

LAKE REGION ARTS COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

**LAKE REGION ARTS COUNCIL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7



CliftonLarsonAllen LLP
CLAconnect.com

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 statements of financial position as of June 30, 2020 and 2019, 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of Lake Region Arts Council as of June 30, 2020 and 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 15, 2020

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

ASSETS	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 188,118	\$ 124,831
Accounts Receivable	2,160	-
Prepaid Expenses	-	933
Total Current Assets	190,278	125,764
PROPERTY AND EQUIPMENT		
Office Equipment	74,246	74,246
Less: Accumulated Depreciation	68,796	65,997
Net Property and Equipment	5,450	8,249
Total Assets	\$ 195,728	\$ 134,013
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 80,040	\$ 69,812
Accounts Payable	191	1,840
Deferred Revenue	30,861	-
Note Payable	35,145	-
Total Current Liabilities	146,237	71,652
Total Liabilities	146,237	71,652
NET ASSETS		
Net Assets Without Donor Restrictions	49,491	60,794
Net Assets With Donor Restrictions	-	1,567
Total Net Assets	49,491	62,361
Total Liabilities and Net Assets	\$ 195,728	\$ 134,013

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUE						
Minnesota State Arts Board Grants:						
Arts and Cultural Heritage Funds	\$ 628,095	\$ -	\$ 628,095	\$ 644,309	\$ -	\$ 644,309
McKnight Foundation	54,917	-	54,917	-	60,000	60,000
Interest Income	32	-	32	65	-	65
Other Income	7,191	-	7,191	2,825	-	2,825
Net Assets Released from Restrictions	1,567	(1,567)	-	60,042	(60,042)	-
Total Revenue	<u>691,802</u>	<u>(1,567)</u>	<u>690,235</u>	<u>707,241</u>	<u>(42)</u>	<u>707,199</u>
EXPENSES						
Program Services:						
General Program	137,071	-	137,071	151,443	-	151,443
McKnight Foundation	55,105	-	55,105	57,977	-	57,977
Arts and Cultural Heritage	487,381	-	487,381	480,886	-	480,886
Total Program Services	<u>679,557</u>	<u>-</u>	<u>679,557</u>	<u>690,306</u>	<u>-</u>	<u>690,306</u>
Management and General	23,548	-	23,548	21,690	-	21,690
Total Expenses	<u>703,105</u>	<u>-</u>	<u>703,105</u>	<u>711,996</u>	<u>-</u>	<u>711,996</u>
CHANGE IN NET ASSETS	(11,303)	(1,567)	(12,870)	(4,755)	(42)	(4,797)
Net Assets - Beginning 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>
NET ASSETS - END OF YEAR	<u>\$ 49,491</u>	<u>\$ -</u>	<u>\$ 49,491</u>	<u>\$ 60,794</u>	<u>\$ 1,567</u>	<u>\$ 62,361</u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020					2019						
	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	\$ 29,330	\$ 8,276	\$ 124,137	\$ 3,774	\$ 165,517	\$ 32,181	\$ 5,957	\$ 118,407	\$ 1,832	\$ 158,377		
Payroll Taxes	2,083	592	8,878	285	11,838	2,428	450	8,941	138	11,957		
Employee Benefits	5,353	945	18,361	(62)	24,597	4,389	783	5,689	661	11,522		
Grants and Awards	91,832	9,500	223,906	-	325,238	98,445	9,500	225,654	-	333,599		
Gallery Expense	868	656	5,177	-	6,701	3,933	635	4,395	-	8,963		
Other Program	477	4,800	44,025	-	49,302	372	7,504	56,042	-	63,918		
Memberships	576	90	1,465	362	2,493	-	162	809	647	1,618		
Workshops	-	2	848	167	1,017	-	-	12,083	83	12,166		
Travel	2,402	641	3,293	(979)	5,357	2,335	949	5,257	1,801	10,342		
Newsletter and Website	596	304	19,995	596	21,491	1,048	524	11,215	1,048	13,835		
Postage	98	49	737	98	982	186	83	367	186	822		
Contract Services	413	-	13,430	13,260	27,103	428	-	16,108	9,414	25,950		
Office Rent	1,860	27,480	13,950	1,860	45,150	3,720	28,865	9,300	3,720	45,605		
Parking	72	36	540	72	720	129	64	322	129	644		
Office Expenses	655	419	2,573	348	3,995	1,188	513	1,207	490	3,398		
Utilities	72	628	536	72	1,308	192	983	380	163	1,718		
Telephone	242	115	1,815	242	2,414	252	177	830	331	1,590		
Insurance	-	32	481	128	641	-	170	848	678	1,696		
Repairs and Maintenance	142	64	1,105	142	1,453	217	102	489	175	983		
Miscellaneous	-	-	-	2,989	2,989	-	-	-	-	-		
Depreciation	-	476	2,129	194	2,799	-	556	2,543	194	3,293		
Total Expenses	\$ 137,071	\$ 55,105	\$ 487,381	\$ 23,548	\$ 703,105	\$ 151,443	\$ 57,977	\$ 480,886	\$ 21,690	\$ 711,996		

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (12,870)	\$ (4,797)
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:		
Depreciation	2,799	3,293
Increase in Accounts Receivable	(2,160)	-
Decrease in Prepaid Expenses	933	4,864
Increase in Grants Payable	10,228	9,521
Decrease in Accounts Payable	(1,649)	(3,153)
Increase in Deferred Revenue	30,861	-
Net Cash Provided by Operating Activities	28,142	9,728
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on Note Payable	35,145	-
Net Cash Provided by Financing Activities	35,145	-
NET INCREASE IN CASH AND RESTRICTED CASH	63,287	9,728
Cash and Restricted Cash - Beginning of Year	124,831	115,103
CASH AND RESTRICTED CASH - END OF YEAR	\$ 188,118	\$ 124,831

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Status

Lake Region Arts Council (the Organization) is a nonprofit 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 (IRC) and is not a private foundation within the meaning of Section 509(a) of the IRC. The Organization 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 Minnesota 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, 2020 AND 2019**

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 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. Total unearned revenue from conditional grants were \$30,861, and \$-0- for the years ended June 30, 2020 and 2019, respectively.

