

# **Erie Yacht Club Foundation**

Auditor's Report and Financial Statements

October 31, 2013



**Erie Yacht Club Foundation**  
**October 31, 2013**

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## Independent Auditor's Report

Board of Directors  
Erie Yacht Club Foundation  
Erie, Pennsylvania

We have audited the accompanying financial statements of the Erie Yacht Club Foundation (Foundation), which comprise the statement of financial position as of October 31, 2013, and the related statements 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 from 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 Foundation'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 Foundation'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.

Board of Directors  
Erie Yacht Club Foundation  
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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Erie Yacht Club Foundation as of October 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*BKD, LLP*

Erie, Pennsylvania  
August 18, 2014

**Erie Yacht Club Foundation**  
**Statement of Financial Position**  
**As of October 31, 2013**

**Assets**

Cash and cash equivalents	\$ 242,314
Contributions receivable, net of discount; 2013 - \$12,296	363,327
Investments	90,696
Construction in progress	<u>213,316</u>
Total assets	<u><u>\$ 909,653</u></u>

**Net Assets**

Unrestricted net assets	\$ 251,907
Temporarily restricted net assets	<u>657,746</u>
Total net assets	<u><u>\$ 909,653</u></u>

**Erie Yacht Club Foundation**  
**Statement of Activities**  
**Year Ended October 31, 2013**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
Direct Public Support			
Annual Appeal	\$ -	\$ 3,755	\$ 3,755
Education building income	-	843,201	843,201
Commodore Fund - Rickloff	-	10,000	10,000
Commodore Fund - Other	7,295	-	7,295
Reyburn Fund	12,789	-	12,789
Administrative fee	4,482	-	4,482
Investment income	(1,512)	-	(1,512)
Net assets released from restriction	217,669	(217,669)	-
	<u>240,723</u>	<u>639,287</u>	<u>880,010</u>
<b>Expenses</b>			
Program	8,729	-	8,729
Management and general	8,867	-	8,867
Fundraising	60,319	-	60,319
	<u>77,915</u>	<u>-</u>	<u>77,915</u>
<b>Changes in Net Assets</b>	162,808	639,287	802,095
<b>Net Assets, Beginning of Year</b>	<u>89,099</u>	<u>18,459</u>	<u>107,558</u>
<b>Net Assets, End of Year</b>	<u>\$ 251,907</u>	<u>\$ 657,746</u>	<u>\$ 909,653</u>

**Erie Yacht Club Foundation**  
**Statement of Cash Flows**  
**Year Ended October 31, 2013**

<b>Operating Activities</b>	
Change in net assets	\$ 802,095
Items not requiring (providing) operating activities cash flows	
Net unrealized (gains) losses on investments	485
Contributions pledged restricted for construction of long-lived assets	<u>(843,201)</u>
Net cash used in operating activities	<u>(40,621)</u>
<b>Investing Activities</b>	
Construction in progress	<u>(213,316)</u>
Net cash used in investing activities	<u>(213,316)</u>
<b>Financing Activities</b>	
Contributions pledged restricted for construction of long-lived assets	843,201
Increase in contributions receivable restricted for construction of long-lived assets	<u>(363,327)</u>
Net cash provided by financing activities	<u>479,874</u>
<b>Increase in Cash and Cash Equivalents</b>	225,937
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>16,377</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 242,314</u></u>

**Erie Yacht Club Foundation**  
**Notes to Financial Statements**  
**October 31, 2013**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Erie Yacht Club Foundation (the “Foundation”) is a not-for-profit organization whose mission and principal activities are to work closely with the Erie Yacht Club to raise money for specific community programs, with a focus on maritime related activities and education. The Foundation’s revenues and other support are derived principally from contributions, and its activities are conducted principally in the Erie area.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At October 31, 2013, cash equivalents consisted primarily of money market accounts and a sweep account with brokers and certificates of deposit.

***Investments and Investment Return***

Investments are recorded at fair value.

