

**NORTHWEST MINNESOTA ARTS COUNCIL
WARREN, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Minnesota Arts Council
Warren, Minnesota

Report on Financial Statements

We have audited the accompanying financial statements of Northwest Minnesota Arts Council (a non-profit organization), which comprises the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities 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 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 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.

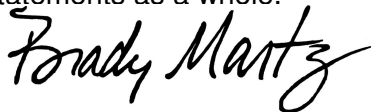
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Minnesota 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses by grant source on page 10 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 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.
CROOKSTON, MINNESOTA**

August 31, 2016

NORTHWEST MINNESOTA ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash	\$ 44,173	\$ 99,093
Grant and program receivables	2,404	2,456
Total current assets	<u>46,577</u>	<u>101,549</u>
Property and equipment	3,880	2,652
Less accumulated depreciation	<u>(1,971)</u>	<u>(795)</u>
	1,909	1,857
Total assets	<u><u>\$ 48,486</u></u>	<u><u>\$ 103,406</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Subawards payable	\$ 21,500	\$ 76,756
Accounts payable	5,558	9,643
Total liabilities	<u>27,058</u>	<u>86,399</u>
Net assets		
Unrestricted	<u>21,428</u>	<u>17,007</u>
Total liabilities and net assets	<u><u>\$ 48,486</u></u>	<u><u>\$ 103,406</u></u>

See Notes to the Financial Statements

NORTHWEST MINNESOTA ARTS COUNCIL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES AND OTHER SUPPORT		
Grants		
MN State Legacy Fund	\$ 310,174	\$ 328,031
McKnight Foundation	70,000	75,928
MN State Arts Board	85,943	85,942
Returned subawards	4,366	5,000
Other	7,246	4,766
Interest	<u>205</u>	<u>201</u>
Total revenues and other support	<u>477,934</u>	<u>499,868</u>
EXPENSES		
Administrative services	110,502	114,849
Grants and awards	298,551	324,829
Travel, meals and lodging	15,220	8,843
Telephone	700	610
Registration and membership	1,437	1,333
Office and supplies	795	-
Outside services	28,271	35,714
Rent	2,442	2,886
Depreciation	1,176	530
Internet and computer	9,335	1,615
Printing	600	3,608
Exhibitions and showcases	1,402	1,313
Insurance	32	32
Professional services	366	379
Miscellaneous	<u>2,684</u>	<u>1,346</u>
Total expenses	<u>473,513</u>	<u>497,887</u>
Changes in net assets	4,421	1,981
Net assets, beginning of year	<u>17,007</u>	<u>15,026</u>
Net assets, end of year	<u>\$ 21,428</u>	<u>\$ 17,007</u>

See Notes to the Financial Statements

NORTHWEST MINNESOTA ARTS COUNCIL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 4,421	\$ 1,981
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,176	530
Changes in operating assets and liabilities:		
Receivables	52	(1,216)
Accounts payable	(4,085)	9,643
Subawards payable	(55,256)	50,621
Unearned revenue	-	(30,448)
Cash provided (used) by operating activities	<u>(53,692)</u>	<u>31,111</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(1,228)</u>	<u>-</u>
Net change in cash	(54,920)	31,111
Cash, beginning of year	<u>99,093</u>	<u>67,982</u>
Cash, end of year	<u>\$ 44,173</u>	<u>\$ 99,093</u>

See Notes to the Financial Statements

NORTHWEST MINNESOTA ARTS COUNCIL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Northwest Minnesota 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 Organization was formed to provide funding for artistic endeavors through a re-granting process. Funding of the Organization's activities primarily comes from the Minnesota State Legislature appropriation, Minnesota Arts and Cultural Heritage Fund, and McKnight Foundation, which is based on annual and bi-annual awards.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. The Organization has adopted a policy to capitalize acquisitions over \$800. Donated property is recorded as support at its estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to the specific purpose.

Depreciation

Depreciation is computed on the straight-line method over the estimated useful life of the asset. Estimated useful lives are as follows:

Computer equipment	3 to 5 years
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Support and Revenue

Grants and other contributions of cash and other assets are reported as 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 and treated as restricted if donor stipulations limit the use of asset.

Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of activities.

Unearned Revenue

Grants awarded that remain unspent at the end of the year and have not met established program compliance criteria for revenue recognition are treated as unearned revenue.

NORTHWEST MINNESOTA ARTS COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

Estimates

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

Income Taxes

Northwest Minnesota Arts Council is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Organization's policy to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the Organization has no significant uncertain tax positions that would be subject to change upon examination. Tax returns for the years ended June 30, 2013 and forward remain open for examination.

Advertising Costs

The Organization expenses advertising costs as incurred.

