

Lawton Arts & Humanities Council

Financial Statements

June 30, 2011



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Lawton Arts & Humanities Council
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For the Fiscal Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Lawton Arts and Humanities Council
Lawton, Oklahoma

We have audited the accompanying statement of net assets, Lawton Arts and Humanities Council (the Council), a component unit of the City of Lawton, as of June 30, 2011, and the related statement of revenues, expenses and changes in net assets, and statement of cash flows for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lawton Arts and Humanities Council, as of June 30, 2011, and the changes in its net assets and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated January 6, 2012, on our consideration of Lawton Arts and Humanities Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

January 6, 2012

Lawton Arts and Humanities Council
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Our discussion and analysis of the Lawton Arts & Humanities Council's (the Council) financial position and performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2011, the Council's total net assets increased by approximately \$11,616 or 21.2% from the prior year.
- For the fiscal year ended June 30, 2011, the Council's operating revenue increased by approximately \$22,616 or 18.2% from the prior year, while operating expenses increased by approximately \$14,459 or 12% over the prior year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as amended, as they relate to special purpose governments engaged only in business-type activities.

As a result, the Council's financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows that provide information about the financial activities of the Council.

ABOUT THE COUNCIL

The Lawton Arts & Humanities Council is a public trust created pursuant to the laws of the State of Oklahoma, by the City of Lawton, the trust beneficiary, to encourage, coordinate and operate cultural endeavors and activities of the City, and to promote knowledge and appreciation of the fine arts and humanities with the City and surrounding areas. The Council is considered a component unit of the City of Lawton's financial reporting entity, and has also elected to present its own annual financial statements for the component unit itself.

A FINANCIAL ANALYSIS OF THE AUTHORITY

One of the most important questions to ask about the Council's finances is:

"Has the Council's net assets increased or decreased as a result of the year's activities?"

Over time, increase or decreases in the Council's net assets provide one indicator of the financial health of the Council. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets include all of the Council's assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken

Lawton Arts and Humanities Council
Management's Discussion and Analysis (Unaudited)
June 30, 2011

into account regardless of when cash is received or paid. The following tables provide a summary of the changes in net assets over the past year to help answer the above question.

Net Assets and Changes in Net Assets

The following is a condensed summary of the Statement of Net Assets for the year ended June 30, 2011 as compared to the prior year:

	2011	2010	% Change
Current assets	\$78,072	\$57,597	35.5%
Capital assets, net	-0-	426	100%
Total assets	78,072	58,023	34.6%
Current liabilities	11,679	3,246	259.8%
Total liabilities	11,679	3,246	259.8%
Net assets			
Invested in capital assets	-0-	426	
Designated for equipment replacement fund	6,000	4,000	50%
Undesignated	60,393	50,351	19.9%
Total net assets	\$66,393	\$54,777	21.2%

There were no capital asset additions and current equipment is fully depreciated at year ended June 30, 2011. Liabilities increased in 2011 due to an increase in the timing of event income received for the 2011 International Festival. Sponsorships and ad sales applicable to the 2011 festival were received and deposited prior to June 30, 2011; therefore, the income is deferred and recorded as a liability as of June 30, 2011.

The following is a brief summary of the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2011 as compared to the prior year:

	2011	2010	% Change
Operating revenues	\$146,939	\$124,323	18.2%
Operating expenses	135,324	120,865	12%
Net operating income	11,615	3,458	235.9%
Net assets - beginning of year	54,778	51,319	6.7%
Net assets – end of year	\$66,393	\$54,777	21.2%

Revenues and expenses increased over the prior year. Net assets increased by 21.2% with revenues exceeding expenses by \$11,615 for the year ended June 30, 2011. This in part is due to the increase of in-kind donations from the prior year.

Lawton Arts and Humanities Council
Management's Discussion and Analysis (Unaudited)
June 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Due to the nature of the Council's activities, the Council has a limited amount of capital assets. Such capital assets consist primarily of equipment. At June 30, 2011, the Council's capital assets were fully depreciated and reported a net zero balance. There were no capital additions in the current year, and depreciation expense on existing capital assets was \$426.