The change between fair value and cost of investments bought, sold, and held during the year (realized and unrealized) is reflected as net appreciation (depreciation) in the fair value of investments, and is recorded in investment income in the statement of activities.

***Construction in Progress***

In 2013, the Foundation began a project to construct a building. The building will be used to carry out maritime educational activities. The balance consists entirely of amounts expended on the construction of the building. The costs have been capitalized as incurred and will be depreciated when construction is completed. The Foundation does not currently have a capitalization policy.



# **Erie Yacht Club Foundation**

## **Notes to Financial Statements**

**October 31, 2013**

### ***Temporarily Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

### ***Income Taxes***

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2010.

### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on the actual time spent and other methods.

**Erie Yacht Club Foundation**  
**Notes to Financial Statements**  
**October 31, 2013**

**Note 2: Investments and Investment Return**

Investments at October 31, 2013 consisted of mutual funds totaling \$90,696.

**Note 3: Contributions Receivable**

Contributions receivable consisted of the following as of October 31, 2013:

Due within 1 year	\$	229,336
Due within 1 - 5 years		146,287
		375,623
Less:		
Unamortized discount		12,296
		\$ 363,327

The discount rate at October 31, 2013 was 3%.

**Note 4: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at October 31, 2013 are available for the following purposes or periods:

Commodore Fund:		
Chad Klahr Trophy	\$	5,800
Sailing School Sails		19,650
Annual fund		2,411
Educational building		629,885
		\$ 657,746

**Erie Yacht Club Foundation**  
**Notes to Financial Statements**  
**October 31, 2013**

***Net Assets Released From Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Construction of education building	\$ 213,316
Annual fund grants	4,003
Reyburn Sailing School	<u>350</u>
	<u>\$ 217,669</u>

**Note 5: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

# Erie Yacht Club Foundation

## Notes to Financial Statements

October 31, 2013

### Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at October 31, 2013:

Description	2013	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
Federated Bond Fund	\$ 14,560	\$ 14,560	\$ -	\$ -
PIMCO Corporate Bond	76,136	76,136	-	-
Total mutual funds	<u>\$ 90,696</u>	<u>\$ 90,696</u>	<u>\$ -</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets, and liabilities pursuant to the valuation hierarchy. There have been no significant changes to the valuation techniques during the year ended October 31, 2013.

### Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified within Level 2 of the value hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

### Cash and Cash Equivalents

The carrying amount approximates fair value.

# Erie Yacht Club Foundation

## Notes to Financial Statements

October 31, 2013

### **Contributions Receivable**

The carrying amount approximates fair value.

### **Note 6: Significant Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Approximately 56% of all contributions were received from one donor in 2013.

### **Note 7: Leases**

Effective May 1, 2013, the Foundation began leasing land under an operating lease agreement with the Erie Yacht Club, an affiliated entity, requiring annual lease payments of \$1 through May 2063.

### **Note 8: Functional Expenses**

	<b>Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Awards and grants	\$ 8,729	\$ -	\$ -	\$ 8,729
Bank fees	-	154	-	154
Business registration fees	-	250	-	250
Insurance	-	1,688	-	1,688
Marketing	-	-	2,834	2,834
Office supplies and expenses	-	223	-	223
Professional fees	-	-	57,485	57,485
Web services	-	1,000	-	1,000
Miscellaneous	-	5,552	-	5,552
	<u>\$ 8,729</u>	<u>\$ 8,867</u>	<u>\$ 60,319</u>	<u>\$ 77,915</u>

# **Erie Yacht Club Foundation**

## **Notes to Financial Statements**

**October 31, 2013**

### **Note 9: Subsequent Event**

Subsequent to year end, the Foundation entered into a note payable agreement with one of its trustees. Under the terms of the agreement, the Foundation can borrow up to \$175,000. Interest accrues on the outstanding balance at 3% per annum. Principal and interest are payable quarterly, with the amount of each principal payment determined by cash available to the Foundation.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.