

**ADAMS COUNTY ARTS COUNCIL**

**SINGLE AUDIT REPORT**

**DECEMBER 31, 2011**

**ADAMS COUNTY ARTS COUNCIL**

**Single Audit Report  
December 31, 2011**

**Deborah J. Zearfoss  
Certified Public Accountant**

ADAMS COUNTY ARTS COUNCIL

SINGLE AUDIT REPORT

TABLE OF CONTENTS

	<u>Page No.</u>
 <u>SECTION I – FINANCIAL STATEMENTS</u>	
INDEPENDENT AUDITOR’S REPORT .....	1
FINANCIAL STATEMENTS	
Statement of Financial Position .....	3
Statement of Activities .....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows .....	6
NOTES TO FINANCIAL STATEMENTS .....	7
 <u>SECTION II – SCHEDULES AND REPORTS REQUIRED UNDER</u> <u>GOVERNMENTAL AUDITING STANDARDS AND OMB CIRCULAR A-133</u>	
Schedule of Expenditures of Federal Awards .....	12
Notes to the Schedule of Expenditures of Federal Awards .....	13
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	14
Independent Auditor’s Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program on Internal Control over Compliance in Accordance with OMB Circular A-133. ....	16
Summary of Schedule of Prior Audit Findings	18
Schedule of Findings and Questioned Costs	19

**DEBORAH J. ZEARFOSS, CPA**  
**228 Main Street**  
**Berlin, PA 15530**  
**(814) 267-9981**

INDEPENDENT AUDITOR'S REPORT

October 8, 2012

To the Board of Directors of the  
Adams County Arts Council

I have audited the accompanying statement of financial position of Adams County Arts Council (a non-profit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on the audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adams County Arts Council as of December 31, 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 *Governmental Auditing Standards*, I have also issued our report dated October 8, 2012, on my consideration of The Adams County Arts 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 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.

To the Board of Directors of the  
Adams County Arts Council  
October 8, 2012

The audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Deborah J. Zearfoss, CPA

ADAMS COUNTY ARTS COUNCIL

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

Assets

Current assets:

Cash and cash equivalents – unrestricted	\$ 83,536
Cash and cash equivalents – unrestricted - designated	31,806
Cash and cash equivalents – temporarily restricted	48,234
Accounts receivable	9,700
Inventory	<u>2,759</u>

Total current assets 176,035

Investments – unrestricted	10,160
Investments – temporarily restricted	1,798
Investments – permanently restricted	<u>41,068</u>

Total investments 53,026

Fixed assets:

Building and improvements	1,532,335
Equipment	<u>28,893</u>
	1,561,228

Less: Accumulated depreciation ( 5,950)

Net fixed asset 1,555,278

Total assets \$1,784,339

Liabilities and Net Assets

Current liabilities:

Accrued payroll withholdings	\$ 91
Accounts payable	8,203
Accrued interest payable	3,964
Deferred revenue	<u>48,234</u>
Total current liabilities	60,492

Long – term portion of USDA note payable 1,368,730

Total liabilities 1,429,222

Net assets:

Unrestricted	312,251
Temporarily restricted	1,798
Permanently restricted	<u>41,068</u>

Total net assets 355,117

Total liabilities and net assets \$1,784,339

The Accompanying Notes to Financial Statements are an Integral Part of This Statement.

ADAMS COUNTY ARTS COUNCIL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

UNRESTRICTED NET ASSETS:

<u>Support and Revenues</u>	
Contributions	\$ 27,424
In-kind contributions	57,904
In-kind contributions-stock	10,160
Fundraising events	32,036
Program fees	129,129
Membership dues	30,822
Sales	88
Interest and dividend income	1,165
Rental Income	<u>3,388</u>
	292,116
<u>Net assets released from restrictions</u>	
Contributions	254,099
Grants	<u>65,320</u>
Total unrestricted support and revenues	<u>611,535</u>
<u>Expenses</u>	
Program services	431,340
Management and general	10,047
Fundraising	<u>75,910</u>
Total unrestricted expenses	<u>517,297</u>
Increase in unrestricted net assets	<u>94,238</u>

