

ARROWHEAD REGIONAL ARTS COUNCIL

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

ARROWHEAD REGIONAL ARTS COUNCIL

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 8
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION	9
SUPPLEMENTARY INFORMATION	
Schedule of Grants Awarded	10 – 13

Independent Auditor's Report

October 1, 2016

To The Board of Directors
Arrowhead Regional Arts Council
Duluth, Minnesota

We have audited the accompanying financial statements of Arrowhead Regional Arts Council (a tax-exempt organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses 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 financial position of Arrowhead Regional Arts Council as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

ARROWHEAD REGIONAL ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 99,689	\$ 136,911
Total Current Assets	99,689	136,911
<u>Property And Equipment:</u>		
Leasehold improvements	-	15,007
Office equipment	33,995	33,995
	33,995	49,002
Accumulated depreciation	33,946	35,797
Net Property And Equipment	49	13,205
Total Assets	\$ 99,738	\$ 150,116
<u>Liabilities And Net Assets</u>		
<u>Current Liabilities:</u>		
Grants payable	\$ 117,565	\$ 127,333
Accrued payroll	2,240	7,718
Payroll taxes withheld	4,663	3,908
Total Current Liabilities	124,468	138,959
<u>Net Assets (Deficit):</u>		
Unrestricted	(24,730)	11,157
Temporarily Restricted	-	-
Total Net Assets (Deficit)	(24,730)	11,157
Total Liabilities And Net Assets	\$ 99,738	\$ 150,116

See accompanying notes.

ARROWHEAD REGIONAL ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
<u>Revenues:</u>				
<u>Minnesota State Arts Board Grants:</u>				
Arts and Cultural Heritage Funds	\$ -	\$ 582,152	\$ 582,152	\$ 579,034
General fund appropriation	-	161,303	161,303	161,303
McKnight Foundation Grant	-	90,000	90,000	90,000
Interest income	419	-	419	801
Other income	17,576	-	17,576	1,742
(Loss) on disposal of leasehold improv.	(12,975)	-	(12,975)	-
Net assets released from restrictions	833,455	(833,455)	-	-
Total Revenues	838,475	-	838,475	832,880
<u>Expenses:</u>				
Program expenses	798,857	-	798,857	858,478
Management and general	75,505	-	75,505	80,326
Total Expenses	874,362	-	874,362	938,804
INCREASE (DECREASE) IN NET ASSETS	\$ (35,887)	\$ -	\$ (35,887)	\$ (105,924)
<u>Net Assets (Deficit):</u>				
Beginning of year	11,157	-	11,157	117,081
End of year	\$ (24,730)	\$ -	\$ (24,730)	\$ 11,157

See accompanying notes.

ARROWHEAD REGIONAL ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	Program	Fundraising	Management & General	2016 Total	2015
Salaries	\$166,895	\$ -	\$ 29,452	\$196,347	\$ 183,768
Payroll taxes	14,124	-	492	14,616	22,187
Employee benefits	10,575	-	1,866	12,441	12,260
Pension	8,261	-	918	9,179	7,082
Total Compensation	199,855	-	32,728	232,583	225,297
Accounting	-	-	4,325	4,325	4,350
Administrative	-	-	6,094	6,094	4,095
Advertising/public relations	-	-	9,468	9,468	4,462
Arrowhead arts awards	4,827	-	-	4,827	5,955
Bank charges	-	-	25	25	-
Board technology stipend	-	-	-	-	2,757
Contract services	1,193	-	795	1,988	3,238
Council and staff travel	10,834	-	1,478	12,312	18,730
Creative MN individual report	750	-	-	750	-
Cultural data project	569	-	-	569	1,023
Depreciation	-	-	181	181	400
Dues	-	-	2,167	2,167	1,911
Equipment and repairs	1,443	-	1,650	3,093	11,111
Foundant Technologies	-	-	-	-	8,500
Grants awarded	556,000	-	-	556,000	612,376
Insurance	-	-	2,265	2,265	1,813
Miscellaneous	-	-	1,439	1,439	1,538
Moving expenses	-	-	3,939	3,939	-
Office rent	15,058	-	6,454	21,512	12,216
Postage	416	-	178	594	944
Printing	715	-	306	1,021	149
Rural arts/cultural summit scholarships	-	-	-	-	2,745
Supplies	2,682	-	1,150	3,832	6,864
Technical assistance	2,504	-	-	2,504	3,826
Telephone	1,588	-	681	2,269	3,111
Website redesign/maint.	424	-	182	605	1,393
Total Expenses	<u>\$798,857</u>	<u>\$ -</u>	<u>\$ 75,505</u>	<u>\$874,362</u>	<u>\$ 938,804</u>

