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LAKE REGION ARTS COUNCIL
FERGUS FALLS, MINNESOTA
FINANCIAL REPORT
June 30, 2016

LAKE REGION ARTS COUNCIL

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SWENSON, SAURER, GERBER, ANDERSON & Co., LTD.

CERTIFIED PUBLIC ACCOUNTANTS

Arlan C. Swenson, CPA ♦ Dwayne V. Saurer, CPA ♦ Kelly L. Gerber, CPA ♦ Edwin A. Anderson, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lake Region Arts Council
Fergus Falls, Minnesota

We have audited the accompanying financial statements of Lake Region Arts Council, which comprise the statement of financial position as of June 30, 2016, 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 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 Lake Region Arts Council as of June 30, 2016, 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.

Other Matters

Certain information for the year ended June 30, 2015, is presented for comparative purposes only and was extracted from the 2015 financial statements, on which an unqualified opinion dated October 5, 2015 was expressed.

Swenson, Saurer, Gerber, Anderson & Co., Ltd.
October 10, 2016

LAKE REGION ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With Comparative Totals for 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$125,888	\$132,411
Prepaid Expenses	12,116	5,280
Accounts Receivable	<u>60,000</u>	<u>120,000</u>
Total Current Assets	<u>\$198,004</u>	<u>\$257,691</u>
EQUIPMENT		
Equipment	\$ 78,236	\$ 78,236
Less Accumulated Depreciation	<u>(59,639)</u>	<u>(56,031)</u>
Net Equipment	<u>\$ 18,597</u>	<u>\$ 22,205</u>
Total Assets	<u>\$216,601</u>	<u>\$279,896</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 10,249	\$ 1,062
Grants Payable	<u>78,127</u>	<u>94,872</u>
Total Current Liabilities	<u>\$ 88,376</u>	<u>\$ 95,934</u>
COMMITMENTS	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS		
Unrestricted	\$ 66,535	\$ 61,121
Temporarily Restricted	<u>61,690</u>	<u>122,841</u>
Total Net Assets	<u>\$128,225</u>	<u>\$183,962</u>
Total Liabilities and Net Assets	<u>\$216,601</u>	<u>\$279,896</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Minnesota State Arts Board Grant	\$566,137	\$ -	\$566,137	\$563,764
McKnight Foundation Grant	-	-	-	180,000
Interest Income	37	-	37	175
Other Revenue	8,150	100	8,250	15,511
Net Assets Released From Restrictions	<u>61,251</u>	<u>(61,251)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>\$635,575</u>	<u>\$(61,151)</u>	<u>\$574,424</u>	<u>\$759,450</u>
EXPENSES				
Program Services				
General Program	\$106,046	\$ -	\$106,046	\$108,988
McKnight Foundation	61,499	-	61,499	61,848
Arts and Cultural Heritage	<u>449,786</u>	<u>-</u>	<u>449,786</u>	<u>481,168</u>
Total Program Services	\$617,331	\$ -	\$617,331	\$652,004
General and Administrative	<u>12,830</u>	<u>-</u>	<u>12,830</u>	<u>13,359</u>
Total Expenses	<u>\$630,161</u>	<u>\$ -</u>	<u>\$630,161</u>	<u>\$665,363</u>
Change in Net Assets	\$ 5,414	\$(61,151)	\$(55,737)	\$ 94,087
NET ASSETS - Beginning of Year	<u>61,121</u>	<u>122,841</u>	<u>183,962</u>	<u>89,875</u>
NET ASSETS - End of Year	<u>\$ 66,535</u>	<u>\$ 61,690</u>	<u>\$128,225</u>	<u>\$183,962</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

