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**LAKE REGION ARTS COUNCIL  
FERGUS FALLS, MINNESOTA  
FINANCIAL REPORT  
June 30, 2008**

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, 2008 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, 2007 financial statements and, in our report dated September 6, 2007, 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, 2008, 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 9, 2008

LAKE REGION ARTS COUNCIL  
STATEMENT OF FINANCIAL POSITION  
June 30, 2008  
(With Comparative Totals for 2007)

ASSETS

	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 92,345	\$ 84,828
Grants Receivable	55,500	-
Prepaid Expenses	<u>2,219</u>	<u>3,549</u>
Total Current Assets	\$ <u>150,064</u>	\$ <u>88,377</u>
EQUIPMENT		
Equipment	\$ 35,708	\$ 35,167
Less Accumulated Depreciation	<u>(33,381)</u>	<u>(30,275)</u>
Net Equipment	\$ <u>2,327</u>	\$ <u>4,892</u>
Total Assets	\$ <u><u>152,391</u></u>	\$ <u><u>93,269</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 4,354	\$ 3,071
Agency Funds	2,478	2,782
Grants Payable	<u>29,836</u>	<u>26,773</u>
Total Current Liabilities	\$ <u>36,668</u>	\$ <u>32,626</u>
COMMITMENTS	\$ -	\$ -
NET ASSETS		
Unrestricted	\$ 55,560	\$ 50,336
Temporarily Restricted	<u>60,163</u>	<u>10,307</u>
Total Net Assets	\$ <u>115,723</u>	\$ <u>60,643</u>
Total Liabilities and Net Assets	\$ <u><u>152,391</u></u>	\$ <u><u>93,269</u></u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008  
(With Comparative Totals for 2007)

	2008			2007
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Minnesota State Arts Board Grant	\$171,792	\$ -	\$171,792	\$142,144
McKnight Foundation Grant	-	111,000	111,000	63,500
Interest Income	3,589	-	3,589	6,981
Other Revenue	714	400	1,114	438
Net Assets Released From Restrictions	<u>61,544</u>	<u>(61,544)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>\$237,639</u>	<u>\$ 49,856</u>	<u>\$287,495</u>	<u>\$213,063</u>
EXPENSES				
Program Services				
General Program	\$150,338	\$ -	\$150,338	\$127,453
McKnight Foundation	<u>63,811</u>	<u>-</u>	<u>63,811</u>	<u>53,736</u>
Total Program Services	\$214,149	\$ -	\$214,149	\$181,189
General and Administrative	<u>18,266</u>	<u>-</u>	<u>18,266</u>	<u>17,436</u>
Total Expenses	<u>\$232,415</u>	<u>\$ -</u>	<u>\$232,415</u>	<u>\$198,625</u>
Change in Net Assets	\$ 5,224	\$ 49,856	\$ 55,080	\$ 14,438
NET ASSETS - Beginning of Year	<u>50,336</u>	<u>10,307</u>	<u>60,643</u>	<u>46,205</u>
NET ASSETS - End of Year	<u>\$ 55,560</u>	<u>\$ 60,163</u>	<u>\$115,723</u>	<u>\$ 60,643</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2008  
(With Comparative Totals for 2007)

	2008					
	Program Services		Total	General and		2007
EXPENSES	General	McKnight	Program	Administrative	Total	Total
	Program	Foundation	Services			
Salaries	\$ 48,762	\$ 4,943	\$ 53,705	\$ 6,496	\$ 60,201	\$ 53,845
Payroll Taxes	3,755	381	4,136	500	4,636	4,163
Employee Benefits	7,509	761	8,270	1,000	9,270	7,868
Newsletter	4,115	-	4,115	-	4,115	4,058
Grants and Awards	73,910	26,940	100,850	-	100,850	82,549
Travel, Meals and Lodging	3,792	1,452	5,244	1,261	6,505	5,632
Telephone	819	234	1,053	117	1,170	1,249
Postage	1,152	665	1,817	190	2,007	2,060
Electricity	154	460	614	154	768	910
Office Expenses	1,297	620	1,917	157	2,074	3,029
Rent	3,360	10,080	13,440	3,360	16,800	16,800
Gallery Expense	-	935	935	-	935	1,274
Artist and Mentor Program	-	7,260	7,260	-	7,260	5,335
Repairs and Maintenance	767	383	1,150	128	1,278	1,234
Parking	194	97	291	32	323	360
Insurance	225	-	225	387	612	590
Professional Services	278	193	471	1,215	1,686	1,451
Consultants	399	8,041	8,041	-	8,041	399
Memberships	-	-	-	504	504	708
Workshops	249	-	249	-	249	749
Depreciation	-	366	366	2,740	3,106	3,529
Miscellaneous	-	-	-	25	25	883
	<u>\$150,338</u>	<u>\$63,811</u>	<u>\$214,149</u>	<u>\$ 18,266</u>	<u>\$232,415</u>	<u>\$198,625</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2008  
(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 55,080	\$ 14,438
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	3,106	3,529
(Increase) Decrease in Operating Assets		
Accounts Receivable	(55,500)	
Prepaid Expenses	1,330	(1,562)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	1,283	913
Agency Funds	(304)	(274)
Grants Payable	<u>3,063</u>	<u>14,108</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>8,058</u>	\$ <u>31,152</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	\$ <u>(541)</u>	\$ <u>-</u>
Net Cash Provided (Used) by Investing Activities	\$ <u>(541)</u>	\$ <u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 7,517	\$ 31,152
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>84,828</u>	<u>53,676</u>
CASH AND CASH EQUIVALENTS, End of Year	\$ <u>92,345</u>	\$ <u>84,828</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

NOTE 1. Nature of Operations and Significant Accounting Policies

Nature of Operations:

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 re-granting 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, 2008

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 \$3,106 for the year ended June 30, 2008 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, 2008 a total of \$29,836 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, 2008 consisted of the following components:

June 30, 2008

Unrestricted:

General Program

\$55,560

Temporarily Restricted:

McKnight Foundation

\$60,163

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 activities. 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 August 31, 2007, the Corporation entered into a two-year lease for office space and for an art gallery. The lease term runs from September 1, 2007 through August 31, 2009. 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, 2008

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, 2007, from which the summarized information was derived.