See accompanying notes.

(4)

ARROWHEAD REGIONAL ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities:</u>		
Increase (decrease) in net assets	\$ (35,887)	\$ (105,924)
<u>Adjustments to reconcile to net cash flows from operating activities:</u>		
Depreciation	181	400
Loss on disposal of assets	12,975	
<u>Other:</u>		
(Increase) decrease in:		
Prepaid expenses	-	281
Increase (decrease) in:		
Accounts payable/accruals	(14,491)	35,988
Net Cash Flows From Operating Activities	<u>(37,222)</u>	<u>(69,255)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	<u>-</u>	<u>-</u>
Net Cash Flows From Investing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIV.	(37,222)	(69,255)
Cash and cash equiv., beginning of year	<u>136,911</u>	<u>206,166</u>
Cash and cash equiv., end of year	<u>\$ 99,689</u>	<u>\$ 136,911</u>

See accompanying notes.

(5)

ARROWHEAD REGIONAL ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Organizational Status

Arrowhead Regional Arts Council is a tax-exempt 501(c)(3) organization that provides funding to regional arts organizations and individual artists within the Minnesota Arrowhead Region. The Council also provides technical assistance along with management and planning assistance to regional arts organizations and artists.

Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization 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 and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment is stated at cost, if purchased or at fair value at the date of the gift, if donated, less accumulated depreciation. Depreciation is determined on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 20 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Uncertainties, Contingencies, and Risks

The Organization's policy is to depreciate its buildings and equipment over their estimated useful lives using the straight-line method and to annually evaluate the remaining useful lives. It is at least reasonably possible that the Organization's estimate of the remaining useful lives will change in the near term.

Financial Statement Presentation

Under FASB ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

ARROWHEAD REGIONAL ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is exempt from income tax under section 501(c)(3) of the Internal Revenue Code.

Pensions

The Organization sponsors a defined contribution retirement plan for employees. Contributions are based on a percentage of employee salaries.

Advertising

Advertising costs are expensed when incurred.

Cash and Cash Equivalents

Cash and cash equivalents include checking and savings accounts for purposes of the statement of cash flows.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash and cash equivalents.

Subsequent Events

Management has evaluated subsequent events through October 1, 2016, the date on which the financial statements were available to be issued.

NOTE B – CONCENTRATIONS

The Organization has concentrations of grant revenues from the Minnesota State Arts Board via the State of Minnesota general fund and the Minnesota Legacy Amendment Fund. This funding is subject to renewal on an annual basis.

The Organization maintains cash balances that at times exceed the \$250,000 covered by the FDIC. It is the opinion of management that the solvency of the financial institution provides assurance that there is no potential for loss.

ARROWHEAD REGIONAL ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE C – PROPERTY, PLANT AND EQUIPMENT

Depreciation charged to operations for 2016 and 2015 amounted to \$181 and \$400, respectively. The major classes of property, plant and equipment at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ -	\$ 15,007
Office equipment	<u>33,995</u>	<u>33,995</u>
	\$ 33,995	\$ 49,002
Accumulated depreciation	<u>33,946</u>	<u>35,797</u>
	<u>\$ 49</u>	<u>\$ 13,205</u>

NOTE D – TEMPORARILY RESTRICTED NET ASSETS

The Organization receives funding from the Arts and Cultural Heritage Funds to be used for grants to regional arts organizations and individuals. As of June 30, 2016 and 2015, there were funds encumbered this purpose that have not yet been paid. Starting in fiscal year 2014, the Organization is presenting these encumbered grant awards as Grants Payable. The balances of these encumbered grants shown as temporarily restricted net assets are \$-0- and \$-0- as of June 30, 2016 and 2015.