EXPENSES	2016				2015 Total	
	General Program	McKnight Foundation	Arts and Cultural Heritage	General and Administrative		Total
Salaries and Wages	\$ 30,503	\$ 5,469	\$110,128	\$ 1,677	\$147,777	\$126,073
Payroll Taxes	2,358	418	8,449	128	11,353	11,620
Employee Benefits	(13)	(6)	(105)	(3)	(127)	15,055
Newsletter and Website	295	-	11,303	-	11,598	14,781
Grants and Awards	58,800	18,000	265,511	-	342,311	372,891
Travel, Meals and Lodging	3,666	1,772	6,441	(708)	11,171	14,448
Telephone	370	185	948	370	1,873	2,235
Postage	266	133	665	266	1,330	1,459
Electricity	183	1,209	456	182	2,030	1,798
Office Expenses	1,258	467	3,820	986	6,531	2,889
Rent	3,500	28,550	8,750	3,500	44,300	43,875
Gallery Expense	-	2,980	5,799	-	8,779	7,197
Other Program	3,152	-	4,960	-	8,112	5,329
Repairs and Maintenance	178	89	445	178	890	1,441
Parking	86	43	216	76	421	1,503
Insurance	-	707	884	177	1,768	2,308
Professional Services	1,345	686	9,925	4,271	16,227	14,865
Memberships	-	166	831	664	1,661	1,885
Workshops	18	31	6,939	107	7,095	3,880
Depreciation	-	556	2,858	194	3,608	3,978
Miscellaneous	81	44	563	765	1,453	15,853
	<u>\$106,046</u>	<u>\$61,499</u>	<u>\$449,786</u>	<u>\$ 12,830</u>	<u>\$630,161</u>	<u>\$665,363</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (55,737)	\$ 94,087
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,608	3,978
(Increase) Decrease in Operating Assets		
Accounts Receivable	60,000	(120,000)
Prepaid Expenses	(6,836)	(4,794)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	9,187	(3,411)
Grants Payable	<u>(16,745)</u>	<u>3,710</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,523)</u>	<u>\$ (26,430)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	<u>\$ -</u>	<u>\$ (5,676)</u>
Net Cash Provided (Used) by Investing Activities	<u>\$ -</u>	<u>\$ (5,676)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (6,523)	\$ (32,106)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>132,411</u>	<u>164,517</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 125,888</u>	<u>\$ 132,411</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. Nature of Operations and Significant Accounting Policies

Nature of Operations:

Lake Region Arts Council is a non-profit corporation organized under the laws of the State of Minnesota. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation within the meaning of Section 509(a) of the Code. The Corporation was formed to provide funding for artistic endeavors through a re-granting process.

Funding of the Corporation's activities is from three major sources: the Minnesota State Legislature appropriation, the Minnesota Arts and Cultural Heritage Fund and the McKnight Foundation. Continuing support from the State Legislature and the McKnight Foundation is on a year-by-year basis.

Support and Revenue:

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a 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.

Contributions of noncash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates.

Cash and Cash Equivalents:

The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. Nature of Operations and Significant Accounting Policies
(continued)

Equipment:

Office equipment is reported at cost if the asset was purchased, or at fair market value at the date of receipt if the asset was donated. Depreciation totaling \$3,608 for the year ended June 30, 2016 was computed using the straight-line method over the estimated useful lives of the assets.

NOTE 2. Grants Payable

Lake Region Arts Council awards grants to qualifying organizations and individuals based on an evaluation process carried on by the governing board. In most cases, a portion of the amount awarded is withheld until the project being funded is completed. At June 30, 2016 a total of \$78,127 has been awarded but not yet remitted to grantees. This amount will be paid during the next fiscal year.

NOTE 3. Net Assets

The net assets as of June 30, 2016 consisted of the following components:

	<u>June 30, 2016</u>
Unrestricted:	
General Program	\$ <u>58,655</u>
Temporarily Restricted:	
McKnight Foundation	\$ <u>61,690</u>

NOTE 4. Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Costs which have been allocated include salaries, payroll taxes, telephone, occupancy costs and postage.

NOTE 5. Lease Commitment

On November 1, 2015, the Corporation entered into a lease for office space and for an art gallery. The lease term runs from November 1, 2015 through October 31, 2017. The lease calls for monthly payments of \$3,725 due on the first day of each month.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 6. Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Note 7. Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through October 10, 2016, the date the financial statements were available to be issued.