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January 6, 2017

Joan Lovelace
Rochester Art Center
40 Civic Center Drive SE
Rochester, MN 55904

Dear Joan Lovelace:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Rochester Art Center as of December 31, 2015. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Rochester Art Center will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Rochester Art Center also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Rochester Art Center seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

Randolph L. Johnson, Partner
+1 507 226 0431

wpd
Attachment

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Rochester Art Center

Financial Report
December 31, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Rochester Art Center
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Rochester Art Center, which are comprised of the statements of financial position as of December 31, 2015 and 2014; the related statements of activities and changes in net assets, 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 Rochester Art Center as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that Rochester Art Center will continue as a going concern. As discussed in Note 6 to the financial statements, the organization has suffered losses from operations and has an unrestricted net assets deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

RSM US LLP

Rochester, Minnesota
January 6, 2017

Rochester Art Center

**Statements of Financial Position
December 31, 2015 and 2014**

	2015	2014
Assets		
Current assets:		
Cash	\$ 33,125	\$ 100,870
Receivables:		
Trade	28,576	8,219
Pledges (Note 2)	25,033	68,095
Inventory	657	657
Prepaid expenses	4,164	4,164
Total current assets	91,555	182,005
Property and equipment:		
Leasehold interest in facility (Note 5)	6,177,488	6,345,965
Furniture and equipment, net	14,179	21,050
Net property and equipment	6,191,667	6,367,015
Other assets:		
Works of art	84,742	84,742
Total assets	\$ 6,367,964	\$ 6,633,762
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 49,556	\$ 46,541
Accrued expenses	15,011	22,498
Deferred revenue	76,305	58,532
Total current liabilities	140,872	127,571
Net assets (Notes 3 and 5):		
Unrestricted:		
Undesignated (deficit)	(140,208)	(56,201)
Invested in:		
Equipment	14,179	21,050
Works of art	84,742	84,742
Temporarily restricted	6,260,259	6,448,480
Permanently restricted	8,120	8,120
Total net assets	6,227,092	6,506,191
	\$ 6,367,964	\$ 6,633,762

See notes to financial statements.

Rochester Art Center

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
General contributions	\$ 32,048	\$ -	\$ -	\$ 32,048
Grants:				
City of Rochester (Note 5)	342,502	-	-	342,502
Others	8,483	71,838	-	80,321
Corporate sponsorships	58,625	1,000	-	59,625
Membership	27,691	-	-	27,691
Fundraisers	35,151	-	-	35,151
In-kind	88,244	-	-	88,244
Total public support	592,744	72,838	-	665,582
Revenues:				
Admissions	2,705	-	-	2,705
Rentals	186,331	-	-	186,331
Gallery shop	906	-	-	906
Exhibitions	12,055	-	-	12,055
Education	22,096	-	-	22,096
Special programs	1,341	-	-	1,341
Other	1,262	-	-	1,262
Total revenues	226,696	-	-	226,696
Net assets released from restrictions	261,059	(261,059)	-	-
Total support and revenues	1,080,499	(188,221)	-	892,278
Expenses:				
Program services	749,522	-	-	749,522
Supporting services:				
Fundraising	231,251	-	-	231,251
Management and general	190,604	-	-	190,604
Total expenses	1,171,377	-	-	1,171,377
Change in net assets	(90,878)	(188,221)	-	(279,099)
Net assets, beginning	49,591	6,448,480	8,120	6,506,191
Net assets, ending	\$ (41,287)	\$ 6,260,259	\$ 8,120	\$ 6,227,092

See notes to financial statements.