TEMPORARILY RESTRICTED NET ASSETS:

<u>Support and Revenues</u>	
Contributions	254,099
Grants	65,320
Interest and dividend income	590
Realized gain on investments	535
Unrealized loss on investments	(885)
Net assets released from restrictions	<u>(319,419)</u>
	240
<u>Expenses</u>	
Management and general – management fees	<u>661</u>
Total temporarily restricted expenses	<u>661</u>
Decrease in temporarily restricted net assets	<u>(421)</u>
Increase in net assets	93,817
Net assets - beginning of year	<u>261,300</u>
Net assets - end of year	<u>\$ 355,117</u>

The Accompanying Notes to Financial Statements are an Integral Part of This Statement.

ADAMS COUNTY ARTS COUNCIL  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Director's salary	\$ 40,425	\$ 1,575	\$10,500	\$ 52,500
Wages	70,265	2,738	18,251	91,254
Payroll taxes	11,559	450	3,002	15,011
Employee benefits	13,218	515	3,433	17,166
In-kind supplies and facilities	57,904			57,904
Star Grants expenses	8,406			8,406
Imagination Station expenses	21,668			21,668
Juried Art Exhibit expenses	4,343			4,343
Children's Traveling Theater	2,169			2,169
New Year's Eve expenses	3,575			3,575
Acts of Kindness production	42,884			42,884
Roots and Wings expenses	24,441			24,441
Gallery Sales	6,590			6,590
Miscellaneous program expenses	1,431			1,431
Advertising & publications	7,683	299	1,996	9,978
Occupancy	56,160	2,188	14,587	72,935
Membership expenses			78	78
Telephone	2,550	99	662	3,311
Professional fees	5,512	215	1,431	7,158
Insurance	6,533	254	1,697	8,484
Operating supplies & expenses	11,742	457	3,050	15,249
Bank service charges	1,818	71	472	2,361
Interest expense	21,900	853	5,689	28,442
Licenses and permits	141	5	37	183
Equipment repairs	501	20	130	651
Training/Seminars	1,654	64	430	2,148
Dues and subscriptions	1,686	66	438	2,190
Masquerade Ball expenses			7,356	7,356
Garden Party expenses			558	558
Other fundraising expenses			923	923
Depreciation expense	<u>4,582</u>	<u>178</u>	<u>1,190</u>	<u>5,950</u>
 Total expenses	 <u>\$ 431,340</u>	 <u>\$10,047</u>	 <u>\$75,910</u>	 <u>\$517,297</u>

The Accompanying Notes to Financial Statements are an Integral Part of This Statement.



ADAMS COUNTY ARTS COUNCIL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Net change in net assets	\$ 93,817
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,950
Unrealized gains/(losses) on investments	885
Donation of investment	(10,160)
Increase/(decrease) in operating assets:	
Increase in accounts receivable	(180)
Decrease in inventory	674
Increase/(decrease) in operating liabilities:	
Increase in accrued payroll withholdings	26
Decrease in accounts payable	(3,283)
Increase in accrued interest payable	3,385
Increase in deferred revenue	<u>23,919</u>
Net cash provided by operating activities	<u>115,033</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(464)
Purchase of building and improvements	(902,979)
Purchase of equipment	<u>(28,893)</u>
Net cash used by investing activities	<u>(932,336)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from USDA note payable	1,368,730
Proceeds from construction loan line of credit	824,918
Payments on construction loan line of credit	<u>(1,252,331)</u>
Net cash provided by financing activities	<u>941,317</u>
Net increase in cash	124,014
Cash Balance - Beginning of Year	<u>39,562</u>
Cash Balance - End of Year	<u>\$163,576</u>

The Accompanying Notes to Financial Statements are an Integral Part of This Statement.

ADAMS COUNTY ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization and Purpose - The Adams County Arts Council was recognized as a tax exempt organization in February 1994. The Adams County Arts Council is a non-profit organization that promotes the arts in Adams County via a centralized arts committee responsible for presenting well-rounded programs featuring traditional and contemporary arts. Additionally, the Council provides increased awareness of the arts in schools through cooperative programming and a forum for regional arts and artists. The Council is supported primarily through grants, public fundraising events and membership dues.