Long-Term Debt

The Council has no long-term debt outstanding.

BUDGET

The Council is a public trust created pursuant to 60 O.S. § 176. Such public trusts are not required to prepare a legally adopted annual budget. Therefore, the Council does not operate under legal appropriations.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The Council estimates revenue to increase slightly due to the board's efforts to solicit sponsorships for all projects. Additionally, the Council will sell limited ad space in each issue of the A&E Magazine. However, we do not anticipate these changes to have a significant effect on the financial activities or financial position of the Council for the upcoming fiscal year. The internal budget adopted for the Council for the year ending June 30, 2011 is consistent with the prior year budget.

CONTACTING THE ARTS & HUMANITIES COUNCIL

This financial report is designed to provide our citizens, customers, taxpayers, bondholders and creditors with a general overview of the Council's finances and to show accountability for the resources it receives. Financial information for the Council is also presented in the Comprehensive Annual Financial Report of the primary government, the City of Lawton, Oklahoma. If you have questions about this report or need additional financial information, contact The Arts & Humanities Council Office by mail at 801 NW Ferris Ave., Lawton, OK 73502 or by telephone at (580) 581-3470/3471.

Lawton Arts and Humanities Council
Statement of Net Assets
June 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalent	\$ 72,984
Grant receivable	4,378
Prepaid expenses	<u>710</u>
Total Current Assets	<u>78,072</u>

Capital assets being depreciated

Equipment	18,456
Less accumulated depreciation	<u>(18,456)</u>

Net capital assets being depreciated	<u>-</u>
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Total Assets	<u><u>\$ 78,072</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Grants payable	\$ 4,000
Deferred event income	<u>7,679</u>
Total Current Liabilities	<u>11,679</u>

Net Assets

Unrestricted	
Designated for equipment replacement fund	6,000
Undesignated, available for general activities	<u>60,393</u>
Total net assets	<u>\$ 66,393</u>

Total Liabilities and Net Assets	<u><u>\$ 78,072</u></u>
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The notes to the financial statements are an integral part of this statement

Lawton Arts and Humanities Council
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

OPERATING REVENUES

Special events	\$ 66,285
Contributions	170
Contributions in-kind	55,091
Grant revenue	23,478
Reimbursements form City of Lawton	1,915
Total Operating Revenue	<u>\$ 146,939</u>

OPERATING EXPENSES

Direct program expenditures	\$ 125,790
Office expense	9,108
Depreciation	426
Total Operating Expenses	<u>\$ 135,324</u>

CHANGE IN NET ASSETS \$ 11,615

NET ASSETS, BEGINNING OF YEAR 54,778

NET ASSETS, END OF YEAR \$ 66,393

The notes to the financial statements are an integral part of this statement

Lawton Arts and Humanities Council
Statement of Cash Flows
Year Ended June 30, 2011

OPERATING ACTIVITIES

Receipts from customers	\$ 130,269
Receipts from grantors	23,478
Payments to Vendors	(119,997)
Payments to the City of Lawton	<u>(14,900)</u>

NET CASH FROM OPERATING ACTIVITIES	<u>\$ 18,850</u>
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NET CHANGE IN CASH	18,850
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>\$ 54,134</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 72,984</u></u>
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RECONCILIATION OF OPERATION INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 11,615
Charges and credit to change in net asset not affecting cash	
Depreciation	426
Changes in assets and liabilities	
Grant Receivable	(965)
Prepaid Expenses	(660)
Grant Payable	755
Accrued Expenses	<u>7,679</u>
Net Cash Provided by Operating Activities	<u><u>\$ 18,850</u></u>

The notes to the financial statements are an integral part of this statement

Lawton Arts and Humanities Council
Notes to Financial Statements
June 30, 2011

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Lawton Arts and Humanities Council (the Council) is a public trust established pursuant to a Trust Indenture, as amended, which was originally adopted in April 1969. Under the Trust Indenture, the Council was created to benefit the City of Lawton. The Trust Indenture was last amended in 2003, with the approval of the City Council of the City of Lawton. The purpose of the Council is to encourage and coordinate cultural endeavors and activities, and to promote knowledge and appreciation of the fine arts and humanities in the City of Lawton, Oklahoma and the surrounding areas. The Council coordinates an annual International Festival and a variety of other programs, performances and special events with grant assistance from the Oklahoma Arts Council to further their endeavor.