Rochester Art Center

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
General contributions	\$ 101,885	\$ -	\$ -	\$ 101,885
Grants:				
City of Rochester (Note 5)	250,000	-	-	250,000
Others	52,500	95,803	-	148,303
Corporate sponsorships	66,253	24,097	-	90,350
Membership	36,934	-	-	36,934
Fundraisers	47,458	-	-	47,458
In-kind	78,867	-	-	78,867
Total public support	633,897	119,900	-	753,797
Revenues:				
Admissions	3,377	-	-	3,377
Rentals	184,733	-	-	184,733
Gallery shop	667	-	-	667
Exhibitions	26,235	-	-	26,235
Education	31,327	-	-	31,327
Special programs	18,163	-	-	18,163
Other	122	-	-	122
Total revenues	264,624	-	-	264,624
Net assets released from restrictions	295,238	(295,238)	-	-
Total support and revenues	1,193,759	(175,338)	-	1,018,421
Expenses:				
Program services	829,940	-	-	829,940
Supporting services:				
Fundraising	174,683	-	-	174,683
Management and general	204,576	-	-	204,576
Total expenses	1,209,199	-	-	1,209,199
Change in net assets	(15,440)	(175,338)	-	(190,778)
Net assets, beginning	65,031	6,623,818	8,120	6,696,969
Net assets, ending	\$ 49,591	\$ 6,448,480	\$ 8,120	\$ 6,506,191

See notes to financial statements.

Rochester Art Center

**Statement of Functional Expenses
Year Ended December 31, 2015**

	Program Services				Total
	Exhibitions	Education	Special Programs	Gallery Shop	
Salaries and wages	\$ 128,650	\$ 85,767	\$ 12,865	\$ 4,288	\$ 231,570
Payroll taxes	10,626	7,084	1,063	354	19,127
Employee benefits	8,818	5,879	882	294	15,873
Total salaries and related expenses	148,094	98,730	14,810	4,936	266,570
Staff development	-	55	-	-	55
Equipment purchase and repair	53,209	5,258	1,848	891	61,206
Supplies	9,839	4,752	389	53	15,033
Postage and printing	38,305	2,983	934	305	42,527
Shipping and transportation	12,693	-	-	-	12,693
Advertising	5,252	1,726	1,977	501	9,456
Utilities	71,862	10,266	5,133	2,566	89,827
Telephone	8,526	1,218	609	306	10,659
Exhibition openings	7,008	767	2,455	-	10,230
Fundraising event catering	-	-	-	-	-
Dues and subscriptions	377	56	83	28	544
Miscellaneous	7,904	1,927	780	149	10,760
Contract labor	16,671	6,880	100	-	23,651
Travel	9,478	2,302	-	-	11,780
Professional services	-	-	-	-	-
Bank and credit card fees	47	324	30	30	431
Insurance	13,398	1,914	957	3,691	19,960
Total operating expenses	402,663	139,158	30,105	13,456	585,382
Amortization of leasehold interest	117,934	25,272	8,424	6,738	158,368
Depreciation	3,436	687	1,374	275	5,772
Total other operating expenses	121,370	25,959	9,798	7,013	164,140
Total expenses	\$ 524,033	\$ 165,117	\$ 39,903	\$ 20,469	\$ 749,522

See notes to financial statements.

Supporting Services			
Fundraising	Management and General	Total	Grand Totals
\$ 81,479	\$ 115,785	\$ 197,264	\$ 428,834
6,730	9,564	16,294	35,421
5,585	7,936	13,521	29,394
93,794	133,285	227,079	493,649
-	-	-	55
8,774	8,302	17,076	78,282
2,604	1,368	3,972	19,005
14,930	2,459	17,389	59,916
74	-	74	12,767
53,414	2,046	55,460	64,916
5,133	7,699	12,832	102,659
609	1,230	1,839	12,498
-	-	-	10,230
35,952	-	35,952	35,952
1,295	2,025	3,320	3,864
5,896	4,266	10,162	20,922
3,274	-	3,274	26,925
-	1,245	1,245	13,025
-	17,551	17,551	17,551
763	267	1,030	1,461
957	1,435	2,392	22,352
227,469	183,178	410,647	996,029
3,370	6,739	10,109	168,477
412	687	1,099	6,871
3,782	7,426	11,208	175,348
\$ 231,251	\$ 190,604	\$ 421,855	\$ 1,171,377

