

LAKE REGION ARTS COUNCIL
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2023 AND 2022



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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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lake Region Arts Council (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Lake Region Arts Council, and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt Lake Region Arts Council's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lake Region Arts Council's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lake Region Arts Council's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 17, 2023

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 160,005	\$ 212,653
Prepaid Expenses	<u>7,597</u>	<u>1,734</u>
Total Current Assets	167,602	214,387
PROPERTY AND EQUIPMENT		
Office Equipment	74,246	74,246
Less: Accumulated Depreciation	<u>73,935</u>	<u>72,254</u>
Net Property and Equipment	<u>311</u>	<u>1,992</u>
 Total Assets	 <u><u>\$ 167,913</u></u>	 <u><u>\$ 216,379</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Grants Payable	\$ 69,852	83,491
Accounts Payable	8,277	5,720
Deferred Revenue	14,992	65,071
Accrued Liabilities	<u>3,583</u>	<u>2,871</u>
Total Current Liabilities	96,704	157,153
 Total Liabilities	 96,704	 157,153
NET ASSETS		
Net Assets Without Donor Restrictions	<u>71,209</u>	<u>59,226</u>
Total Net Assets	<u>71,209</u>	<u>59,226</u>
 Total Liabilities and Net Assets	 <u><u>\$ 167,913</u></u>	 <u><u>\$ 216,379</u></u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023			2022		
	Without Restrictions	With Restrictions	Total	Without Restrictions	With Restrictions	Total
REVENUE						
Minnesota State Arts Board Grants:						
Arts and Cultural Heritage Funds	\$ 761,994	\$ -	\$ 761,994	\$ 782,846	\$ -	\$ 782,846
McKnight Foundation	58,774	-	58,774	58,198	-	58,198
Interest Income	272	-	272	20	-	20
Other Income	8,195	-	8,195	39,404	-	39,404
Total Revenue	<u>829,235</u>	<u>-</u>	<u>829,235</u>	<u>880,468</u>	<u>-</u>	<u>880,468</u>
EXPENSES						
Program Services:						
General Program	174,209	-	174,209	173,675	-	173,675
McKnight Foundation	57,082	-	57,082	57,055	-	57,055
Arts and Cultural Heritage	553,097	-	553,097	590,403	-	590,403
Total Program Services	<u>784,388</u>	<u>-</u>	<u>784,388</u>	<u>821,133</u>	<u>-</u>	<u>821,133</u>
Management and General	32,864	-	32,864	23,193	-	23,193
Total Expenses	<u>817,252</u>	<u>-</u>	<u>817,252</u>	<u>844,326</u>	<u>-</u>	<u>844,326</u>
CHANGE IN NET ASSETS	11,983	-	11,983	36,142	-	36,142
Net Assets - Beginning of Year	<u>59,226</u>	<u>-</u>	<u>59,226</u>	<u>23,084</u>	<u>-</u>	<u>23,084</u>
NET ASSETS - END OF YEAR	<u>\$ 71,209</u>	<u>\$ -</u>	<u>\$ 71,209</u>	<u>\$ 59,226</u>	<u>\$ -</u>	<u>\$ 59,226</u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023					2022				
	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	\$ 33,196	\$ 9,407	\$ 141,098	\$ 4,430	\$ 188,131	\$ 32,151	\$ 9,000	\$ 135,307	\$ 3,925	\$ 180,383
Payroll Taxes	-	517	10,533	336	11,386	2,574	505	10,128	296	13,503
Employee Benefits	3,797	917	13,874	471	19,059	3,178	800	11,939	4	15,921
Grants and Awards	130,922	13,440	229,126	-	373,488	130,073	9,360	309,516	-	448,949
Gallery Expense	1,457	-	7,136	-	8,593	657	3,854	6,087	-	10,598
Other Program	82	18,000	30,550	-	48,632	-	16,600	24,233	-	40,833
Memberships	-	137	1,649	446	2,232	-	103	1,552	414	2,069
Workshops	-	-	10,770	-	10,770	-	357	1,684	-	2,041
Travel	364	798	1,986	669	3,817	485	603	4,009	40	5,137
Newsletter and Website	825	412	40,763	825	42,825	824	412	44,138	824	46,198
Postage	121	60	906	121	1,208	103	57	769	103	1,032
Contract Services	454	-	25,914	16,871	43,239	442	-	2,332	13,354	16,128
Office Rent	1,853	12,530	29,850	1,860	46,093	1,860	11,130	29,850	1,860	44,700
Parking	9	9	68	9	95	9	5	68	9	91
Office Expenses	575	134	2,075	1,791	4,575	776	3,124	2,026	255	6,181
Utilities	70	35	522	70	697	79	439	592	79	1,189
Telephone	251	112	1,777	237	2,377	219	107	1,698	234	2,258
Insurance	-	95	1,431	382	1,908	-	96	1,437	383	1,916
Repairs and Maintenance	233	117	1,750	233	2,333	245	108	1,738	245	2,336
Miscellaneous	-	-	-	4,113	4,113	-	-	-	1,184	1,184
Depreciation	-	362	1,319	-	1,681	-	395	1,300	(16)	1,679
Total Expenses	\$ 174,209	\$ 57,082	\$ 553,097	\$ 32,864	\$ 817,252	\$ 173,675	\$ 57,055	\$ 590,403	\$ 23,193	\$ 844,326

