

**NORTHWEST MINNESOTA ARTS COUNCIL  
WARREN, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Northwest Minnesota Arts Council  
Warren, Minnesota

### Report on Financial Statements

We have audited the accompanying financial statements of Northwest Minnesota Arts Council (a non-profit organization), which comprises the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities 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 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 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 Northwest Minnesota Arts Council as of June 30, 2018 and 2017, 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses by grant source on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



**BRADY, MARTZ & ASSOCIATES, P.C.  
CROOKSTON, MINNESOTA**

September 19, 2018

**NORTHWEST MINNESOTA ARTS COUNCIL**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 51,792	\$ 83,843
Grant and program receivables	<u>10</u>	<u>3,834</u>
Total current assets	<u>51,802</u>	<u>87,677</u>
Property and equipment	3,880	3,880
Less accumulated depreciation	<u>(3,404)</u>	<u>(2,734)</u>
Net property and equipment	<u>476</u>	<u>1,146</u>
 Total assets	 <u>\$ 52,278</u>	 <u>\$ 88,823</u>
Liabilities and Net Assets		
Current liabilities		
Grants payable	\$ 17,850	\$ 9,200
Accounts payable	233	8,385
Unearned revenue	<u>8,675</u>	<u>48,195</u>
Total liabilities	<u>26,758</u>	<u>65,780</u>
Net assets		
Unrestricted	<u>25,520</u>	<u>23,043</u>
 Total liabilities and net assets	 <u>\$ 52,278</u>	 <u>\$ 88,823</u>

See Notes to the Financial Statements

**NORTHWEST MINNESOTA ARTS COUNCIL**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
Revenues and Other Support		
Grants		
MN State Legacy Fund	\$ 342,473	\$ 309,535
McKnight Foundation	67,783	63,541
MN State Arts Board	96,016	85,943
Returned subawards	1,111	13,227
Other	5,119	7,677
Interest	505	274
Total revenues and other support	513,007	480,197
Expenses		
Administrative services	115,834	105,363
Grants and awards	322,030	302,769
Travel, meals and lodging	6,631	19,189
Telephone	243	464
Postage	96	131
Registration and membership	1,085	3,442
Office and supplies	1,827	2,152
Outside services	43,886	34,709
Rent	2,552	2,751
Depreciation	670	763
Internet and computer	10,072	797
Printing	1,328	923
Exhibitions and showcases	1,914	4,163
Insurance	535	34
Professional services	384	364
Miscellaneous	1,443	568
Total expenses	510,530	478,582
Changes in net assets	2,477	1,615
Net assets, beginning of year	23,043	21,428
Net assets, end of year	\$ 25,520	\$ 23,043

See Notes to the Financial Statements

**NORTHWEST MINNESOTA ARTS COUNCIL**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 2,477	\$ 1,615
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	670	763
Changes in operating assets and liabilities		
Receivables	3,824	(1,431)
Accounts payable	(8,152)	2,828
Grants payable	8,650	(12,300)
Unearned revenue	(39,520)	48,195
Cash provided (used) by operating activities	<u>(32,051)</u>	<u>39,670</u>
Net change in cash	(32,051)	39,670
Cash, beginning of year	<u>83,843</u>	<u>44,173</u>
Cash, end of year	<u>\$ 51,792</u>	<u>\$ 83,843</u>

See Notes to the Financial Statements

**NORTHWEST MINNESOTA ARTS COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Northwest Minnesota Arts Council 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 Organization was formed to provide funding for artistic endeavors through a re-granting process. Funding of the Organization's activities primarily comes from the Minnesota State Legislature appropriation, Minnesota Arts and Cultural Heritage Fund, and McKnight Foundation, which is based on annual and bi-annual awards.

**Basis of Accounting**

The Organization's accounting and reporting policies conform to accounting principles generally accepted by the United States of America as codified by the Financial Accounting Standards Board (FASB).

**Basis of Presentation**

The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Currently the Organization maintains only unrestricted net assets.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Currently, the Organization does not have any cash equivalents.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. The Organization has adopted a policy to capitalize acquisitions over \$800. Donated property is recorded as support at its estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to the specific purpose.



**NORTHWEST MINNESOTA ARTS COUNCIL**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

**Depreciation**

Depreciation is computed on the straight-line method over the estimated useful life of the asset. Estimated useful lives are as follows:

Computer equipment	3 to 5 years
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**Support and Revenue**

Grants and other contributions of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated 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 as net assets released from restrictions. Contributions of noncash assets are recorded at their fair value in the period received and treated as restricted if donor stipulations limit the use of the asset.

Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of activities.

**Unearned Revenue**

Grants awarded that remain unspent at the end of the year and have not met established program compliance criteria for revenue recognition are treated as unearned revenue.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**Income Taxes**

Northwest Minnesota Arts Council is organized as a Minnesota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provisions or liability for income tax has been included in the accompanying financial statements. The Organization's policy to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence. It is the opinion of management that the Organization has no significant uncertain tax positions that would be subject to change upon examination.