Rochester Art Center

**Statement of Functional Expenses
Year Ended December 31, 2014**

	Program Services				Total
	Exhibitions	Education	Special Programs	Gallery Shop	
Salaries and wages	\$ 136,439	\$ 90,959	\$ 13,644	\$ 4,548	\$ 245,590
Payroll taxes	11,260	7,507	1,126	375	20,268
Employee benefits	7,920	5,280	792	264	14,256
Total salaries and related expenses	155,619	103,746	15,562	5,187	280,114
Staff development	-	-	-	-	-
Equipment purchase and repair	62,300	5,341	1,956	931	70,528
Supplies	7,473	8,785	189	3,086	19,533
Postage and printing	63,262	2,286	1,772	523	67,843
Shipping and transportation	23,869	-	-	-	23,869
Advertising	7,451	1,750	2,230	1,418	12,849
Utilities	72,832	10,404	5,202	2,601	91,039
Telephone	8,641	1,234	617	309	10,801
Exhibition openings	3,127	571	630	-	4,328
Fundraising event catering	-	-	-	-	-
Dues and subscriptions	401	80	120	40	641
Miscellaneous	11,282	3,651	1,621	73	16,627
Contract labor	19,115	5,200	10,500	-	34,815
Travel	12,639	1,142	-	-	13,781
Professional services	-	-	-	-	-
Bank and credit card fees	39	1,047	4	17	1,107
Insurance	13,579	1,940	970	485	16,974
Total operating expenses	461,629	147,177	41,373	14,670	664,849
Amortization of leasehold interest	117,934	25,272	8,424	6,738	158,368
Depreciation	4,002	801	1,600	320	6,723
Total other operating expenses	121,936	26,073	10,024	7,058	165,091
Total expenses	\$ 583,565	\$ 173,250	\$ 51,397	\$ 21,728	\$ 829,940

See notes to financial statements.

Supporting Services			
Fundraising	Management and General	Total	Grand Totals
\$ 86,411	\$ 122,795	\$ 209,206	\$ 454,796
7,131	10,134	17,265	37,533
5,016	7,128	12,144	26,400
98,558	140,057	238,615	518,729
925	-	925	925
10,840	19,407	30,247	100,775
1,586	1,249	2,835	22,368
11,628	2,215	13,843	81,686
-	-	-	23,869
26,696	1,488	28,184	41,033
5,202	7,803	13,005	104,044
617	926	1,543	12,344
-	-	-	4,328
8,010	-	8,010	8,010
1,525	1,847	3,372	4,013
1,789	5,536	7,325	23,952
1,100	-	1,100	35,915
33	341	374	14,155
-	13,290	13,290	13,290
1,353	1,423	2,776	3,883
970	1,455	2,425	19,399
170,832	197,037	367,869	1,032,718
3,370	6,739	10,109	168,477
481	800	1,281	8,004
3,851	7,539	11,390	176,481
\$ 174,683	\$ 204,576	\$ 379,259	\$ 1,209,199

Rochester Art Center

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (279,099)	\$ (190,778)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	6,871	8,004
Amortization of leasehold interest	168,477	168,477
(Increase) decrease in assets:		
Accounts receivable	22,705	(7,893)
Prepaid expenses and other assets	-	162
Increase (decrease) in liabilities:		
Accounts payable	3,015	31,807
Accrued expenses	(7,487)	3,998
Deferred revenue	17,773	3,909
Net cash (used in) provided by operating activities	(67,745)	17,686
Net (decrease) increase in cash	(67,745)	17,686
Cash, beginning	100,870	83,184
Cash, ending	\$ 33,125	\$ 100,870

See notes to financial statements.

Rochester Art Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of business: The Rochester Art Center (the Organization) is a not-for-profit corporation organized under Chapter 309 of the revised statutes of the State of Minnesota. The Organization's purpose is to provide to the citizens of Rochester and southeastern Minnesota the opportunity to know, practice, and enjoy the arts. In addition, the Organization works to show the vital relationship of the arts to our daily lives and to join with schools, churches, libraries, and community groups to make Rochester a cultural center worthy of its scientific achievements. The Organization's primary funding comes from the City of Rochester (see Note 5) and through corporate and individual donations, grants and facility rental fees.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash: The Organization maintains cash in depository bank accounts.

Receivables: Receivables that are expected to be collected within one year are recorded at net realizable value. Amounts not expected to be collected within one year are reported at present value of projected future cash flows using a risk-free interest rate. Management determines bad debts by regularly evaluating individual balances and considering current financial and economic conditions. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

At December 31, 2015 and 2014, the Organization did not identify any receivables it deemed to be uncollectible. No allowance for uncollectible accounts has been recorded.

