	1,661,101	-	1,661,101
Management and general	272,353	-	272,353
Fundraising	<u>69,013</u>	<u>-</u>	<u>69,013</u>
Total operating expenses	<u>2,002,467</u>	<u>-</u>	<u>2,002,467</u>
Interest expense	<u>190,432</u>	<u>-</u>	<u>190,432</u>
Total expenses	<u>2,192,899</u>	<u>-</u>	<u>2,192,899</u>
Change in net assets	(687,573)	(230,566)	(918,139)
Net Assets, Beginning of Year	<u>14,204,864</u>	<u>1,741,121</u>	<u>15,945,985</u>
Net Assets, End of Year	<u>\$ 13,517,291</u>	<u>\$ 1,510,555</u>	<u>\$ 15,027,846</u>

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and Support			
Contributions and grants	\$ 168,307	\$ 630,155	\$ 798,462
Program revenue	325,621	-	325,621
Special event income, net	106,786	-	106,786
Rental income	45,595	-	45,595
Interest income	546	131,463	132,009
Change in beneficial interest in assets held by others	(1,225)	18,519	17,294
Gain on sale of property	37,585	-	37,585
Net assets released from restrictions	<u>1,185,603</u>	<u>(1,185,603)</u>	<u>-</u>
Total revenue and support	<u>1,868,818</u>	<u>(405,466)</u>	<u>1,463,352</u>
Expenses			
Program services	1,745,543	-	1,745,543
Management and general	241,286	-	241,286
Fundraising	67,557	-	67,557
Total operating expenses	<u>2,054,386</u>	<u>-</u>	<u>2,054,386</u>
Interest expense	<u>204,714</u>	<u>-</u>	<u>204,714</u>
Total expenses	<u>2,259,100</u>	<u>-</u>	<u>2,259,100</u>
Change in net assets	(390,282)	(405,466)	(795,748)
Net Assets, Beginning of Year	<u>14,595,146</u>	<u>2,146,587</u>	<u>16,741,733</u>
Net Assets, End of Year	<u>\$ 14,204,864</u>	<u>\$ 1,741,121</u>	<u>\$ 15,945,985</u>

Arts & Humanities Council of Tulsa, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating activities		
Change in Net Assets	\$ (918,139)	\$ (795,748)
Adjustment to reconcile change in net assets to net cash from operating activities		
Depreciation	569,379	567,463
Change in discount on pledges receivable	-	(8,915)
Gain on sale	-	(37,585)
Changes in operating assets and liabilities		
Restricted cash	28,668	144,506
Accounts receivable	31,835	(1,344)
Prepaid expenses	(3,694)	(1,847)
Pledges receivable	96,312	119,340
Accounts payable	151,190	(33,859)
Deferred revenue	(21,282)	(29,250)
Contributions held on behalf of others	22,165	(11,128)
Net cash for operating activities	<u>(43,566)</u>	<u>(88,367)</u>
Investing activities		
Purchase of property and equipment	(29,827)	(10,839)
Proceeds from sale of land	-	42,955
Change in beneficial interest in assets held by others	<u>(6,998)</u>	<u>(17,294)</u>
Net cash (used for) from investing activities	<u>(36,825)</u>	<u>14,822</u>
Financing activities		
Payments on long-term debt	(275,000)	(400,500)
Net change in balance on line of credit	73,000	127,000
Collection of capital campaign pledges	235,000	350,000
Reduction of deferred costs	<u>(47,502)</u>	<u>(49,498)</u>
Net cash (used for) from financing activities	<u>(14,502)</u>	<u>27,002</u>
Net change in cash and cash equivalents	<u>(94,893)</u>	<u>(46,543)</u>
Cash and cash equivalents, beginning of year	<u>150,243</u>	<u>196,786</u>
Cash and cash equivalents, end of year	<u>\$ 55,350</u>	<u>\$ 150,243</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ 190,432</u>	<u>204,714</u>

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 arts 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, 2017 and 2016, 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 service.

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 rentals and other activities billed and are stated at unpaid balance which approximates net realizable value. Receivables become due upon certain triggering events. The Council has established an allowance for doubtful accounts receivable should a significant pattern of uncollectability occur. Balances are written off after collection efforts have been exhausted and management has determined they are uncollectible. An allowance for doubtful accounts was recorded for \$10,754 at June 30, 2017, and \$13,378 at June 30, 2016.

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.

Funds Held on Behalf of Others

The Council acts as a pass-through recipient for contributions to various other area organizations. The funds are 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 that have not yet been earned.

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Advertising

The Council expenses advertising costs as incurred. Advertising costs totaled approximately \$13,000 for 2017 and \$16,000 for 2016.

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 2014, 2015 and 2016 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 gallery and gift shop sales and remits these amounts to the State taxing authority. The Council's accounting policy is to include the tax collected in program revenue and the associated expense as program expense.

Subsequent Events

The Council has evaluated subsequent events through November 29, 2017, 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. Balances may exceed 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.

