

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY

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THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
LIST OF OFFICIALS
JUNE 30, 2018

Karin Rudd
Melissa Tomlinson
Alyson Bjornstad
Mara Brust
Matt Brunsvold
Noah Ford-Dunker
Crystal Gilson
Lana Suomala

Chair
Secretary
Treasurer

Dayna DelVal

President & CEO

Harold J. Rotunda
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Arts Partnership of the Red River Valley
Fargo, North Dakota

Report on Financial Statements

I have audited the accompanying financial statements of The Arts Partnership of the Red River Valley, which comprise the statement of financial position- modified cash basis as of June 30, 2018, and the related statements of activities- modified cash basis, functional expenses- modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position-modified cash basis of The Arts Partnership of the Red River Valley, as of June 30, 2018, and the results of its activities-modified cash basis and its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

I have previously audited The Arts Partnership of the Red River Valley's 2017 financial statements and I expressed an unmodified audit opinion on those financial statements in my report dated February 13, 2018. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent in all material respects, with audited financial statements from which it has been derived.

West Fargo, North Dakota
November 20, 2018

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
STATEMENT OF ASSETS, LIABILITIES AND
NET ASSETS- MODIFIED CASH BASIS
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	85 541	83 193
Investments	272 315	247 698
Accounts receivable	4 322	2 886
Prepaid expense	3 762	3 762
Deferred income	<u> </u>	<u>10 150</u>
Total assets	365 940 =====	347 689 =====
LIABILITIES		
Accounts payable	3 669	2 697
Deferred revenue		
Accrued expenses	<u>33 130</u>	<u>22 071</u>
Total liabilities	<u>36 799</u>	<u>24 768</u>
Net assets		
Unrestricted:		
Undesignated	329 141	322 921
Designated	<u> </u>	<u> </u>
Total net assets	<u>329 141</u>	<u>322 921</u>
Total liabilities and net assets	365 940 =====	347 689 =====

See notes to financial statements.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
STATEMENT OF ACTIVITY- MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>UNRESTRICTED</u>	
	<u>2018</u>	<u>2017</u>
RECEIPTS:		
Local government grants	142 529	142 529
State grants	8 680	9 210
Foundation grants	44 250	21 570
CSA Program	15 020	18 600
Artist in residence		15 000
Other program income	16 922	3 961
Business donations	72 920	81 746
Individual donations	44 224	45 386
Fundraising events	22 039	21 827
Primary partner dues	12 175	13 865
Advertising sales	8 085	8 345
Merchandise sales	7 188	5 009
Administrative income	37 005	20 447
Interest	17 861	22 249
In kind	<u>4 100</u>	
Total receipts	<u>452 998</u>	<u>429 744</u>
DISBURSEMENTS:		
Program expense	336 234	305 440
General	63 716	61 607
Fundraising expense	46 828	41 045
Total expenses	<u>446 778</u>	<u>408 092</u>
CHANGE IN NET ASSETS	6 220	21 652
Net assets, beginning of year	<u>322 921</u>	<u>301 269</u>
Net assets, end of year	<u>329 141</u>	<u>322 921</u>
	=====	=====

See notes to financial statements.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
STATEMENT OF FUNCTIONAL EXPENSES- MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>General</u>	<u>Program</u>	<u>Fund Raising</u>	<u>UNRESTRICTED</u>	
				<u>2018</u>	<u>2017</u>
Salary	24 620	90 879	31 200	146 699	120 525
Payroll taxes	1 890	6 977	2 395	11 262	9 220
Benefits	1 150	4 676	1 793	7 619	4 226
Grants- organization		125 210		125 210	119 400
Grants- individual		19 270		19 270	19 928
Artist in residence		20 976	874	21 850	19 700
Chalk fest					
Other program					20 021
Marketing		15 370	1 708	17 078	12 451
Operations					2 077
In kind		4 100		4 100	
Professional dev	2 481	4 962	827	8 270	7 560
Consultants	3 376	14 643	675	18 694	25 356
Fundraising Development			3 300	3 300	1 891
Rent	4 256	3 096	387	7 739	7 797
Telephone	3 326	369		3 695	3 108
Administrative	4 104	1 140	276	5 520	7 005
Insurance	1 809			1 809	1 765
Travel		7 603		7 603	1 545
Electronic sub	3 134			3 134	2 014
Miscellaneous	<u>13 570</u>	<u>16 963</u>	<u>3 393</u>	<u>33 926</u>	<u>22 503</u>
Total	63 716	336 234	46 828	446 778	408 092