Revenue recognition: Memberships and program fees are recognized as revenue over the period to which the membership or fees relate. Revenue from grants is recognized according to the terms of the agreements. All contributions and promises to give are recognized at the time the Organization has the unconditional right to receive them and are reported at fair value as unrestricted unless specifically restricted by the donor. Conditional contributions are recognized when the condition has been substantially met. Amounts recognized that are restricted for future periods or specific purposes are reported as increases in temporarily restricted or permanently restricted net 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 and changes in net assets as net assets released from restrictions. If the restriction is met in the period the related revenue is recognized, the amounts are reported only within the unrestricted activity.

Many individuals have contributed a significant amount of time to activities of the Organization. The Organization does not recognize these contributed services as revenues unless the services received (1) create or enhance existing facilities, or (2) require specialized skills and are provided by individuals possessing those skills. The Organization recognized approximately \$59,924 and \$33,600 in contributed services during the years ended December 31, 2015 and 2014, respectively.

Donated goods and equipment are reflected as contributions in the accompanying financial statements at their estimated fair value at the date of receipt. Facility improvements from the City of Rochester of approximately \$6,000 and \$40,000 during the years ended December 31, 2015 and 2014, respectively, (see Note 5) are included in the total donated goods and equipment recognized by the Organization of approximately \$100,822 and \$45,257 during the years ended December 31, 2015 and 2014, respectively.

Rochester Art Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Functional expense allocation: The cost of providing various programs and other activities has been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the corresponding functional classifications, such as major classes of program services and supporting activities that benefit from such costs.

Works of art: The Organization recognizes works of art as assets. Donations of works of art are recorded at fair value at the date of the gift based on independent appraisals or valuations. Purchases of works of art are recorded at cost. Long-lived assets, such as works of art, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No indicators of potential impairment were present as of December 31, 2015 and 2014; therefore, no impairment analysis was performed on these dates.

Inventory: Gallery shop inventory is valued at the lower of cost (first-in, first-out) or market.

Furniture and equipment: Furniture and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the various assets (five to 10 years for the furniture and equipment). At December 31, 2015 and 2014, accumulated depreciation was \$596,953 and \$590,082, respectively. Depreciation expense for the years ended December 31, 2015 and 2014, was \$6,871 and \$8,004, respectively.

Leasehold interest in facility: The leasehold interest in the Rochester Art Center facility is stated at cost less amortization. Amortization is provided on the straight-line basis over the remaining term of the lease (see Note 5).

Net assets: Unrestricted net assets are those funds presently available for use by or on behalf of the Organization, including amounts available for general and administrative expenses. Temporarily restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of the Organization. These are primarily contributions that are restricted for special programs, events and leasehold interest in facility. Permanently restricted net assets are contributions that have donor-imposed restrictions, whereby the amount of the gift is to be held in perpetuity.

Income taxes: The Organization is generally exempt from federal income taxes as a public charity under section 501(c)(3) of the Internal Revenue Code. The Organization files federal exempt income tax returns. As of December 31, 2015, generally, the federal and Minnesota tax returns for the Organization are open for examination by taxing authorities for the years 2013 to 2015. There was no material unrelated business income for the years ended December 31, 2015 and 2014.

As of December 31, 2015, management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax provisions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the *FASB Accounting Standards Codification*.

Pension plan: The Organization maintains a noncontributory pension plan for all qualified employees. Contributions to the plan are at the discretion of the Board of Directors. Pension expense was approximately \$4,000 and \$10,100 for the years ended December 31, 2015 and 2014, respectively.

Rochester Art Center

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard becomes effective for the Organization for the year beginning January 1, 2019. Management has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. While both lessees and lessors are affected by the new guidance, the effects on lessees are much more significant. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which right-of-use assets and lease liabilities are not recognized and lease payments are generally recognized as expense over the lease term on a straightline basis. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under the legacy lease accounting guidance. For many entities, this could significantly affect the financial ratios they use for external reporting and other purposes, such as debt covenant compliance. The ASU is effective for the Organization for the year beginning January 1, 2020. Management is currently evaluating the effect that the standard will have on its financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued accounting standard update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 will be effective for the Organization for fiscal years beginning after December 15, 2017.

