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LAKE REGION ARTS COUNCIL

FERGUS FALLS, MINNESOTA

FINANCIAL REPORT

June 30, 2001

LAKE REGION ARTS COUNCIL

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Independent Auditor's Report

To the Board of Directors
Lake Region Arts Council
Fergus Falls, Minnesota

We have audited the accompanying statement of financial position of Lake Region Arts Council (a nonprofit corporation) as of June 30, 2001 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides 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 Lake Region Arts Council as of June 30, 2001, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Swenson, Saurer & Co., Ltd.

August 22, 2001

LAKE REGION ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION
June 30, 2001
(With Comparative Totals for 2000)

ASSETS

	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 223	\$ 106
Money Market Funds	44,047	60,990
Other Receivable	2,744	1,141
Prepaid Expenses	<u>1,629</u>	<u>1,783</u>
Total Current Assets	\$ <u>48,643</u>	\$ <u>64,020</u>
EQUIPMENT		
Equipment	\$ 34,947	\$ 40,365
Less Accumulated Depreciation	<u>(10,092)</u>	<u>(19,291)</u>
Net Equipment	\$ <u>24,855</u>	\$ <u>21,074</u>
Total Assets	\$ <u>73,498</u>	\$ <u>85,094</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 3,732	\$ 2,506
Grants Payable	<u>32,741</u>	<u>30,845</u>
Total Current Liabilities	\$ <u>36,473</u>	\$ <u>33,351</u>
COMMITMENTS	\$ <u>-</u>	\$ <u>-</u>
NET ASSETS		
Unrestricted	\$ 31,061	\$ 20,836
Temporarily Restricted	<u>5,964</u>	<u>30,907</u>
Total Net Assets	\$ <u>37,025</u>	\$ <u>51,743</u>
Total Liabilities and Net Assets	\$ <u>73,498</u>	\$ <u>85,094</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2001
(With Comparative Totals for 2000)

	<u>2001</u>			<u>2000</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Minnesota State Arts Board Grant	\$210,389	\$ -	\$210,389	\$210,389
Interest Income	9,631	-	9,631	8,602
Other Revenue (Expense)	7,956	(44)	7,912	4,188
Net Assets Released From Restrictions	<u>24,899</u>	<u>(24,899)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>\$252,875</u>	<u>\$ (24,943)</u>	<u>\$227,932</u>	<u>\$223,179</u>
EXPENSES				
Program Services				
General Program	\$145,448	\$ -	\$145,448	\$169,832
McKnight Foundation	<u>32,881</u>	<u>-</u>	<u>32,881</u>	<u>40,220</u>
Total Program Services	\$178,329	\$ -	\$178,329	\$210,052
General and Administrative	<u>64,321</u>	<u>-</u>	<u>64,321</u>	<u>58,009</u>
Total Expenses	<u>\$242,650</u>	<u>\$ -</u>	<u>\$242,650</u>	<u>\$268,061</u>
Change in Net Assets	\$ 10,225	\$ (24,943)	\$ (14,718)	\$ (44,882)
NET ASSETS - Beginning of Year	<u>20,836</u>	<u>30,907</u>	<u>51,743</u>	<u>96,625</u>
NET ASSETS - End of Year	<u>\$ 31,061</u>	<u>\$ 5,964</u>	<u>\$ 37,025</u>	<u>\$ 51,743</u>

See Notes to Financial Statements.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2001
(With Comparative Totals for 2000)

