

**LAKE REGION ARTS COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**



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**LAKE REGION ARTS COUNCIL
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lake Region Arts Council
Fergus Falls, Minnesota

We have audited the accompanying financial statements of Lake Region Arts Council, which comprise the statements of financial position as of June 30, 2021 and 2020, 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, 2021 and 2020, 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
October 19, 2021

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020**

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 326,460	\$ 188,118
Accounts Receivable	-	2,160
Prepaid Expenses	887	-
Total Current Assets	327,347	190,278
PROPERTY AND EQUIPMENT		
Office Equipment	74,246	74,246
Less: Accumulated Depreciation	70,575	68,796
Net Property and Equipment	3,671	5,450
Total Assets	\$ 331,018	\$ 195,728
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 96,115	80,040
Accounts Payable	15,257	191
Deferred Revenue	161,437	30,861
Note Payable	35,125	35,145
Total Current Liabilities	307,934	146,237
Total Liabilities	307,934	146,237
NET ASSETS		
Net Assets Without Donor Restrictions	23,084	49,491
Net Assets With Donor Restrictions	-	-
Total Net Assets	23,084	49,491
Total Liabilities and Net Assets	\$ 331,018	\$ 195,728

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021			2020		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUE						
Minnesota State Arts Board Grants:						
Arts and Cultural Heritage Funds	\$ 524,068	\$ -	\$ 524,068	\$ 628,095	\$ -	\$ 628,095
McKnight Foundation	61,963	-	61,963	54,917	-	54,917
Interest Income	21	-	21	32	-	32
Other Income	47,304	-	47,304	7,191	-	7,191
Net Assets Released from Restrictions	-	-	-	1,567	(1,567)	-
Total Revenue	<u>633,356</u>	<u>-</u>	<u>633,356</u>	<u>691,802</u>	<u>(1,567)</u>	<u>690,235</u>
EXPENSES						
Program Services:						
General Program	136,787	-	136,787	137,071	-	137,071
McKnight Foundation	62,941	-	62,941	55,105	-	55,105
Arts and Cultural Heritage	434,717	-	434,717	487,381	-	487,381
Total Program Services	<u>634,445</u>	<u>-</u>	<u>634,445</u>	<u>679,557</u>	<u>-</u>	<u>679,557</u>
Management and General	25,318	-	25,318	23,548	-	23,548
Total Expenses	<u>659,763</u>	<u>-</u>	<u>659,763</u>	<u>703,105</u>	<u>-</u>	<u>703,105</u>
CHANGE IN NET ASSETS	(26,407)	-	(26,407)	(11,303)	(1,567)	(12,870)
Net Assets - Beginning of Year	49,491	-	49,491	60,794	1,567	62,361
NET ASSETS - END OF YEAR	<u>\$ 23,084</u>	<u>\$ -</u>	<u>\$ 23,084</u>	<u>\$ 49,491</u>	<u>\$ -</u>	<u>\$ 49,491</u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021					2020				
	Programs				Total	Programs				Total
	General Program	McKnight Foundation	Arts and Cultural Heritage	Management and General		General Program	McKnight Foundation	Arts and Cultural Heritage	Management and General	
Salaries	\$ 27,797	\$ 7,857	\$ 118,293	\$ 3,774	\$ 157,721	\$ 29,330	\$ 8,276	\$ 124,137	\$ 3,774	\$ 165,517
Payroll Taxes	2,187	419	8,668	285	11,559	2,083	592	8,878	285	11,838
Employee Benefits	3,285	828	13,062	929	18,104	5,353	945	18,361	(62)	24,597
Grants and Awards	98,930	16,750	197,050	-	312,730	91,832	9,500	223,906	-	325,238
Gallery Expense	-	789	-	-	789	868	656	5,177	-	6,701
Other Program	226	12,504	40,253	-	52,983	477	4,800	44,025	-	49,302
Memberships	-	90	1,356	362	1,808	576	90	1,465	362	2,493
Workshops	-	-	-	-	-	-	2	848	167	1,017
Travel	-	-	268	-	268	2,402	641	3,293	(979)	5,357
Newsletter and Website	848	425	16,683	848	18,804	596	304	19,995	596	21,491
Postage	104	52	778	104	1,038	98	49	737	98	982
Contract Services	434	-	15,102	13,674	29,210	413	-	13,430	13,260	27,103
Office Rent	1,860	21,932	13,950	1,860	39,602	1,860	27,480	13,950	1,860	45,150
Parking	36	18	135	36	225	72	36	540	72	720
Office Expenses	564	173	2,643	346	3,726	655	419	2,573	348	3,995
Utilities	58	396	436	58	948	72	628	536	72	1,308
Telephone	250	125	1,876	250	2,501	242	115	1,815	242	2,414
Insurance	-	88	1,321	352	1,761	-	32	481	128	641
Repairs and Maintenance	208	100	1,459	208	1,975	142	64	1,105	142	1,453
Miscellaneous	-	-	-	2,232	2,232	-	-	-	2,989	2,989
Depreciation	-	395	1,384	-	1,779	-	476	2,129	194	2,799
Total Expenses	\$ 136,787	\$ 62,941	\$ 434,717	\$ 25,318	\$ 659,763	\$ 137,071	\$ 55,105	\$ 487,381	\$ 23,548	\$ 703,105