NOTE 2 - PROPERTY AND EQUIPMENT

Following is a summary of property and equipment owned by the Organization at June 30:

Description	2016		2015	
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation	Cost-Less Accumulated Depreciation
Equipment & furnishings	\$ 3,880	\$ 1,971	\$ 1,909	\$ 1,857

NOTE 3 - GRANTS PAYABLE

Northwest Minnesota 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 and 2015, the total commitment for grants awarded but not remitted to grantees was \$21,500 and \$76,756, respectively. Typically, grants payable are paid out in the subsequent year based on requests made by recipients.

NORTHWEST MINNESOTA ARTS COUNCIL
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 - FUNCTIONAL EXPENSES

Northwest Minnesota Arts Council total expenses for the years ended June 30, 2016 and 2015, were \$473,515 and \$497,887, respectively. Below is the allocation of total expenses by function:

	<u>2016</u>	<u>2015</u>
Program services	\$ 439,107	\$ 476,777
General and administrative	<u>34,406</u>	<u>21,110</u>
Total	<u>\$ 473,513</u>	<u>\$ 497,887</u>

NOTE 5 - ADMINISTRATIVE SERVICES CONTRACT

The Organization contracted with Northwest Minnesota Regional Development Commission to provide management information system and accounting services. The amount paid for such service for the years ended June 30, 2016 and 2015 was \$110,502 and \$114,849, respectively.

NOTE 6 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through August 31, 2016, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NORTHWEST MINNESOTA ARTS COUNCIL
SCHEDULE OF REVENUE AND EXPENSES
BY GRANT SOURCE
FOR THE YEAR ENDED JUNE 30, 2016

	2016 State				McKnight Foundation	Other Funds	Total
	<u>General</u>	<u>Arts & Arts Access</u>	<u>Arts Education</u>	<u>Arts & Cultural Heritage</u>			
REVENUE							
State of Minnesota	\$ 85,943	\$ 244,668	\$ 49,129	\$ 16,377	\$ -	\$ -	\$ 396,117
McKnight Foundation	-	-	-	-	70,000	-	70,000
Other income	2,325	3,168	698	-	553	4,868	11,612
Interest	-	205	-	-	-	-	205
Total Revenue	<u>\$ 88,268</u>	<u>\$ 248,041</u>	<u>\$ 49,827</u>	<u>\$ 16,377</u>	<u>\$ 70,553</u>	<u>\$ 4,868</u>	<u>\$ 477,934</u>
EXPENSES							
Direct Program Subawards							
Arts Project	52,025	-	-	-	-	-	52,025
Arts Legacy	-	153,018	42,640	11,000	-	-	206,658
Student artist training mentor	2,500	-	-	-	-	500	3,000
Artist grants	-	-	-	-	28,000	-	28,000
Subtotal	<u>54,525</u>	<u>153,018</u>	<u>42,640</u>	<u>11,000</u>	<u>28,000</u>	<u>500</u>	<u>289,683</u>
Program services and support costs	<u>14,973</u>	<u>24,500</u>	<u>4,383</u>	<u>2,531</u>	<u>7,346</u>	<u>-</u>	<u>53,733</u>
Total direct program awards, services and support costs	<u>69,498</u>	<u>177,518</u>	<u>47,023</u>	<u>13,531</u>	<u>35,346</u>	<u>500</u>	<u>343,416</u>
Non-Grant Programs							
Awards	1,350	267	-	-	7,251	-	8,868
Regional exhibits and showcase	660	12,367	-	-	11,367	-	24,394
Global Fest	-	10,714	-	-	-	-	10,714
Workshops and training	-	580	-	-	-	-	580
Arts promotion	-	13,922	-	-	10,001	-	23,923
Subtotal	<u>2,010</u>	<u>37,850</u>	<u>-</u>	<u>-</u>	<u>28,619</u>	<u>-</u>	<u>68,479</u>
Operating and support costs	<u>13,149</u>	<u>25,228</u>	<u>2,153</u>	<u>2,302</u>	<u>4,151</u>	<u>-</u>	<u>46,983</u>
Total non-grant programs and services, operating and support costs	<u>15,159</u>	<u>63,078</u>	<u>2,153</u>	<u>2,302</u>	<u>32,770</u>	<u>-</u>	<u>115,462</u>
Total programs, operating and support costs	<u>84,657</u>	<u>240,596</u>	<u>49,176</u>	<u>15,833</u>	<u>68,116</u>	<u>500</u>	<u>458,878</u>
Fundraising	-	-	-	-	416	-	416
General administration	3,612	7,443	650	544	794	1,176	14,219
Total Expenses	<u>\$ 88,269</u>	<u>\$ 248,039</u>	<u>\$ 49,826</u>	<u>\$ 16,377</u>	<u>\$ 69,326</u>	<u>\$ 1,676</u>	<u>\$ 473,513</u>