See notes to financial statements.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	6 220	21 652
Adjustments to reconcile increase (decrease) in net assets:		
Depreciation		
(Increase) decrease in receivables	8 714	(4 858)
Increase (decrease) in accrued expenses	<u>12 031</u>	<u>16 572</u>
Net operating cash flows	<u>26 965</u>	<u>33 366</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(24 617)	(11 089)
Sale of investments	<u> </u>	<u> </u>
Net financing cash flows	<u>(24 617)</u>	<u>(11 089)</u>
Net increase (decrease) in cash	2 348	22 277
Cash:		
Beginning of year	<u>83 193</u>	<u>60 916</u>
End of year	<u>85 541</u>	<u>83 193</u>
	=====	=====

See notes to financial statements.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

1. DESCRIPTION OF ORGANIZATION

The Arts Partnership of the Red River Valley (TAP) is a nonprofit corporation established for the purpose of providing leadership and support to the local cultural arts. The major funding sources for TAP are grants, contributions from business and individuals, and program revenues.

General and administrative activities include the functions necessary to provide support to TAP's program activities. General and administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising activities include publicizing and conducting fundraising campaigns, maintaining donor lists, conducting special fundraising events; and other activities involved with soliciting contributions from corporations, foundations, individuals and others.

2. SIGNIFICANT ACCOUNTING POLICIES

TAP maintains its records on the modified cash basis of accounting. Under this method of accounting, revenues and related assets are recorded when received rather than when earned or receivable, and expenses are recorded when the obligation is paid. This differs from generally accepted accounting principles in that revenues are to be recorded when earned rather than when received and expenses recorded when incurred rather than when paid.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, TAP's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances; however, the actual results could differ from those estimates.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NET ASSETS

The financial statements report net assets and changes in net assets in three classes that are based upon the existence or absence of restrictions on use that are placed by its donors as follows:

UNRESTRICTED NET ASSETS

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. TAP's unspent contributions are classified in this class if the donor limited their use, as are unspent appreciation of its donor restricted endowment funds.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets. Net assets restricted for acquisition of buildings or equipment are reported as temporarily restricted until the specified asset is placed in service by TAP, unless the donor provides more specific directions about the period of its use.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are resources whose use by TAP is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of TAP's donor restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in unrestricted net assets. Net losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified in decreases in unrestricted net assets. If an endowment fund has no net gains from prior years, such as when a fund is newly established, net losses are classified as decreases in unrestricted net assets.

CASH EQUIVALENTS

Cash equivalents are short term interest bearing highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

ACCOUNTS RECEIVABLE

Accounts receivable are amounts due from businesses for ad sales, grantors on cost reimbursement or performance grants. Management believes that all outstanding accounts receivable are collectible in full, therefore no allowance for uncollected receivables has been provided.

SHORT TERM INVESTMENTS

TAP invests cash in excess of its immediate needs in money market funds. Short term investments are reported at fair value.

The investment policy specific to these investments is monitored by the Executive Committee.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

CONTRIBUTIONS RECEIVABLE

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contribution receivables that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectibility of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate the payment is merely postponed.

EQUIPMENT

Equipment is reported in the balance sheet at cost, if purchased, and at fair value at the date of donation, if donated. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the assets are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the asset as follows:

Equipment	3-15 years
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ACCOUNTING FOR CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized when received. All contributions are recorded as increases in unrestricted net assets unless use of contributed assets is specifically restricted by donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

GIFTS-IN-KIND CONTRIBUTIONS

TAP periodically receives contributions in a form other than cash and investments. If TAP receives a contribution of land, buildings, or equipment the contributed asset is recognized as an asset at its estimated fair value at the date of the gift, provided that the value of the asset and its estimated useful life meets TAP's capitalization policy. Donated use of facilities is reported as contribution and expense at the estimated fair value of for rent under similar circumstances. Donated supplies are recorded as contributions at the date of the gift and as expenses when the donated items are placed into service or distributed.