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (26,407)	\$ (12,870)
Adjustments to Reconcile to Net Cash		
Provided by Operating Activities:		
Depreciation	1,779	2,799
PPP Loan Forgiveness	(35,145)	-
Increase in Accounts Receivable	2,160	(2,160)
Decrease in Prepaid Expenses	(887)	933
Increase in Grants Payable	16,075	10,228
Decrease in Accounts Payable	15,066	(1,649)
Increase in Deferred Revenue	130,576	30,861
Net Cash Provided by Operating Activities	103,217	28,142
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on Note Payable	35,125	35,145
Net Cash Provided by Financing Activities	35,125	35,145
NET INCREASE IN CASH AND RESTRICTED CASH	138,342	63,287
Cash and Restricted Cash - Beginning of Year	188,118	124,831
CASH AND RESTRICTED CASH - END OF YEAR	\$ 326,460	\$ 188,118

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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, 2021 AND 2020**

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 \$161,437 and \$30,861 for the years ended June 30, 2021 and 2020, 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, 2021 AND 2020**

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, 2021 and 2020, a total of \$96,115, and \$80,040, respectively, has been awarded but not yet remitted to grantees. This amount is expected to be paid during the next fiscal year.

Subsequent Events

Management has evaluated subsequent events through October 19, 2021, the date on which the financial statements were available to be issued.

NOTE 2 RISKS AND UNCERTAINTIES

On May 4, 2020, the Organization received a loan from Security State Bank of Fergus Falls totaling \$35,145 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted by the SBA 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 are subject to forgiveness based on compliance with program requirements and approval by the SBA.

On January 21, 2021, the Organization received a second draw PPP loan in the amount of \$35,125 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Payroll Protection Program as described earlier. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 2 RISKS AND UNCERTAINTIES (CONTINUED)

The Organization is following ASC 470, Debt, to account for the initial receipts related to the PPP Loan. On October 9, 2020, the SBA processed the Organization's PPP Loan forgiveness applications for the first draw PPP Loans, and notified Security State Bank on Little Falls the PPP Loans qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date. Therefore, the Organization was legally released from the debts and the loan forgiveness has been recorded as PPP Loan Forgiveness, which is included in revenue during the year ended June 30, 2021.

Subsequent to year end, on September 7, 2021, the SBA processed the Organization's PPP Loan forgiveness applications for the second draw of PPP Loans, and notified Security State Bank on Little Falls the PPP Loans qualified for full forgiveness. Loan proceeds were received by the bank from the SBA on this date.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Organization's financial position.

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.

NOTE 4 RENTAL LEASE COMMITMENTS

The Organization leases office space under a lease agreement that expires in October 2023. 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 \$39,602 and \$45,150 during the years ended June 30, 2021 and 2020, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 36,335
2023	36,335
2024	13,335
Total	<u>\$ 86,005</u>

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

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 \$-0- and \$1,567 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 were \$11,072 and \$10,803, 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 \$327,347 and \$190,278 as of June 30, 2021 and 2020, 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.

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