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 IRC 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, 2020 AND 2019**

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 statements 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, 2020 and 2019, a total of \$80,040, and \$69,812, respectively, 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 2019 have been reclassified for comparative purposes to conform to the presentation in 2020. The reclassifications have no effect on the previously reported change in net assets or net assets.

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequent to May 2014, the FASB has issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity and understandability of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The financial statements reflect the application of ASC 606 guidance beginning in fiscal year 2019. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Organization's reported historical revenue.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (Continued)

Additionally, ASU 2018-08 was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional. The financial statements reflect the application of ASU 2018-08 beginning July 1, 2019. The new guidance does not require prior period results to be restated. The implementation of this standard for contributions received resulted in a grant, previously classified as unconditional being recognized as conditional. Below is the impact of this amendment on the financial statements:

	Financial Statements		
	Reported Under Old Guidance	Adjustments	Reported Under New Guidance
	Liabilities:		
Deferred Revenue	\$ -	\$ 5,083	\$ 5,083
Revenue, Net Assets without Donor Restrictions McKight Foundation	\$ 60,000	\$ (5,083)	\$ 54,917

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) Restricted Cash*. This ASU was issued to clarify guidance on the classification and presentation of restricted cash in the statement of cash flows and reduce diversity in practice.

The amendments of this ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and restricted cash or restricted cash equivalents. Therefore, restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The financial statements reflect the application of ASU 2016-18 using a retrospective approach to each period presented.

Subsequent Events

Management has evaluated subsequent events through September 15, 2020, the date on which the financial statements were available to be issued.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Organization, COVID-19 may impact various parts of its 2021 operations and financial results, including restrictions on the organization by the governor, additional costs to the Organization and potential loss of revenue due to reduction in certain revenue streams. Management believes the Organization is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

In response to COVID-19, on May 4, 2020, the Organization received a loan from Security State Bank in the amount of \$35,145 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over 24 months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Organization fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and commencing in October 2020, principal and interest payments will be required through the maturity date in May 2022.

NOTE 3 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.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 RENTAL LEASE COMMITMENTS

The Organization leases office space under a lease agreement that expires in October 2021. 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 \$45,150 and \$45,605 during the years ended June 30, 2020 and 2019, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 13,335
2022	1,835
2023	1,835
Total	<u>\$ 17,005</u>

NOTE 5 NET ASSETS WITH DONOR RESTRICTIONS

The Organization had net assets with donor restrictions from the McKnight Foundation which were purpose restricted for certain programs. Net assets released from restriction were \$1,567 and \$60,042 for the years ended June 30, 2020 and 2019, respectively.

NOTE 6 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, 2020 and 2019 were \$10,803 and \$11,073, respectively.

NOTE 7 AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity to meet its operating needs and other commitments. The Organization holds liquid assets totaling \$190,278 and \$123,264 as of June 30, 2020 and 2019, respectively, which are 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.



CliftonLarsonAllen LLP
CLAconnect.com

Board of Directors and Management
Lake Region Arts Council
Fergus Falls, Minnesota

In planning and performing our audit of the financial statements of Lake Region Arts Council (the Organization) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material weakness

We consider the following deficiencies in the Organization's internal control to be material weaknesses.

- **Financial Reporting Process:** The board of directors and management share the ultimate responsibility for the Organization's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Organization engages CliftonLarsonAllen LLP (CLA) to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Organization's internal control system. As part of its internal control over the preparation of its financial statements, including disclosures, the Organization has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Organization's activities and operations.

Material weakness (continued)

The Organization's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Organization's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

- Audit adjustments: During the performance of our audit engagement procedures, we proposed and posted adjustments to various account balances. These adjustments were a necessary step in ensuring that the financial statements were fairly stated. The amounts were, in our judgment, material to the financial statements and therefore, we concluded that a material weakness existed in the Organization's control policies and procedures related to recording such adjustments which is required to be reported under professional standards. Management has reviewed and approved the audit adjustments.

Other deficiencies in internal control and other matters

During our audit, we became aware of other deficiencies in internal control and other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control were not considered important enough to merit the attention of the board of directors, they are considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

- The Organization does not currently have a policy for capitalization of fixed assets. We recommend establishing a policy for fixed asset capitalization. This would include a threshold for when equipment and similar purchases should be reviewed for potential capitalization. Noted that management is looking to implement such a policy in fiscal year 2021.
- During our audit, we noted that the executive director's payments as an art curator had no approval by a board member. We recommend that a board member review and approve these types of transactions along with all expense reimbursements and credit card purchases of the executive director. This can be accomplished through a formal signoff on the expense reimbursement request forms, credit card statement, or electronically via email by a member of governance. Noted that a review process has been implemented over these types of expense reimbursements in fiscal year 2021.
- There were several instances where balance sheet accounts were not reconciled at year-end. Due to this, the financial statements were not accurate and additional time was needed to review and adjust the balances to be properly stated at June 30, 2020. We recommend that management create a year-end checklist to ensure all accounts are reviewed and reconciled in accordance with Generally Accepted Accounting Standards in the United States of America.
- Certain transfers related to grants were originally net in with grant expense, leading to grant expenses being understated. We would recommend that management ensure these types of transfers are recorded in a separate account so that expenses can be properly stated.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

* * *

This communication is intended solely for the information and use of management, the board of directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
September 15, 2020