

**SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.
ROCHESTER, MINNESOTA**

**FINANCIAL STATEMENTS
JUNE 30, 2006**

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

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Certified Public Accountants and Consultants

Members of American Institute of CPA's,
Private Companies Practice Section, Minnesota Society of CPA's

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeastern Minnesota Arts Council, Inc.
Rochester, Minnesota

We have audited the accompanying statements of financial position of Southeastern Minnesota Arts Council, Inc. as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Minnesota Arts Council, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Smith, Schafner and Associates, Ltd.

Rochester, Minnesota
September 13, 2006

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

ASSETS	2006	2005
Current Assets		
Cash and cash equivalents	\$ 79,802	\$ 124,681
Prepaid expenses	4,361	1,934
Total Current Assets	<u>84,163</u>	<u>126,615</u>
Property and Equipment		
Furniture and equipment	25,455	25,028
Less - accumulated depreciation	<u>(19,561)</u>	<u>(17,723)</u>
Total Property and Equipment, Net	<u>5,894</u>	<u>7,305</u>
TOTAL ASSETS	<u>\$ 90,057</u>	<u>\$ 133,920</u>

See Notes to the Financial Statements

LIABILITIES AND NET ASSETS	2006	2005
Current Liabilities		
Accounts payable	\$ 439	\$ 392
Accrued payroll liabilities	5,500	5,290
Refundable advances		50,000
Total Current Liabilities	5,939	55,682
Net Assets		
Unrestricted	84,118	78,238
 TOTAL LIABILITIES AND NET ASSETS	 \$ 90,057	 \$ 133,920

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2006 and 2005

	Unrestricted	
	2006	2005
Public Support and Revenue		
Minnesota State Arts Board appropriation	\$ 227,910	\$ 226,396
McKnight Foundation grant	50,000	50,000
Investment income	2,424	1,253
Contributions	1,550	
Miscellaneous income	1,100	636
	<u>282,984</u>	<u>278,285</u>
Expenses		
Program services - grants awarded	125,710	134,900
Compensation	84,538	82,124
Payroll taxes	6,716	6,984
Employee benefits	25,452	24,011
Travel	3,394	2,268
Rent	10,200	10,000
Communication	4,107	4,152
Printing and advertising	1,615	691
Supplies	1,181	1,285
Repairs and maintenance	887	1,696
Consulting fees	679	
Professional services	4,745	5,815
Postage	428	499
Dues and subscriptions	954	904
Meeting and conference expense	1,614	786
Equipment rental	2,511	2,511
Insurance	388	389
Depreciation	1,838	1,322
Miscellaneous expenses	147	57
	<u>277,104</u>	<u>280,394</u>
Change in Net Assets	5,880	(2,109)
Net Assets, Beginning of Year	<u>78,238</u>	<u>80,347</u>
Net Assets, End of Year	<u>\$ 84,118</u>	<u>\$ 78,238</u>

See Notes to the Financial Statements

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows From Operating Activities		
Change in net assets	5,880	\$ (2,109)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,838	1,322
(Increase) decrease in assets -		
Prepaid expenses	(2,427)	435
Increase (decrease) in liabilities -		
Accounts payable	47	(3)
Accrued payroll liabilities	210	(5,195)
Refundable advances	(50,000)	
Net Cash Used In Operating Activities	(44,452)	(5,550)
Cash Flows From Investing Activities		
Purchase of furniture and equipment	(427)	(7,878)
Net Decrease in Cash and Cash Equivalents	(44,879)	(13,428)
Cash and Cash Equivalents, Beginning of Year	124,681	138,109
Cash and Cash Equivalents, End of Year	<u>\$ 79,802</u>	<u>\$ 124,681</u>

See Notes to the Financial Statements

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization

Southeastern Minnesota Arts Council, Inc. is a non-profit charitable corporation organized in 1977, under the laws of the State of Minnesota. The Organization assists in the development of the arts through a program of regranteeing public and private funds to community arts organizations, educational institutions and artists throughout Southeastern Minnesota. The Organization also serves as a resource and referral agency, provides technical assistance and offers educational workshops and seminars.

Cash and Cash Equivalents

Investments with a maturity of ninety days or less from the date of purchase are treated as cash equivalents, and consist of demand deposits and money market accounts.

Depreciation

All acquisitions over \$250 are capitalized and recorded at original cost. Donated equipment is recorded at the estimated fair market value of the items at the date of receipt. Expenditures for repairs and maintenance are charged to expense as incurred, while betterments are capitalized. Depreciation is computed on the straight-line method and is based on expected useful lives ranging from 3 to 7 years.

Concentrations

The Organization maintains its cash balances in one financial institution located in Rochester, Minnesota. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At times, such deposits may be in excess of this limit.

The Organization has two primary sources of grant revenue that accounted for approximately 98% and 99% of total unrestricted revenues received in the years ended June 30, 2006 and 2005.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Organization and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

Contributions, including unconditional promises to give, are recorded as made. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

Many individuals have contributed a significant amount of time to the activities of the Organization. The Organization does not recognize these contributed services as revenues unless 1) the services received create or enhance existing facilities; or 2) require specialized skills and are provided by individuals possessing those skills. No contributed services were recognized by the Organization during the years ended June 30, 2006 and 2005.

Refundable Advances

The June 30, 2005 balance represents a \$50,000 grant received from the McKnight Foundation in June, 2005 for the period July 1, 2005 to June 30, 2006. There was no balance for the year ended June 30, 2006.

Accumulated Unpaid Vacation

The liability for unused vacation has not been recorded and is not considered material in relation to the financial condition or operating results of the Organization.

Advertising Costs

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed the first time the advertising takes place.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 period. Actual results could differ from the estimates.

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 701(b)(1)(A) and has been classified as an organization other than a private foundation under 509(a)(2).

3. Retirement Plan

The Organization has a defined contribution retirement plan covering full time employees. Contributions to the plan are determined by the Board of Directors. Contributions to the plan for the years ending June 30, 2006 and 2005, were \$12,632 and \$12,593 respectively.

4. Commitments and Contingencies

The Organization leases office space in Rochester, Minnesota under a month to month agreement after the lease expired on February 28, 2006. Rental expense for the years ending June 30, 2006 and 2005 was \$10,200 and \$10,000, respectively.

The Organization also leases a copier under a month to month agreement after the lease expired on March 31, 2006. Rental expense for the years ending June 30, 2006 and 2005 was \$1,634 for each year, respectively.

Beginning November 1, 2004 the Organization, entered into a lease for a postage machine under a non-cancelable agreement which expires on October 31, 2006. Rental expense for the years ending June 30, 2006 and 2005 was \$620 for each year, respectively.

SOUTHEASTERN MINNESOTA ARTS COUNCIL, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Functional Classification of Expenses

Expenses from unrestricted net assets on a functional basis were as follows:

	<u>2006</u>	<u>2005</u>
Program related costs	\$ 242,081	\$ 246,206
Administrative costs	29,287	28,669
Fundraising costs	<u>5,736</u>	<u>5,519</u>
Total Expenses	<u>\$ 277,104</u>	<u>\$ 280,394</u>