	2001					
	Program Services		Total	General and		2000
	General	McKnight	Program	Administrative	Total	Total
	Program	Foundation	Services			
EXPENSES						
Salaries	\$ 14,987	\$ 4,633	\$ 19,620	\$ 33,331	\$ 52,951	\$ 48,644
Payroll Taxes	1,144	354	1,498	2,544	4,042	3,778
Employee Benefits	1,377	426	1,803	3,063	4,866	4,477
Newsletter	10,747	-	10,747	-	10,747	11,317
Grants and Awards	104,065	18,205	122,270	-	122,270	151,500
Project Coordinator	4,150	-	4,150	-	4,150	4,350
Fees, Stipends and Honoraria	3,113	-	3,113	-	3,113	3,510
Travel, Meals and Lodging	1,551	1,048	2,599	3,211	5,810	6,023
Telephone	905	210	1,115	1,075	2,190	2,467
Postage	954	244	1,198	1,043	2,241	2,854
Electricity	287	490	777	288	1,065	1,010
Office Expenses	867	313	1,180	1,365	2,545	2,850
Rent	-	5,160	5,160	8,640	13,800	14,950
Gallery Expense	-	1,273	1,273	-	1,273	1,050
Repairs and Maintenance	-	-	-	481	481	1,746
Insurance	-	-	-	471	471	429
Professional Services	-	-	-	1,395	1,395	1,025
Printing and Publications	-	1	1	46	47	697
Memberships	-	-	-	876	876	500
Workshops	116	-	116	1,346	1,462	861
Depreciation	-	524	524	3,714	4,238	3,835
Miscellaneous	1,185	-	1,185	1,432	2,617	188
	<u>\$145,448</u>	<u>\$ 32,881</u>	<u>\$178,329</u>	<u>\$ 64,321</u>	<u>\$242,650</u>	<u>\$268,061</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2001
(With Comparative Totals for 2000)

	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (14,718)	\$ (44,882)
Loss on Disposal of Equipment	1,328	-
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,238	3,835
(Increase) Decrease in Operating Assets		
Grants Receivable	-	28,400
Other Receivable	(1,603)	(1,141)
Prepaid Expenses	154	304
Increase (Decrease) in Operating Liabilities		
Accounts Payable	1,226	(6,845)
Grants Payable	<u>1,896</u>	<u>(12,940)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(7,479)</u>	\$ <u>(33,269)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Equipment	\$ <u>(9,347)</u>	\$ <u>(5,554)</u>
Net Cash Used by Investing Activities	\$ <u>(9,347)</u>	\$ <u>(5,554)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (16,826)	\$ (38,823)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>61,096</u>	<u>99,919</u>
CASH AND CASH EQUIVALENTS, End of Year	\$ <u><u>44,270</u></u>	\$ <u><u>61,096</u></u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

NOTE 1. Nature of Operations and Significant Accounting Policies

Nature of Operation:

Lake Region 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 Corporation was formed to provide funding for artistic endeavors through a regranting process.

Funding of the Corporation's activities is from two major sources: the Minnesota State Legislature appropriation and the McKnight Foundation. Continuing support from the State legislature is on a year-by-year basis. McKnight support is provided on a triennial basis.

Support and Revenue:

Grants and other contributions of cash and other assets are reported as temporarily 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. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

Cash and Cash Equivalents:

The Corporation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and Cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

NOTE 1. Nature of Operations and Significant Accounting Policies
(continued)

Equipment:

Office equipment is reported at cost if the asset was purchased, or at fair market value at the date of receipt if the asset was donated. Depreciation totaling \$4,238 for the year ended June 30, 2001 was computed using the straight-line method over the estimated useful lives of the assets.

NOTE 2. Grants Payable

Lake Region 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, 2001 a total of \$32,741 has been awarded but not yet remitted to grantees pending completion of their projects. This amount will be paid during the next fiscal year.

NOTE 3. Net Assets

The net assets as of June 30, 2001 consisted of the following components:

	<u>June 30, 2001</u>
Unrestricted:	
General Program	<u>\$31,061</u>
Temporarily Restricted:	
McKnight Foundation	<u>\$ 5,964</u>

NOTE 4. Functional Allocation of Expense

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue, expenses and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs which have been allocated include salaries, payroll taxes, telephone, occupancy costs and postage.

NOTE 5. Lease Commitment

On May 19, 1999, the Corporation entered into a three year lease for office space and for an art gallery. The lease term runs from July 1, 1999 through June 30, 2002. The lease calls for monthly payments of \$1,150 due on the first day of each month.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

NOTE 6. Credit Risk

Financial instruments which potentially subject the Corporation to concentration of credit risk consist principally of temporary cash investments. Lake Region Arts Council has placed its temporary cash investment in a high quality money market fund. The fund is not FDIC insured, but is comprised of mainly of government-backed high grade commercial paper.

NOTE 7. Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the corporation's financial statements for the year ended June 30, 2000, from which the summarized information was derived.