The Council operates out of a facility owned and maintained by the City of Lawton (the City). All significant costs of operating and managing the facility are paid for by the City. Such costs are not included in these financial statements. Therefore, these financial statements are not intended to represent a complete presentation of the results of operations of the facility.

Management has applied the criteria set forth in Government Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and has determined that the Council is a component unit of the City. The Council is financially dependent upon the City and the governing board of the City appoints the board of trustees to the Council.

Basis of Accounting

The Council accounts for its activities within a proprietary fund type. The Council's activities meet the definition of an enterprise fund because it is the intent of the Council to recover, primarily through grants and vendor fees, the reimbursements and costs of providing goods or services to the general public.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Lawton Arts and Humanities Council
Notes to Financial Statements
June 30, 2011

NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

As required by the GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Council has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements. In addition, the Council applies all applicable FASB statements and interpretations issued after November 30, 1989 except those that conflict or contradict GASB.

Receivables

Accounts receivable includes a grant which was awarded on a reimbursement basis prior to year-end. The funds have been expended by the Council and reimbursement has been requested. This grant is typically the only outstanding receivable of the Council and is considered fully collectible.

Cash and Cash Equivalents

Interest bearing checking accounts and certificates of deposit with maturities of less than three months are included in cash on the Council's financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

In-Kind Donations

In-kind donations include contributions of noncash items such as services, property, or equipment. In-kind donations that can be used internally or sold are measured at fair value. During the year, the Council received \$55,091 in donated supplies, materials and services that were used in carrying out their programs. The revenue related to these in-kind donations has been recorded in the financial statements as Contributions in-kind and the expense has been recorded as direct program expenditures on the Statement of Revenues, Expenses, and Changes in Net Assets.

Lawton Arts and Humanities Council
Notes to Financial Statements
June 30, 2011

**NOTE 1 - PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Capital Assets

The cost of capital assets over \$1,000 are capitalized and depreciated over the estimated useful life of the related asset. These assets are depreciated using the straight-line method over the useful lives ranging from five to seven years.

Income Taxes

The Council does not pay income taxes due to its exemption as a municipal entity.

Budgetary Comparisons

The Council is not legally required to adopt a budget. Therefore, budget comparison information is not included in the Council's financial statements.

Subsequent Events

The Council has evaluated subsequent events through January 6, 2012, the date which the financial statements were available to be issued.

NOTE 2 – PROGRAMS

Program revenues and direct program expenditures consist of the following for the year ended June 30, 2011:

	International Festival	Native American Program	Children's Art Studio	Student Performance Program	Publications Program	Other Programs	Total
Total Program							
Revenues	\$ 117,085	\$ 4,694	\$ 11,082	\$ 6,567	\$ 7,341	\$ -	\$ 146,769
Program							
Expenditures	101,717	5,985	6,837	2,298	7,572	1,381	125,790
Over (Under)	<u>15,368</u>	<u>(1,291)</u>	<u>4,245</u>	<u>4,269</u>	<u>(231)</u>	<u>(1,381)</u>	<u>20,979</u>

Lawton Arts and Humanities Council
Notes to Financial Statements
June 30, 2011

NOTE 3 - RELATED PARTY TRANSACTIONS

Included in Direct Program Expenditures are payments to the City that represent reimbursements to the City for Council expenditures paid directly by the City because certain grant funds had not been received by the Council at the time the event occurred. Reimbursements to the City consist of the following for the year ended June 30, 2011:

International Festival	\$ 6,000
Native American Program	1,400
Children's Art Studio	3,200
Student Performance	300
Publications	<u>4,000</u>
Total City Reimbursements	<u><u>\$ 14,900</u></u>

Amounts due to the City as of June 30, 2011 were \$4,000 and are included in grants payable.