The accounting policies are the principles of accounting and the methods of applying those principles, which are utilized in preparing the financial statements. The accounting policies adopted can significantly affect the reported results of the operations. To facilitate an understanding of the information presented in the financial statements, the significant accounting policies followed in the preparation of the accompanying financial statements are summarized as follows:

Basis of Presentation - The accompanying financial statements include the assets, liabilities, net assets and all financial activities of the Adams County Arts Council. The Council reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - This group of assets is used to account for the portion of expendable funds that are available for support of the Council's general operations. These net assets are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - This group of net assets is subject to donor-imposed stipulations that may or will be met either by actions of the Council and/or passage of time.

Permanently Restricted Net Assets - This group of net assets is 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 related investments for general or specific purposes. Permanently restricted net assets as of December 31, 2011, totaled \$41,068.00.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

Basis of Accounting - Basis of accounting refers to when support and revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The Adams County Arts Council accounts for its funds on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized as earned and expenses are recorded at the time liabilities are incurred. The financial statements include a provision for donated services, supplies and facilities.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Council considers all highly liquid investments available for current use with a maturity of twelve months or less to be cash equivalents. This includes certificates of deposit as well as checking, savings and money market accounts.

Inventory - Inventory consists of t-shirts, sweatshirts and wine totes and is recorded at cost on the financial statements as of December 31, 2011.

Investments - The Council records investments at their lower of cost or fair market value on the financial statements at December 31, 2011. As of December 31, 2011, investments are recorded at the lower of cost or fair market value. The cost and fair market values of these investments are presented in the notes to financial statements.

Functional Expenses - The Adams County Arts Council allocates its expenses on a functional basis among its various program services, supporting services and fundraising. Expenses that can be identified with a specific program, supporting service or fundraiser are allocated directly according to their natural expenditure classification. All other expenses have been allocated between program services, supporting services and fundraising based on personnel time and space utilized for the related activities.

Income Taxes - No provision has been made for federal or state income taxes because the Council has been determined to be exempt from such taxes, primarily under Section 501(c)(3) of the Internal Revenue Code and similar sections of the Pennsylvania Tax Code. Accordingly, contributions to the Council are deductible for federal income tax purposes.

Donated Services, Supplies and Facilities - Non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Advertising and Promotion Costs - Advertising and promotion costs are expensed as incurred. Total advertising and promotion costs at December 31, 2011, were \$9,978.

NOTE 2 - CASH:

As of December 31, 2011, the carrying amount of the Adams County Arts Council cash accounts was \$163,576. The bank balance as of December 31, 2011, was \$250,328. The carrying amount of the Council's temporarily restricted cash accounts, which is included in the above figures, was \$48,234 as of December 31, 2011. Cash is restricted for the purpose of funding the Roots and Wings program in the amount of \$6,050, the Acts of Kindness production in the amount of \$9,000, and the capital campaign of \$17,600. The Board also has \$15,584 restricted for other 2012 programs. The Council's cash accounts are fully covered by federal depository insurance (FDIC).

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking - Adams County National Bank	\$ 1,222	\$ 2,666
Money Market - Adams County National Bank	2,271	2,271
Savings - ING Direct	117,317	117,317
Construction Checking - PNC Bank	31,806	110,734
Checking - PNC	(1,116)	5,264
Money Market - PNC Bank	11,228	11,228
Mortgage Reserve - PNC Bank	25	25
Security Deposit - PNC Bank	725	725
Cash - Global Brokerage Services	98	98
	<u>\$163,576</u>	<u>\$250,328</u>

NOTE 3 – INVESTMENTS-UNRESTRICTED:

The Council's investment in 200 shares of Darden Restaurants, Inc. is recorded at fair market value on the date of donation. Interest, dividends and other realized gains for 2011 were \$86. The cost basis and fair market value as of December 31, 2011 is listed below.

