

Oct. 30, 2019

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Dear State Reference Librarian:

Enclosed are two copies of the FY19 audit which was approved by the LRAC board of directors at their Oct. 15, 2019 meeting. An electronic version was sent by email on Oct. 30, 2019.

This is to supplement the final report which was sent to your office September 2019.

Please call if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Maxine Adams". The signature is written in a cursive style with a large, sweeping initial "M".

Maxine Adams
Executive Director

Enclosure: FY 19 LRAC audit

LAKE REGION ARTS COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

**LAKE REGION ARTS COUNCIL
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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Region Arts Council
Fergus Falls, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Lake Region Arts Council, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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.

Board of Directors
Lake Region Arts Council

Opinion

In our opinion, the 2019 financial statements referred to above present fairly, in all material respects, the financial position of Lake Region Arts Council as of June 30, 2019, and its changes in 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 Matter

The 2018 financial statements were audited by other auditors, whose report dated October 8, 2018, expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 15, 2019

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 124,831	\$ 115,103
Prepaid Expenses	933	5,797
Total Current Assets	125,764	120,900
PROPERTY AND EQUIPMENT		
Office Equipment	74,246	78,236
Less: Accumulated Depreciation	65,997	66,694
Net Property and Equipment	8,249	11,542
Total Assets	\$ 134,013	\$ 132,442
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	69,812	60,291
Accounts Payable	1,840	4,993
Total Current Liabilities	71,652	65,284
NET ASSETS		
Net Assets Without Donor Restrictons	60,794	65,549
Net Assets With Donor Restrictions	1,567	1,609
Total Net Assets	62,361	67,158
Total Liabilities and Net Assets	\$ 134,013	\$ 132,442

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUE						
Minnesota State Arts Board Grants:						
Arts and Cultural Heritage Funds	\$ 644,309	\$ -	\$ 644,309	\$ 553,981	\$ -	\$ 553,981
McKnight Foundation	-	60,000	60,000	-	60,000	60,000
Interest Income	65	-	65	55	-	55
Other Income	2,825	-	2,825	22,837	-	22,837
Net Assets Released from Restrictions	60,042	(60,042)	-	58,447	(58,447)	-
Total Revenue	<u>707,241</u>	<u>(42)</u>	<u>707,199</u>	<u>635,320</u>	<u>1,553</u>	<u>636,873</u>
EXPENSES						
Program Services						
General Program	151,443	-	151,443	141,226	-	141,226
McKnight Foundation	57,977	-	57,977	58,344	-	58,344
Arts and Cultural Heritage	480,886	-	480,886	420,584	-	420,584
Total Program Services	<u>690,306</u>	<u>-</u>	<u>690,306</u>	<u>620,154</u>	<u>-</u>	<u>620,154</u>
Management and General	21,690	-	21,690	14,729	-	14,729
Total Expenses	<u>711,996</u>	<u>-</u>	<u>711,996</u>	<u>634,883</u>	<u>-</u>	<u>634,883</u>
CHANGE IN NET ASSETS	(4,755)	(42)	(4,797)	437	1,553	1,990
Net Assets - Beginning of Year	<u>65,549</u>	<u>1,609</u>	<u>67,158</u>	<u>65,112</u>	<u>56</u>	<u>65,168</u>
NET ASSETS - END OF YEAR	<u>\$ 60,794</u>	<u>\$ 1,567</u>	<u>\$ 62,361</u>	<u>\$ 65,549</u>	<u>\$ 1,609</u>	<u>\$ 67,158</u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019					2018				
	Programs			Management and General	Total	Programs			Management and General	Total
General Program	McKnight Foundation	Arts and Cultural Heritage	General Program			McKnight Foundation	Arts and Cultural Heritage			
Salaries	\$ 32,181	\$ 5,957	\$ 118,407	\$ 1,832	\$ 158,377	\$ 32,752	\$ 5,779	\$ 117,731	\$ 1,779	\$ 158,041
Payroll Taxes	2,428	450	8,941	138	11,957	2,519	444	9,053	137	12,153
Employee Benefits	4,389	783	5,689	661	11,522	1,934	341	6,769	105	9,149
Grants and Awards	98,445	9,500	225,654	-	333,599	83,148	15,650	184,379	-	283,177
Gallery Expense	3,933	635	4,395	-	8,963	-	1,858	1,760	-	3,618
Other Program	372	7,504	56,042	-	63,918	12,539	-	41,869	-	54,408
Memberships	-	162	809	647	1,618	-	171	855	784	1,810
Workshops	-	-	12,083	83	12,166	-	41	7,093	164	7,298
Travel	2,335	949	5,257	1,801	10,342	1,079	1,952	5,216	-	8,247
Newsletter and Website	1,048	524	11,215	1,048	13,835	-	-	16,496	-	16,496
Postage	186	83	367	186	822	194	97	486	194	971
Contract Services	428	-	16,108	9,414	25,950	1,023	1,509	11,081	5,021	18,634
Office Rent	3,720	28,865	9,300	3,720	45,605	3,720	28,860	9,300	3,720	45,600
Parking	129	64	322	129	644	90	45	225	90	450
Office Expenses	1,188	513	1,207	490	3,398	1,356	418	2,159	836	4,769
Utilities	192	983	380	163	1,718	147	74	367	147	735
Telephone	252	177	830	331	1,590	408	204	1,021	408	2,041
Insurance	-	170	848	678	1,696	-	233	1,475	934	2,642
Repairs and Maintenance	217	102	489	175	983	217	108	541	216	1,082
Miscellaneous	-	-	-	-	-	100	4	12	-	116
Depreciation	-	556	2,543	194	3,293	-	556	2,696	194	3,446
Total Expenses	\$ 151,443	\$ 57,977	\$ 480,886	\$ 21,690	\$ 711,996	\$ 141,226	\$ 58,344	\$ 420,584	\$ 14,729	\$ 634,883