The Organization's tax returns remain open for possible examination for a period of three years after the respective filing date of those returns.

**Advertising Costs**

The Organization expenses advertising costs as incurred.

**NORTHWEST MINNESOTA ARTS COUNCIL**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Following is a summary of property and equipment owned by the Organization at June 30:

Description	2018		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Equipment & furnishings	\$ 3,880	\$ 3,404	\$ 476

  

Description	2017		
	Cost	Accumulated Depreciation	Cost-Less Accumulated Depreciation
Equipment & furnishings	\$ 3,880	\$ 2,734	\$ 1,146

**NOTE 3 - GRANTS PAYABLE**

Northwest Minnesota Arts Council awards grants to qualifying organizations and individuals based on an evaluation process carried on 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, 2018 and 2017, the total commitment for grants awarded but not remitted to grantees was \$17,850 and \$9,200, respectively. Typically, grants payable are paid out in the subsequent year based on requests made by recipients.

**NOTE 4 - FUNCTIONAL EXPENSES**

Northwest Minnesota Arts Council's total expenses for the years ended June 30, 2018 and 2017 were \$510,530 and \$478,582, respectively. Below is the allocation of total expenses by function:

	2018	2017
Program services	\$ 467,051	\$ 461,674
General and administrative	43,479	16,908
Total	\$ 510,530	\$ 478,582

**NOTE 5 - ADMINISTRATIVE SERVICES CONTRACT**

The Organization contracted with Northwest Minnesota Regional Development Commission to provide management information system and accounting services. The amount paid for such services for the years ended June 30, 2018 and 2017 was \$115,834 and \$105,363, respectively.

**NOTE 6 - SUBSEQUENT EVENTS**

No significant events occurred subsequent to the Organization's year end. Subsequent events have been evaluated through September 19, 2018, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

NORTHWEST MINNESOTA ARTS COUNCIL  
SCHEDULE OF REVENUE AND EXPENSES  
BY GRANT SOURCE  
FOR THE YEAR ENDED JUNE 30, 2018

	2018 State						Total
	General	Arts & Arts Access	Arts Education	Arts & Cultural Heritage	McKnight Foundation	Other Funds	
Revenue							
State of Minnesota	\$ 85,152	\$ 273,076	\$ 47,154	\$ 22,243	\$ -	\$ -	\$ 427,625
McKnight Foundation	-	-	-	-	67,783	-	67,783
Other income	2,277	8,393	1,949	633	500	3,342	17,094
Interest	-	502	-	1	2	-	505
Total revenue	<u>\$ 87,429</u>	<u>\$ 281,971</u>	<u>\$ 49,103</u>	<u>\$ 22,877</u>	<u>\$ 68,285</u>	<u>\$ 3,342</u>	<u>\$ 513,007</u>
Expenses							
Direct program subawards							
Arts Project	\$ 54,220	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,220
Arts Legacy	-	173,000	34,985	17,255	-	-	225,240
Artist grants	-	3,500	-	-	30,500	-	34,000
Subtotal	<u>54,220</u>	<u>176,500</u>	<u>34,985</u>	<u>17,255</u>	<u>30,500</u>	<u>-</u>	<u>313,460</u>
Program services and support costs	<u>8,557</u>	<u>21,333</u>	<u>1,425</u>	<u>1,756</u>	<u>923</u>	<u>-</u>	<u>33,994</u>
Total direct program awards, services and support costs	<u>62,777</u>	<u>197,833</u>	<u>36,410</u>	<u>19,011</u>	<u>31,423</u>	<u>-</u>	<u>347,454</u>
Non-grant programs							
Awards	1,350	120	-	-	7,100	-	8,570
Regional exhibits and showcase	-	10,667	-	-	10,604	-	21,271
Workshops and training	-	346	-	-	-	-	346
Arts promotion	-	22,787	-	-	10,396	-	33,183
Subtotal	<u>1,350</u>	<u>33,920</u>	<u>-</u>	<u>-</u>	<u>28,100</u>	<u>-</u>	<u>63,370</u>
Operating and support costs	<u>18,917</u>	<u>24,934</u>	<u>8,952</u>	<u>873</u>	<u>2,551</u>	<u>-</u>	<u>56,227</u>
Total non-grant programs and services, operating and support costs	<u>20,267</u>	<u>58,854</u>	<u>8,952</u>	<u>873</u>	<u>30,651</u>	<u>-</u>	<u>119,597</u>
Total programs, operating and support costs	<u>83,044</u>	<u>256,687</u>	<u>45,362</u>	<u>19,884</u>	<u>62,074</u>	<u>-</u>	<u>467,051</u>
Fundraising							
General administration	5,055	25,284	3,936	2,993	5,712	-	42,980
Total expenses	<u>\$ 88,099</u>	<u>\$ 281,971</u>	<u>\$ 49,298</u>	<u>\$ 22,877</u>	<u>\$ 68,285</u>	<u>\$ -</u>	<u>\$ 510,530</u>