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Darden Restaurants, Inc.	\$ <u>10,160</u>	\$ <u>10,712</u>

NOTE 4 – INVESTMENTS-RESTRICTED:

The Council's investments as of December 31, 2011, were recorded at the lower of cost or fair market value totaling \$42,866. The Adams County Arts Legacy Fund was transferred to the Adams County Community Foundation on July 1, 2011. The Adams County Community Foundation is recorded at fair market value in the amount of \$42,866 on the financial statements as of December 31, 2011. The investment, called the Adams County Community Foundation, is held by Adams County National Bank. Interest, dividends and other realized gains for 2011 were \$1,125. Management fees for 2011 were \$661. The cost basis and fair market value as of December 31, 2011 is listed below.

	<u>Cost Basis</u>	<u>Fair Market Value</u>
Adams County Community Foundation	\$ <u>50,102</u>	\$ <u>42,866</u>

NOTE 5 – FIXED ASSETS :

Fixed assets include the purchase of the building at 125 S. Washington Street, Gettysburg, consulting fees, architect fees, building permits and other fees related to the new building, and equipment, which are recorded in the financial statements at cost. Significant assets are reflected on the financial statements at their historical cost or estimated value. Purchases or donations of minor assets are not recorded on the statement of financial position, but are expensed in the year in which they are purchased. Depreciation is computed on the fixed assets of the organization using the modified accelerated cost recovery system (MACRS) method over the estimated useful life of the asset. Depreciation expense for 2011 was \$5,950. Estimated useful lives of the assets range from seven to thirty-nine years.

NOTE 6 – DEFERRED REVENUE :

Deferred revenue as of December 31, 2011, is available for the purpose of funding the Roots and Wings program in the amount of \$6,050, the Acts of Kindness production in the amount of \$9,000, the capital campaign in the amount of \$17,600, and other 2012 programs in the amount of \$15,584, for a total of \$48,234.

NOTE 7 – CONSTRUCTION LOAN LINE OF CREDIT:

The Adams County Arts Council signed a construction loan line of credit agreement on November 12, 2010, secured by real estate located at 125 South Washington Street, Gettysburg, PA together with all improvements, equipment, and fixtures. The maximum amount to be funded is \$1,494,600. The construction line of credit has an original variable interest rate of 3.25%, which at all times will be equal to the Prime Rate. The maturity date was extended to November 15, 2011. The note calls for monthly interest payments until the completion of construction. The proceeds of this note were used for the purchase of the building and improvements thereon. The balance of this loan as of December 31, 2011, was \$-0-. Interest expense paid during 2011 was \$25,057.

NOTE 8 – USDA NOTE PAYABLE :

The Adams County Arts Council signed a promissory note on November 15, 2011, secured by real estate located at 125 South Washington Street, Gettysburg, PA together with all improvements, equipment and fixtures with the United States Department of Agriculture (USDA). The maximum amount to be funded is \$1,469,600. The note has an original interest rate of 3.75%. The note calls for interest only payments on May 15, 2012, and November 15, 2012; then on December 15, 2012, principal and interest payments in the amount of \$5,981.00 are to be paid on the 15<sup>th</sup> of each month until the principal and interest are fully paid or within 40 years from the date of the note. The proceeds of this note were used to pay off the construction loan line of credit and for the improvements on the building and equipment. The balance of this note as of December 31, 2011, was \$1,368,730. There were no payments made in 2011.

NOTE 9 – DONATED SERVICES, SUPPLIES AND FACILITIES:

Contributed professional services are recognized if the services received either 1) create or enhance long-lived assets, or 2) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible supplies and facilities are recognized at fair market value when received. In-kind contributions of supplies and facilities in the amount of \$57,904 are recorded as support in the statement of activities as of December 31, 2011.

Additionally, the Council receives a significant amount of skilled, contributed time, which does not meet the two recognition criteria above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements. However, a substantial number of volunteers have donated approximately 5,149 hours of their time for the Council's program services in 2011.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS:

As of December 31, 2011, the Council's temporarily restricted net assets consisted of the accumulated net income, which has not yet been distributed, from the Adams County Community Foundation in the amount of \$1,798.

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS:

As of December 31, 2011, the Council's permanently restricted net assets consisted of the cost of the investments in the Adams County Community Foundation in the amount of \$41,068.