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (4,797)	\$ 1,990
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:		
Depreciation	3,293	3,446
Decrease in Prepaid Expenses	4,864	3,456
Increase (Decrease) in Grants Payable	9,521	(15,154)
Increase (Decrease) in Accounts Payable	(3,153)	1,288
Net Cash Provided (Used) by Operating Activities	9,728	(4,974)
 NET INCREASE (DECREASE) IN CASH	 9,728	 (4,974)
 Cash - Beginning of Year	 115,103	 120,077
 CASH - END OF YEAR	 \$ 124,831	 \$ 115,103

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Status

Lake Region Arts Council (the Organization) 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 Organization'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.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 5 to 10 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. The Organization capitalizes all expenditures of property and equipment with a useful life of greater than one year and a unit cost of more than \$1,000.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Income Taxes

The Organization follows FASB ASC Topic 740, *Uncertainty in Income Taxes*. Lake Region Arts Council is recognized by the Internal Revenue Service as a nonprofit organization under IRS Code Section 501(c)(3). Due to the nonprofit nature and provision of Lake Region Arts Council, all income and expenses attributable to the mission of Lake Region Arts Council are tax exempt and accordingly no provision or liability for income taxes has been made in the financial statements and contributions to the Organization are tax deductible to donors as allowed by IRS regulations. However, the Organization is required to pay state and federal income taxes on unrelated business income. If the Organization were to engage in any activities that resulted in unrelated business income, a tax would be assessed on that activity. Lake Region Arts Council is open and subject to examination generally for three years after the filing date.

Advertising

Advertising costs are expensed when incurred.

Donated Materials and Services

Donated materials and equipment are reflected as in-kind contributions at their estimated value at the date of receipt. Donated services are recognized to the extent that such services meet specific criteria with respect to creating or enhancing nonfinancial assets or services which require specialized skills.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, occupancy, and office expenses, which are allocated on a square footage basis, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

Cash and Cash Equivalents

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

Grants Payable

Lake Region Arts Council awards grants to qualifying organizations and individuals based on an evaluation process carried out 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, 2019, a total of \$69,812 has been awarded but not yet remitted to grantees. This amount is expected to be paid during the next fiscal year.

Reclassifications

Certain amounts in 2018 have been reclassified for comparative purposes to conform to the presentation in 2019. The reclassifications have no effect on the previously reported change in net assets or net assets.

New Accounting Pronouncements – ASU 2016-14

During the year ended June 30, 2019, the Organization adopted a provision of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of the Financial Statements for Not-For-Profit Entities*. This new accounting standard results in a reduction of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) to two (net assets with donor restrictions and net assets without donor restrictions), expands reporting of expenses by nature and function, and requires qualitative and quantitative disclosures about the Organization's liquidity and availability. The adoption of this accounting standard did not have an impact on the Organization's financial position or changes in its net assets.

Subsequent Events

Management has evaluated subsequent events through October 15, 2019, the date on which the financial statements were available to be issued.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 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 may, at times, exceed the \$250,000 covered by the Federal Deposit Insurance Corporation.

NOTE 3 RENTAL LEASE COMMITMENTS

The Organization leases office space under a lease agreement that expires in October, 2019. Monthly lease payments of \$2,875 are to be made until the expiration of the lease. The Organization also has equipment leases with varying terms.

Lease expense totaled \$45,605 and \$45,600 during the years ended June 30, 2019 and 2018, respectively.

The following is a schedule of future minimum lease payments required at June 30, 2019

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 13,335
2021	1,835
2022	1,835
Total	<u>\$ 17,005</u>

NOTE 4 NET ASSETS WITH DONOR RESTRICTIONS

The Organization has net assets with donor restrictions from the McKnight Foundation which is purpose restricted for certain programs. Net assets released from restriction were \$60,042 and \$58,447 for the years ended June 30, 2019 and 2018, respectively.

NOTE 5 RETIREMENT PLAN

Lake Region Arts Council provides employees a SEP retirement plan which is available to all permanent employees of the Organization. The plan provides a 7% contribution equal to employees' yearly salary. Contributions for the years ended June 30, 2019 and 2018 were \$11,073 and \$7,396, respectively.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 6 AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity to meet its operating needs and other commitments. The Organization holds cash totaling \$124,831 as of June 30, 2019 which is readily available within one year of statement of financial position date to meet general expenditures:

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget, which is approved by the Organization's board of directors, and anticipates collecting sufficient revenue to cover general expenditures.