In September 2016, the Financial Accounting Standards Board (FASB) issued accounting standard update (ASU) No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 will be effective for the Organization for fiscal years beginning after December 15, 2018.

Subsequent events: In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 6, 2017, the date the financial statements were available to be issued.

Note 2. Pledges Receivable

As of December 31, 2015 and 2014, pledges receivable are approximately \$25,000 and \$68,000, respectively, and are all expected to be collected.

Rochester Art Center

Notes to Financial Statements

Note 3. Net Assets

Permanently restricted net assets, with the earnings available to support donor purposes, as of December 31, 2015 and 2014, consisted of the following:

	2015	2014
Endowment Fund: The fund was established in 2005 to support the long-term financial stability of the Rochester Art Center.	\$ 1,100	\$ 1,100
John Riese Memorial Fund: The fund was established in 1994 to recognize high school students' excellence in art.	7,020	7,020
	<u>\$ 8,120</u>	<u>\$ 8,120</u>

Temporarily restricted net assets as of December 31, 2015 and 2014, consisted of the following:

	2015	2014
Purpose restricted:		
Public exhibitions and admissions	\$ 29,683	\$ 19,315
Art education and scholarships	33,518	16,550
Time restricted:		
Operations	19,570	66,650
Time restricted based on the life of the lease agreement:		
Leasehold interest in facility	6,177,488	6,345,965
	<u>\$ 6,260,259</u>	<u>\$ 6,448,480</u>

Note 4. Funds Held by Others

Rickee Henoeh Art Fund: The Rickee Henoeh Art Fund is a donor-designated fund established in 1989 to provide funding for the Rochester Art Center in support of its programs, special events or other special needs relating to arts and education. The principal and investment of the funds are under the control of the Rochester Area Foundation, which has the ability to grant out the income of the fund to the Organization, and are not reflected in the Organization's financial statements. The total funds held by the Rochester Area Foundation as of December 31, 2015 and 2014, were \$22,095 and \$22,889, respectively. The Organization did not receive any distributions from this fund in 2015 and received \$850 in 2014.

Rochester Art Center Fund: The Rochester Art Center Fund is an agency endowment fund established by the Organization in 1998 to provide long-term sustainable endowment growth for the Organization. The principal and investment of the funds are under the control of the Rochester Area Foundation, which has the ability to grant out the income of the fund to the Organization, or other similar board-approved organizations, and are not reflected in the Organization's financial statements. The total funds held by the Rochester Area Foundation as of December 31, 2015 and 2014, were \$12,190 and \$12,602, respectively. The Organization did not receive any distributions from this fund in 2015 and 2014, respectively.

Rochester Art Center

Notes to Financial Statements

Note 5. Leasehold Interest in Facility and Concentration

The Organization completed a capital campaign to fund the construction of the current facility, which was completed in 2004 and constructed on land owned by the City of Rochester (the City). The Organization exchanged the facility with the City for a 50-year lease. The lease terms are a \$1 annual fee through December 2052. This agreement results in a contribution reported on the accompanying statements of financial position as a leasehold interest in facility. The Organization recognized a release from restriction and amortization of leasehold interest of \$168,477 in each year ended December 31, 2015 and 2014. The Organization is responsible for routine maintenance, and the City is responsible for major capital improvements.

The Organization receives a significant amount of support from the City in the form of other unrestricted contributions for operating activities and grants for minor facility improvements. For the years ended December 31, 2015 and 2014, the Organization recognized approximately \$337,000 and \$250,000, respectively, in grant revenues and approximately \$6,000 and \$40,000, respectively, in facility repairs. This support from the City represents approximately 37 percent and 28 percent of total revenues for the years ended December 31, 2015 and 2014, respectively.

Note 6. Going Concern and Management's Plans

The Organization has prepared its financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. During the year ended December 31, 2015, the Organization has experienced operating losses. Management projects that there will be no further erosion in liquidity for 2016 due to increased fundraising efforts and substantial efforts made in reducing expenses that are not vital to supporting the revenue-producing activities of the Organization. These financial statements do not include adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Organization be unable to continue as a going concern.