Beneficial interest in assets held by others are invested in fixed income and equity securities. The Council believes credit risk is mitigated by diversity of the investments which are managed by outside investment professionals.

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Note 3 – Restricted Cash

Cash is restricted for the following purposes at June 30, 2017 and 2016:

	2017	2016
Contributions held on behalf of others	\$ 65,749	\$ 40,233
Donor restricted cash	5,562	5,546
Cash restricted for debt servicing	234,595	288,795
	\$ 305,906	\$ 334,574

Note 4 – Pledges Receivable

Pledges receivable for June 30, 2017 and 2016 are as follows:

	2017	2016
Due within one year	\$ 178,683	\$ 448,495
Due in 1-5 years	-	61,500
Total gross pledges receivable	178,683	509,995
Allowance for uncollectable pledges	(50,010)	(50,010)
Discount	(2,921)	(2,921)
Pledges receivable, net	\$ 125,752	\$ 457,064

The discount rate used in determining the net present value of pledges receivable was 4.75% at June 30, 2017 and 2016. The Council has examined the collectability of outstanding pledges and has provided an allowance for uncollectable pledges of \$50,010 at June 30, 2017 and June 30, 2016.

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 Harwelden Mansion. These funds have been recorded as an asset at fair market value, which, at June 30, 2017 is \$660,395 and June 30, 2016 is \$654,934.

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

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, 2017 is \$98,295 and June 30, 2016 is \$96,758.

Note 6 – Property and Equipment

At June 30, 2017 and 2016 property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Building improvements	\$ 16,977,569	\$ 16,950,242
Equipment	779,060	776,560
Furniture and fixtures	836,791	836,791
Land	<u>48,309</u>	<u>48,309</u>
Total	18,641,729	18,611,902
Accumulated depreciation	<u>(3,421,352)</u>	<u>(2,851,973)</u>
Property and equipment, net	<u>\$ 15,220,377</u>	<u>\$ 15,759,929</u>

Depreciation charged to income was \$569,379 and \$567,463 for 2017 and 2016, respectively.

Note 7 – Line of Credit

The Council maintains a line of credit for up to \$750,000 at a local bank with a variable interest rate of 4% at June 30, 2017. The loan is collateralized by a real estate and matures March 15, 2018. The balance outstanding at June 30, 2017 and 2016 was \$750,000 and \$677,000, respectively.

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Note 8 – Fair Value of Assets and Liabilities

Assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and 2016 are as follows:

June 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Pledges receivable	\$ -	\$ -	\$ 125,752
Beneficial interest in assets held by others	-	758,690	-
Total assets	<u>\$ -</u>	<u>\$ 758,690</u>	<u>\$ 125,752</u>
Liabilities			
Note payable	<u>\$ -</u>	<u>\$ 251,010</u>	<u>\$ -</u>

June 30, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets			
Pledges receivable	\$ -	\$ -	457,064
Beneficial interest in assets held by others	-	751,692	-
Total	<u>\$ -</u>	<u>\$ 751,692</u>	<u>\$ 457,064</u>
Liabilities			
Note payable	<u>\$ -</u>	<u>\$ 526,010</u>	<u>\$ -</u>

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

Balance, beginning of year	\$ 457,064
Pledges collected	(331,312)
New pledges	-
Change in discount to net present value	-
Balance, end of year	<u>\$ 125,752</u>

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Note 9 – Note Payable

Long-term debt consists of a note payable to a local bank, plus interest at Bank of Oklahoma Financial Corporation National Prime Rate plus 0.75% (5.25% at June 30, 2017). The note is guaranteed personally by a board member of the Council and collateralized by outstanding pledges receivable. The balance of long-term debt at June 30, 2017 is \$251,010. This balance matures on September 30, 2018, at which time all principle and unpaid interest are due.

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30, 2017 and 2016:

Purpose restriction:	<u>2017</u>	<u>2016</u>
Debt servicing	\$ 279,595	\$ 568,795
Harweldon Mansion maintenance	660,395	654,934
Other purposes	<u>570,565</u>	<u>517,392</u>
Total	<u>\$ 1,510,555</u>	<u>\$ 1,741,121</u>

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.

Arts & Humanities Council of Tulsa, Inc.
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

Note 12 – Special Event Income

Special event income is presented on the statement of activities net of expenses, income and expense from special events is summarized below.

	<u>2017</u>	<u>2016</u>
Special Event income	\$ 211,836	\$ 203,207
Less cost of Special Events	<u>164,666</u>	<u>96,421</u>
Special Event Income, net	<u>\$ 47,170</u>	<u>\$ 106,786</u>

Note 13 – Reclassifications

Certain amounts on the financial statements for the year ended June 30, 2016 have been reclassified to conform to current year presentation. The reclassifications have no impact on changes in net assets as previously reported.

Note 14 – Subsequent Event

Subsequent to June 30, 2017, the organization decided to offer the Harwelden Mansion for sale. An offer was received and the property is under contract with an interested party. Management anticipates the sale to close in January 2018.