TAP benefits from personal services provided by volunteers. Those volunteers have donated significant amounts of time and services in TAP's program operations. However, the majority of the contributed services do not meet the criteria for recognition in the financial statements. GAAP allow the recognition of contributed services only if (a)the services create or enhance nonfinancial assets or (b)the services would have been purchased if not provided by the contribution, require specialized skills, and are provided by individuals possessing those skills.

GRANT REVENUE

Grant revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or contracts or when a unit of service is provided for performance grants. Grant revenue from Federal agencies is subject to independent audit under the Office of Management and Budget Circular A-133 and review by grantor agencies. The review could result in the disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, TAP's management believes that any costs disallowed would not materially affect the financial position of TAP.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

EXPENSE RECOGNITION AND ALLOCATION

The cost of providing TAP's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional activities. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefitted.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for overall support and direction of TAP.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. TAP generally does not conduct its fundraising activities in conjunction with its other activities. In the few cases in which it does, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for cost of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

TAX STATUS

TAP is incorporated exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless otherwise exempted by the IRC). The tax years of 2018, 2017, and 2015 are still open to audit for federal purposes. Contributions to TAP are tax deductible to donors under Section 170 of the IRC. TAP is not classified as a private foundation.

3. FAIR VALUE MEASUREMENTS

TAP reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1. Quoted prices for identical assets or liabilities in active markets to which TAP has access at the measurement date.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Level 2. Inputs, other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include

1- quoted prices for similar assets or liabilities in active markets;

2- quoted prices for identical or similar assets in markets that are not active;

3- observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and

4- inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, TAP measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for all of the assets and liabilities that the organization is required to measure at fair value (for example in-kind contributions).

The primary uses of fair value measures in TAP's financial statements are:

I- Initial measurement of noncash gifts

II- recurring measurement of short term investments

4. INVESTMENTS

Investments consist of the following at June 30, 2018:

	<u>Market</u>	<u>2017</u>
Marketable securities	<u>272 315</u>	<u>247 698</u>

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

As discussed in Note 3 to these financial statements, TAP is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the inputs to TAP's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in active markets for identical investments as of June 30, 2018. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical assets in inactive markets, and for investments measured at net asset value that can be redeemed in the near future. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, market activity for investments.

TAP uses the following ways to determine the fair value of its investments:

Money market funds: Determined by the published net asset value per unit at the end of the last trading day of the year, which is the basis for transactions at that date.
 Investments are composed of the following:

Fair Value Measurement

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

Fair Value Measurements at reporting date using:

	Quoted prices In active Markets for Identical assets <u>Fair value</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Marketable securities	\$272,315	\$272,315	-

Fair values of marketable securities are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values of alternative investments are determined by reference to the reported net asset values adjusted for additional investments, distributions or redemptions occurring between the date of the reported net asset value and the financial reporting date, and for known changes in the value of the underlying investments.

THE ARTS PARTNERSHIP OF THE RED RIVER VALLEY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

5. Investment Income

Investment income consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 2 589	\$ 4 518
Realized gains (losses)	4 707	3 067
Unrealized gains (losses)- net	<u>10 565</u>	<u>14 664</u>
	<u>\$ 17 861</u>	<u>\$ 22 249</u>
	=====	=====

6. FIXED ASSETS

Fixed assets at June 30, 2018, are summarized by major classification:

	<u>2018</u>	<u>2017</u>
Equipment		\$ 8 853
Less: accumulated depreciation		<u>8 853</u>
Fixed assets, net		\$
	=====	=====

7. CONCENTRATIONS OF RISK

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. TAP deposits its cash with high quality financial institutions, and management believes TAP is not exposed to significant credit risk on those amounts.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2018, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in financial statements would be required.

THE ARTS PARTNERSHIP
OF THE RED RIVER VALLEY
FARGO, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018