

24-3017

**LAKE REGION ARTS COUNCIL
FERGUS FALLS, MINNESOTA
FINANCIAL REPORT
June 30, 2005**

LAKE REGION ARTS COUNCIL

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**Swenson
Saurer & Co., Ltd.**

Arlan C. Swenson, CPA

Dwayne V. Saurer, CPA

Certified Public Accountants

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, 2005 and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's June 30, 2004 financial statements and, in our report dated September 8, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Swenson, Saurer & Co., Ltd.

September 8, 2005

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LAKE REGION ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION
June 30, 2005
(With Comparative Totals for 2004)

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 49,167	\$ 90,112
Prepaid Expenses	<u>3,310</u>	<u>1,755</u>
Total Current Assets	\$ <u>52,477</u>	\$ <u>91,867</u>
EQUIPMENT		
Equipment	\$ 40,667	\$ 40,667
Less Accumulated Depreciation	<u>(28,195)</u>	<u>(22,874)</u>
Net Equipment	\$ <u>12,472</u>	\$ <u>17,793</u>
Total Assets	\$ <u><u>64,949</u></u>	\$ <u><u>109,660</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 1,612	\$ 3,538
Agency Funds	2,870	3,492
Grants Payable	<u>15,582</u>	<u>14,282</u>
Total Current Liabilities	\$ <u>20,064</u>	\$ <u>21,312</u>
COMMITMENTS	\$ <u>-</u>	\$ <u>-</u>
NET ASSETS		
Unrestricted	\$ 42,389	\$ 46,842
Temporarily Restricted	<u>2,496</u>	<u>41,506</u>
Total Net Assets	\$ <u>44,885</u>	\$ <u>88,348</u>
Total Liabilities and Net Assets	\$ <u><u>64,949</u></u>	\$ <u><u>109,660</u></u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005
(With Comparative Totals for 2004)

	2005			2004
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Minnesota State Arts Board Grant	\$141,453	\$ -	\$141,453	\$141,453
McKnight Foundation Grant (See Note 7)	-	-	-	76,000
Interest Income	2,250	-	2,250	855
Other Revenue	422	-	422	5,087
Net Assets Released From Restrictions	<u>39,010</u>	<u>(39,010)</u>	<u>-</u>	<u>-</u>
Total Support, and Reclassifications	<u>\$183,135</u>	<u>\$ (39,010)</u>	<u>\$144,125</u>	<u>\$223,395</u>
EXPENSES				
Program Services				
General Program	\$129,029	\$ -	\$129,029	\$118,104
McKnight Foundation	<u>40,753</u>	<u>-</u>	<u>40,753</u>	<u>37,264</u>
Total Program Services	\$169,782	\$ -	\$169,782	\$155,368
General and Administrative	<u>17,806</u>	<u>-</u>	<u>17,806</u>	<u>25,735</u>
Total Expenses	<u>\$187,588</u>	<u>\$ -</u>	<u>\$187,588</u>	<u>\$181,103</u>
Change in Net Assets	\$ (4,453)	\$ (39,010)	\$ (43,463)	\$ 42,292
NET ASSETS - Beginning of Year	<u>46,842</u>	<u>41,506</u>	<u>88,348</u>	<u>46,056</u>
NET ASSETS - End of Year	<u>\$ 42,389</u>	<u>\$ 2,496</u>	<u>\$ 44,885</u>	<u>\$ 88,348</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2005
(With Comparative Totals for 2004)

	2005		Total Program Services	General and Administrative	Total	2004 Total
	Program Services General Program	McKnight Foundation				
EXPENSES						
Salaries	\$ 38,853	\$ 3,824	\$ 42,677	\$4,896	\$ 47,573	\$ 45,891
Payroll Taxes	3,290	303	3,593	387	3,980	3,548
Employee Benefits	4,561	419	4,980	537	5,517	5,384
Newsletter	8,050	-	8,050	-	8,050	5,171
Grants and Awards	60,281	17,760	78,041	-	78,041	75,580
Project Coordinator	-	-	-	-	-	-
Fees, Stipends and Honoraria	-	-	-	-	-	-
Travel, Meals and Lodging	2,698	618	3,316	633	3,949	5,428
Telephone	853	244	1,097	122	1,219	1,764
Postage	1,358	704	2,062	239	2,301	2,260
Electricity	175	524	699	175	874	968
Office Expenses	2,325	2,077	4,402	345	4,747	1,556
Rent	3,320	9,960	13,280	3,320	16,600	15,600
Gallery Expense	-	1,949	1,949	-	1,949	1,009
Repairs and Maintenance	641	525	1,166	157	1,323	1,206
Parking	216	108	324	36	360	360
Insurance	198	-	198	367	565	566
Professional Services	663	-	663	1,175	1,838	1,816
Consultants	-	-	-	-	-	4,488
Memberships	-	-	-	708	708	583
Workshops	615	255	870	-	870	72
Depreciation	-	983	983	4,338	5,321	4,963
Miscellaneous	932	500	1,432	371	1,803	2,890
	<u>\$129,029</u>	<u>\$ 40,753</u>	<u>\$169,782</u>	<u>\$ 17,806</u>	<u>\$187,588</u>	<u>\$181,103</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005
(With Comparative Totals for 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$(43,463)	\$ 42,292
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	5,321	4,963
(Increase) Decrease in Operating Assets		
Prepaid Expenses	(1,555)	325
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(1,926)	(6,642)
Agency Funds	(622)	1,532
Grants Payable	<u>1,300</u>	<u>(13,911)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>(40,945)</u>	\$ <u>28,559</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of Equipment	\$ <u>-</u>	\$ <u>(1,436)</u>
Net Cash Used by Investing Activities	\$ <u>-</u>	\$ <u>(1,436)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$(40,945)	\$ 27,123
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>90,112</u>	<u>62,989</u>
CASH AND CASH EQUIVALENTS, End of Year	\$ <u><u>49,167</u></u>	\$ <u><u>90,112</u></u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 biennial 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 accounting principles generally accepted in the United States of America 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.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 \$5,321 for the year ended June 30, 2005 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, 2005 a total of \$15,582 has been awarded but not yet remitted to grantees. This amount will be paid during the next fiscal year.

NOTE 3. Net Assets

The net assets as of June 30, 2005 consisted of the following components:

June 30, 2005

Unrestricted:

General Program

\$42,389

Temporarily Restricted:

McKnight Foundation

\$ 2,496

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 5, 2004, the Corporation entered into a three year lease for office space and for an art gallery. The lease term runs from September 1, 2004 through August 31, 2007. The lease calls for monthly payments of \$1,400 due on the first day of each month.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

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 mainly of government-backed high grade commercial paper.

NOTE 7. McKnight Foundation Grant

Funding from the McKnight Foundation was on a biennial basis. The two year grant totaling \$76,000 was received in the fiscal year ended June 30, 2004 and recognized as grant income in the temporarily restricted column in the statement of activities. The grant income is recognized in the unrestricted column in the year the funds are expended as net assets released from restrictions.

NOTE 8. 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, 2004, from which the summarized information was derived.