

24-3018

**LAKE REGION ARTS COUNCIL  
FERGUS FALLS, MINNESOTA  
FINANCIAL REPORT  
June 30, 2006**

LAKE REGION ARTS COUNCIL

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# SWENSON, SAURER, GERBER, ANDERSON & Co. LTD.

CERTIFIED PUBLIC ACCOUNTANTS

Arlan C. Swenson, CPA • Dwayne V. Saurer, CPA • Kelly L. Gerber, CPA • Edwin A. Anderson, CPA

## 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, 2006 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, 2005 financial statements and, in our report dated September 8, 2005, 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, 2006, 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, Gerber, Anderson & Co. Ltd.*

September 7, 2006

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LAKE REGION ARTS COUNCIL  
STATEMENT OF FINANCIAL POSITION  
June 30, 2006  
(With Comparative Totals for 2005)

ASSETS

|                               | <u>2006</u>      | <u>2005</u>      |
|-------------------------------|------------------|------------------|
| CURRENT ASSETS                |                  |                  |
| Cash and Cash Equivalents     | \$ 53,676        | \$ 49,167        |
| Prepaid Expenses              | <u>1,987</u>     | <u>3,310</u>     |
| Total Current Assets          | \$ <u>55,663</u> | \$ <u>52,477</u> |
| EQUIPMENT                     |                  |                  |
| Equipment                     | \$ 38,277        | \$ 40,667        |
| Less Accumulated Depreciation | <u>(29,856)</u>  | <u>(28,195)</u>  |
| Net Equipment                 | \$ <u>8,421</u>  | \$ <u>12,472</u> |
| Total Assets                  | \$ <u>64,084</u> | \$ <u>64,949</u> |

LIABILITIES AND NET ASSETS

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| CURRENT LIABILITIES              |                  |                  |
| Accounts Payable                 | \$ 2,158         | \$ 1,612         |
| Agency Funds                     | 3,056            | 2,870            |
| Grants Payable                   | <u>12,665</u>    | <u>15,582</u>    |
| Total Current Liabilities        | \$ <u>17,879</u> | \$ <u>20,064</u> |
| COMMITMENTS                      | \$ <u>-</u>      | \$ <u>-</u>      |
| NET ASSETS                       |                  |                  |
| Unrestricted                     | \$ 43,520        | \$ 42,389        |
| Temporarily Restricted           | <u>2,685</u>     | <u>2,496</u>     |
| Total Net Assets                 | \$ <u>46,205</u> | \$ <u>44,885</u> |
| Total Liabilities and Net Assets | \$ <u>64,084</u> | \$ <u>64,949</u> |

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2006  
(With Comparative Totals for 2005)

|  | 2006                |                                   |                  | 2005             |
|--|---------------------|-----------------------------------|------------------|------------------|
|  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>     | <u>Total</u>     |
| SUPPORT, REVENUE AND RECLASSIFICATIONS   |                     |                                   |                  |                  |
| Minnesota State Arts Board Grant         | \$142,144           | \$ -                              | \$142,144        | \$141,453        |
| McKnight Foundation Grant                | -                   | 38,000                            | 38,000           | -                |
| Interest Income                          | 4,224               | -                                 | 4,224            | 2,250            |
| Other Revenue                            | 1,300               | 1,200                             | 2,500            | 422              |
| Net Assets Released From<br>Restrictions | <u>39,011</u>       | <u>(39,011)</u>                   | <u>-</u>         | <u>-</u>         |
| Total Support, and<br>Reclassifications  | <u>\$186,679</u>    | <u>\$ 189</u>                     | <u>\$186,868</u> | <u>\$144,125</u> |
| EXPENSES                                 |                     |                                   |                  |                  |
| Program Services                         |                     |                                   |                  |                  |
| General Program                          | \$128,256           | \$ -                              | \$128,256        | \$129,029        |
| McKnight Foundation                      | <u>39,501</u>       | <u>-</u>                          | <u>39,501</u>    | <u>40,753</u>    |
| Total Program Services                   | \$167,757           | \$ -                              | \$167,757        | \$169,782        |
| General and Administrative               | <u>17,791</u>       | <u>-</u>                          | <u>17,791</u>    | <u>17,806</u>    |
| Total Expenses                           | <u>\$185,548</u>    | <u>\$ -</u>                       | <u>\$185,548</u> | <u>\$187,588</u> |
| Change in Net Assets                     | \$ 1,131            | \$ 189                            | \$ 1,320         | \$ (43,463)      |
| NET ASSETS - Beginning of Year           | <u>42,389</u>       | <u>2,496</u>                      | <u>44,885</u>    | <u>88,348</u>    |
| NET ASSETS - End of Year                 | <u>\$ 43,520</u>    | <u>\$ 2,685</u>                   | <u>\$ 46,205</u> | <u>\$ 44,885</u> |