NOTE 4 - GRANT REVENUE

Grants were awarded by the Oklahoma Arts Council for all fiscal year 2011 programs. Grant revenue consists of the following for the year ended June 30, 2011:

International Festival	\$ 12,508
Native American Program	2,814
Children's Art Studio	3,440
Student Performance	338
Publications	<u>4,378</u>
Total Grant Revenue	<u><u>\$ 23,478</u></u>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Council receives its resources primarily from sources within Comanche County. Consequently, the Council's ability to operate as a going concern is dependent on the economic conditions of this area.

Lawton Arts and Humanities Council
Notes to Financial Statements
June 30, 2011

NOTE 6 - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. State law requires collateral for all deposits not covered by Federal Deposit Insurance Corporation Insurance. At June 30, 2011, the Council was not exposed to custodial credit risk.

NOTE 7-DESIGNATED FUNDS

The Council's Board of Trustees has designated \$6,000 for the Council's equipment replacement fund. This money has been designated and is not restricted.

NOTE 8- CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Equipment	\$ 18,456	\$ -	\$ -	\$ 18,456
Total capital assets being depreciated:	<u>18,456</u>	<u>-</u>	<u>-</u>	<u>18,456</u>
Less accumulated depreciation for:				
Equipment	\$ (18,030)	\$ (426)	\$ -	\$ (18,456)
Total accumulated depreciation	<u>(18,030)</u>	<u>(426)</u>	<u>-</u>	<u>(18,456)</u>
Total capital assets being depreciated	<u>\$ 426</u>	<u>\$ (426)</u>	<u>\$ -</u>	<u>\$ -</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Lawton Arts and Humanities Council
Lawton, Oklahoma

We have audited the financial statements of **Lawton Arts and Humanities Council** as of and for the year ended June 30, 2011, and have issued our report thereon dated January 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lawton Arts and Humanities Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

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material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawton Arts and Humanities Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as item 2011-2.

The Council's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, and other within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
January 6, 2012

Lawton Arts and Humanities Council
Schedule of Findings and Responses
June 30, 2011

2011-1 Preparation of financial statements and related material adjustments

Condition – The trial balance provided for the year-end financial reporting did not include all final journal entries.

Criteria – The development and implementation of a year-end financial reporting control system is the responsibility of management. Management should have a process in place to ensure that the trial balance used in the financial statement preparation process is final, contains all valid journal entries made, and is in balance

Cause – Current procedures do not incorporate all the necessary controls to ensure the trial balance is complete.

Effect – Material adjusting entries were necessary to record and adjust assets, accumulated depreciation, depreciation expense, in-kind donations, accruals, and fund balance.

Recommendation – We recommend the Council's members to evaluate and weigh the cost against the benefits of enhancing the year-end financial reporting process through the hiring of an external consultant to assist in the process of ensuring the trial balance is complete and that the disclosures are accurate.

Management Response – Management will thoroughly review the financial statements, notes, and supporting schedules and compare to a current disclosure checklist prior to issuance of financial statements.

2011-2 Receipt and deposit compliance

Condition – Cash receipts are not being deposited within 1 business day.

Criteria – Title 62 Section 517.3 of Oklahoma state statutes require the treasurer of every public entity shall deposit daily not later than the immediately next banking day, all funds, in either state or county depositories within Oklahoma.

Context – 57 of 60 cash receipts tested were not deposited within 1 business day of receipt

Cause – Historically receipts for events to be held in the future have been held and deposited in the year that the event occurs.

Effect – Deposits were not made within state statute requirements.

Recommendation – We recommend that LAHC should develop policies and procedures to ensure deposits are made in a timely manner.

Lawton Arts and Humanities Council
Schedule of Findings and Responses
June 30, 2011

Management Response – Management was not aware of compliance requirement and changes have been made to internal procedures to be in compliance with state laws.