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 11,983	\$ 36,142
Adjustments to Reconcile to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	1,681	1,679
PPP Loan Forgiveness	-	(35,125)
Increase (Decrease) in Assets:		
Prepaid Expenses	(5,863)	(847)
(Increase) Decrease in Liabilities:		
Grants Payable	(13,639)	(12,624)
Accounts Payable	2,557	(9,537)
Accrued Liabilities	712	2,871
Deferred Revenue	<u>(50,079)</u>	<u>(96,366)</u>
Net Cash Provided (Used) by Operating Activities	<u>(52,648)</u>	<u>(113,807)</u>
NET DECREASE IN CASH	(52,648)	(113,807)
Cash - Beginning of Year	<u>212,653</u>	<u>326,460</u>
CASH - END OF YEAR	<u><u>\$ 160,005</u></u>	<u><u>\$ 212,653</u></u>

See accompanying Notes to Financial Statements.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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.

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, 2023 AND 2022**

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 \$5,000.

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 \$14,992 and \$65,071 for the years ended June 30, 2023 and 2022, 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 (IRS) 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. There were no donated materials or services received in the years ended June 30, 2023 and 2022.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

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, 2023 and 2022, a total of \$69,852, and \$83,491, respectively, has been awarded but not yet remitted to grantees. This amount is expected to be paid during the next fiscal year.

Adoption of New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the ROU assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization adopted the requirement of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption. There was no impact on the Organization's financial position and change in net assets as a result of the adoption of this accounting standard.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Organization determines if an arrangement is a lease at inception. Leases are reported on the statement of financial position as a right-of-use (ROU) asset and lease liability. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position. As of June 30, 2023, the Organization has a building lease that was entered into in November 2021 which terminates in October 2023. The lease has monthly rental payments of \$2,875 per month. Additionally, the organization is obligated to pay monthly payments of \$32 for a postage machine lease that was initiated in June 2019 and will terminate in June 2024. The organization also has a copier machine that was entered into in May 2019 which expires in August 2024 with monthly rental payments of \$121. The Organization determined the leases were immaterial and chose to not record as a ROU asset and liability.

Subsequent Events

Management has evaluated subsequent events through October 17, 2023, the date on which the financial statements were available to be issued.

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 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, 2023 and 2022 were \$13,145 and \$11,607, respectively.

**LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

NOTE 4 AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity to meet its operating needs and other commitments. The Organization holds liquid assets totaling \$160,005 and \$212,653 as of June 30, 2023 and 2022, 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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