NOTE E– RENTAL LEASE COMMITMENT

The Organization leases office space under a lease agreement that expires in November, 2017. Rent is charged at \$2,180 per month during year one and \$2,245 in year two. Rent expense for 2016 and 2015 was \$21,512 and \$12,216. Future minimum annual rentals are \$26,940 through November, 2017.

NOTE F – TAX STATUS

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the plan and recognize a tax liability if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the organization, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Independent Auditor's Report on the Supplementary Information

October 1, 2016

To The Board of Directors
Arrowhead Regional Arts Council
Duluth, Minnesota

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a 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 and consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

ARROWHEAD REGIONAL ARTS COUNCIL
SCHEDULE OF GRANTS AWARDED
YEAR ENDED JUNE 30, 2016

<u>GRANTEE</u>	<u>AMOUNT</u>
Adam Booker	3,000.00
Adam McCauley	3,000.00
Alberto Serrano Rivera	3,000.00
Alisi Styles	3,000.00
All Black Zine	680.00
Andy Bennett	3,000.00
Andy Messerschmidt	2,000.00
Angie Frank	2,000.00
Anton Jimenez-Kloeckl	3,000.00
Arrowhead Chorale	5,000.00
Arrowhead Chorale	15,000.00
Avalon Educational Institute	6,000.00
Ben Cogger	3,000.00
Big Time Jazz Orchestra	15,000.00
Brent Kustermann	3,000.00
Brett Grandson	3,000.00
Brett Grandson	1,388.00
Brian Barber	1,850.00
Bryan Hansel	1,560.00
Carolyn S. Olson	990.00
Catherine Meier	1,000.00
Catherine Meier	2,000.00
Chalk.a.Lot	5,000.00
Chester Bowl Improvement Club	4,000.00
Chris Monroe	3,000.00
Chuck Haavik	1,000.00
City of Grand Rapids	3,330.00
Cole Perry	1,000.00
Corey Gice	2,545.00
Craig Blacklock	3,000.00
Dan Anderson	1,000.00
Dan Neff	2,000.00
David Moreira	1,000.00
David Moreira	2,000.00
Dawn LaPointe	862.00
Duluth Children's Museum	5,000.00
Duluth Superior Film Festival	5,000.00
ElderCircle	5,000.00
Elizabeth LaPensee	7,000.00
Elizabeth LaPensee	960.00

ARROWHEAD REGIONAL ARTS COUNCIL
SCHEDULE OF GRANTS AWARDED
YEAR ENDED JUNE 30, 2016

<u>GRANTEE</u>	<u>AMOUNT</u>
Ely ArtWalk	5,000.00
Ely Winter Festival	5,000.00
Emily Derke	7,000.00
Eric Dubnicka	1,460.00
Eric Edgin	1,000.00
Esther Piszczek	950.00
Eun-Kyung Suh	980.00
Free Range Film Festival	5,000.00
Friends of B'nai Abraham	3,100.00
Good Harbor Hill Players	4,500.00
Good Harbor Hill Players	5,000.00
Grand Marais Arts, Inc.	5,000.00
Grand Marais Arts, Inc.	15,000.00
Grand Rapids Area Male Chorus	5,000.00
Grand Rapids Arts	4,550.00
Grand Rapids Players	5,000.00
Homegrown Music Festival	15,000.00
Icebox Radio Theater	5,000.00
Itasca Choral Society/Itasca Community Chorus	3,700.00
Jakob Larson	2,000.00
Jamie Ness	3,000.00
Jamie Ness	800.00
Jason Page	2,000.00
Jean Sramek	3,000.00
Jean Sramek	830.00
Jeanette Cox	2,910.00
Jon Brophy	2,000.00
Jonathan Thunder	1,000.00
Joshua Bernstein	3,000.00
Judy Budreau	1,060.00
Julie Gard	1,660.00
Karen Owsley Nease	2,840.00
Katherine Sandnas	3,000.00
Kathleen McTavish	5,820.00
Kathleen McTavish	1,000.00
Kimberlie Dillon	7,000.00
Kip Praslowicz	7,000.00
Kirsten Aune	3,000.00
Kirsten Aune	1,000.00
Kristen Kaas	2,545.00