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2006  
(With Comparative Totals for 2005)

|                           | 2006                                   |                        | Total<br>Program<br>Services | General and<br>Administrative | Total            | 2005<br>Total    |
|---------------------------|--|------------------------|------------------------------|-------------------------------|------------------|------------------|
|                           | Program Services<br>General<br>Program | McKnight<br>Foundation |                              |                               |                  |                  |
| EXPENSES                  |  |                        |                              |                               |                  |                  |
| Salaries                  | \$ 42,284                              | \$ 3,879               | \$ 46,163                    | \$ 5,283                      | \$ 51,446        | \$ 47,573        |
| Payroll Taxes             | 3,306                                  | 303                    | 3,609                        | 413                           | 4,022            | 3,980            |
| Employee Benefits         | 4,998                                  | 459                    | 5,457                        | 624                           | 6,081            | 5,517            |
| Newsletter                | 4,172                                  | -                      | 4,172                        | -                             | 4,172            | 8,050            |
| Grants and Awards         | 60,787                                 | 19,030                 | 79,817                       | -                             | 79,817           | 78,041           |
| Travel, Meals and Lodging | 3,320                                  | 1,383                  | 4,703                        | 775                           | 5,478            | 3,949            |
| Telephone                 | 853                                    | 244                    | 1,097                        | 121                           | 1,218            | 1,219            |
| Postage                   | 1,110                                  | 591                    | 1,701                        | 176                           | 1,877            | 2,301            |
| Electricity               | 221                                    | 664                    | 885                          | 221                           | 1,106            | 874              |
| Office Expenses           | 1,026                                  | 478                    | 1,504                        | 167                           | 1,671            | 4,747            |
| Rent                      | 3,360                                  | 10,080                 | 13,440                       | 3,360                         | 16,800           | 16,600           |
| Gallery Expense           | -                                      | 967                    | 967                          | -                             | 967              | 1,949            |
| Repairs and Maintenance   | 785                                    | 386                    | 1,171                        | 125                           | 1,296            | 1,323            |
| Parking                   | 216                                    | 108                    | 324                          | 36                            | 360              | 360              |
| Insurance                 | 230                                    | -                      | 230                          | 374                           | 604              | 565              |
| Professional Services     | 238                                    | 68                     | 306                          | 1,209                         | 1,515            | 1,838            |
| Consultants               | 63                                     | 27                     | 90                           | -                             | 90               | -                |
| Memberships               | -                                      | -                      | -                            | 708                           | 708              | 708              |
| Workshops                 | 287                                    | 93                     | 380                          | -                             | 380              | 870              |
| Depreciation              | -                                      | 741                    | 741                          | 3,311                         | 4,052            | 5,321            |
| Miscellaneous             | 1,000                                  | -                      | 1,000                        | 888                           | 1,888            | 1,803            |
|                           | <u>\$128,256</u>                       | <u>\$ 39,501</u>       | <u>\$167,757</u>             | <u>\$ 17,791</u>              | <u>\$185,548</u> | <u>\$187,588</u> |

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2006  
(With Comparative Totals for 2005)

|  | <u>2006</u>             | <u>2005</u>             |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                         |                         |
| Change in Net Assets   | \$ 1,320                | \$ (43,463)             |
| Adjustments to Reconcile Change in Net Assets<br>to Net Cash Provided by Operating Activities: |                         |                         |
| Depreciation   | 4,052                   | 5,321                   |
| (Increase) Decrease in Operating Assets  |                         |                         |
| Prepaid Expenses   | 1,323                   | (1,555)                 |
| Increase (Decrease) in Operating Liabilities   |                         |                         |
| Accounts Payable   | 546                     | (1,926)                 |
| Agency Funds   | 186                     | (622)                   |
| Grants Payable   | <u>(2,918)</u>          | <u>1,300</u>            |
| Net Cash Provided (Used) by<br>Operating Activities  | \$ <u>4,509</u>         | \$ <u>(40,945)</u>      |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS   | \$ 4,509                | \$ (40,945)             |
| CASH AND CASH EQUIVALENTS, Beginning of Year   | <u>49,167</u>           | <u>90,112</u>           |
| CASH AND CASH EQUIVALENTS, End of Year   | \$ <u><u>53,676</u></u> | \$ <u><u>49,167</u></u> |

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2006

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 and the McKnight Foundation is on a year-by-year 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, 2006

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 \$4,052 for the year ended June 30, 2006 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, 2006 a total of \$12,665 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, 2006 consisted of the following components:

June 30, 2006

Unrestricted:

General Program \$43,520

Temporarily Restricted:

McKnight Foundation \$ 2,685

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, 2006

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. 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, 2005, from which the summarized information was derived.