ADAMS COUNTY ARTS COUNCIL  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2011

<u>Federal Grantor/Pass- Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Cash Received 12/31/11</u>	<u>Federal Expenditures 12/31/11</u>
U.S. Dept. of Agriculture Rural Housing Service USDA Loan	10.766	N/A	<u>\$1,368,730</u>	<u>\$1,368,730</u>

See accompanying notes to the schedule of federal assistance.

ADAMS COUNTY ARTS COUNCIL

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity

In accordance with the provisions of GASB Statement No. 14 "The Financial Reporting Entity", the Adams County Arts Council is not a component unit, nor are any entities considered to be component units of the Adams County Arts Council.

B. Basis of Accounting

The Schedule of Expenditures of Federal Awards has been prepared on the basis consistent with that used in the preparation of the financial statements. As described in Note 1 to the financial statements, the accrual basis of accounting is used.

C. Determination of Major Programs

In accordance with the Single Audit Act, the Authority's 2011 threshold for major programs is \$300,000.

In order to determine that major federal award programs comprised at least 50% of the total federal expenditures and were tested in accordance with the Single Audit requirements, the following calculation was made:

Total federal expenditures per Schedule of Expenditures & Federal Awards	\$ 1,368,730
Programs selected for testing:	
U.S. Department of Agriculture – Rural Housing Service Loan funds	\$ 1,368,730
Percent of total federal expenditures	100 %



**DEBORAH J. ZEARFOSS, CPA**  
**228 Main Street**  
**Berlin, PA 15530**  
**(814) 267-9981**

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENTAL AUDITING STANDARDS*

October 8, 2012

To the Board of Directors of the  
Adams County Arts Council

I have audited the financial statements of Adams County Arts Council (a non-profit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated October 8, 2012. I conducted the 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 the audit, I considered Adams County Arts Council's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Adams County Arts Council's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

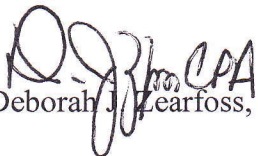
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

To the Board of Directors of the  
Adams County Arts Council  
October 8, 2012  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adams County Arts Council's financial statements are free of material misstatement, I 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 the audit, and accordingly, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Deborah J. Fearfoss, CPA

**DEBORAH J. ZEARFOSS, CPA**  
**228 Main Street**  
**Berlin, PA 15530**  
**(814) 267-9981**

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

October 8, 2012

To the Board of Directors of the  
Adams County Arts Council

Compliance

We have audited Adams County Arts Council's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Adams County Arts Council's major federal programs for the year ended December 31, 2011. Adams County Arts Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Adams County Arts Council's management. My responsibility is to express an opinion on Adams County Arts Council's compliance based on the audit.

I conducted the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Adams County Arts Council's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that the audit provides a reasonable basis for my opinion. The audit does not provide a legal determination of Adams County Arts Council's compliance with those requirements.

To the Board of Directors of the  
Adams County Arts Council  
October 8, 2012  
Page 2

In my opinion, Adams County Arts Council complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.


### Internal Control Over Compliance

Management of Adams County Arts Council is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing the audit, I considered Adams County Arts Council's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Adams County Arts Council's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Deborah J. Zearfoss, CPA

ADAMS COUNTY ARTS COUNCIL  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2011

No prior audit findings are reported herein due to none being noted in the prior year.

ADAMS COUNTY ARTS COUNCIL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**A. SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report expresses an unqualified opinion on the financial statements of the Adams County Arts Council.
2. No reportable conditions relating to the audit of the financial statements are disclosed in the report on the internal control over financial reporting.
3. No instances of noncompliance material to the financial statements of the Adams County Arts Council were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are disclosed in the report on internal control over compliance.
5. The auditor's report on compliance for the major federal award program for the Adams County Arts Council expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award program for the Adams County Arts Council reported in this Schedule.
7. The program tested as a major program included:

U.S. Department of Agriculture Rural Housing Service – USDA loan -  
CFDA #10.766
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Adams County Arts Council was determined to be a high-risk auditee, only because the program was new and was not audited as a major program in either of the two most recent audit periods.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

None

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None