ARROWHEAD REGIONAL ARTS COUNCIL
SCHEDULE OF GRANTS AWARDED
YEAR ENDED JUNE 30, 2016

<u>GRANTEE</u>	<u>AMOUNT</u>
Lake Superior Chamber Orchestra	5,000.00
Lake Superior Chamber Orchestra	5,000.00
Lake Superior Youth Chorus	5,000.00
Lake Superior Youth Chorus	6,000.00
Laura Sellner	3,000.00
Laura Sellner	1,970.00
Leah Yellowbird	7,000.00
Leah Yellowbird	1,000.00
Leif Brush	1,000.00
Lucie Amundsen	1,640.00
Lyric Opera of the North	5,000.00
Lyz Jaakola	3,920.00
Magic Smelt Puppet Troupe	5,000.00
Marc Gartman	3,000.00
Mary Bue	3,000.00
Mary Bue	990.00
Mary Plaster	6,000.00
Matinee Musicale	5,000.00
Matinee Musicale	5,000.00
Matt Wasmund	1,990.00
Matthew Mobley	1,700.00
Melissa Wickwire	1,000.00
Mesabi Community Orchestra d/b/a Mesabi Symphony Orche	5,000.00
Mesabi Community Orchestra d/b/a Mesabi Symphony Orche	1,000.00
Mesabi Musical Theatre	5,000.00
Michelle Matthees	1,400.00
Michelle Wegler	660.00
Mike Scholtz	1,000.00
Mike Scholtz	2,000.00
Minnesota State Old Time Fiddle Championships	5,000.00
Myers-Wilkins Community School Collaborative	6,000.00
Naomi Christenson	1,000.00
Nicholas Sundahl	3,000.00
North Shore Music Association	5,000.00
North Shore Music Association	5,000.00
North Shore Music Association	5,300.00
Northern Lakes Arts Association	5,000.00
Northern Lights Music Festival, Inc.	5,000.00
Patricia Canelake	1,870.00
Paul Losik	2,980.00

ARROWHEAD REGIONAL ARTS COUNCIL
SCHEDULE OF GRANTS AWARDED
YEAR ENDED JUNE 30, 2016

<u>GRANTEE</u>	<u>AMOUNT</u>
Paula Gudmundson	3,000.00
Paula Gudmundson	880.00
Paula Gudmundson	2,000.00
PK Pestalozzi	7,000.00
PK Pestalozzi	3,000.00
Rainy Lake Community Orchestra	5,000.00
Reggie Asplund	950.00
Renegade Theater Company	5,000.00
Renegade Theater Company	5,000.00
Ressl Dance!	5,000.00
Robert Adams	3,000.00
Robert Adams	1,000.00
Robert LaMettry	400.00
Robin Bellanger	960.00
Shaunna Heckman	3,000.00
Sky Blue Jazz Ensemble	4,150.00
Spirit Lake Poetry Series	5,000.00
Stephanie Mirocha	850.00
The College of St. Scholastica	5,960.00
The College of St. Scholastica	6,000.00
The Ely Community Spring Musical	5,000.00
Tim Kaiser	900.00
Tim White	990.00
Troy Rogers	7,000.00
Troy Rogers	5,670.00
Troy Rogers	2,000.00
Twin Ports Choral Project	1,000.00
Twin Ports Choral Project	15,000.00
Valley Youth Center	1,000.00
Vernal Bogren Swift	1,000.00
VFW Post 1720	5,000.00
Wendy Savage	1,000.00
William Hurst	1,000.00
Zeitgeist Center for Arts and Community	15,000.00
	<u>\$ 556,000.00</u>