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**LAKE REGION ARTS COUNCIL
FERGUS FALLS, MINNESOTA
FINANCIAL REPORT
June 30, 2011**

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, 2011 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, 2010 financial statements and, in our report dated November 9, 2010, 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, 2011, 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 19, 2011

LAKE REGION ARTS COUNCIL
STATEMENT OF FINANCIAL POSITION
June 30, 2011
(With Comparative Totals for 2010)

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$152,761	\$130,865
Prepaid Expenses	<u>4,160</u>	<u>2,219</u>
Total Current Assets	<u>\$156,921</u>	<u>\$133,084</u>
EQUIPMENT		
Equipment	\$ 57,878	\$ 57,878
Less Accumulated Depreciation	<u>(43,480)</u>	<u>(39,126)</u>
Net Equipment	<u>\$ 14,398</u>	<u>\$ 18,752</u>
Total Assets	<u>\$171,319</u>	<u>\$151,836</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 11,567	\$ 1,108
Agency Funds	-	2,069
Grants Payable	<u>101,658</u>	<u>72,205</u>
Total Current Liabilities	<u>\$113,225</u>	<u>\$ 75,382</u>
COMMITMENTS	<u>\$ -</u>	<u>\$ -</u>
NET ASSETS		
Unrestricted	\$ 49,819	\$ 75,670
Temporarily Restricted	<u>8,275</u>	<u>784</u>
Total Net Assets	<u>\$ 58,094</u>	<u>\$ 76,454</u>
Total Liabilities and Net Assets	<u>\$171,319</u>	<u>\$151,836</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	2011			2010
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
SUPPORT, REVENUE AND RECLASSIFICATIONS				
Minnesota State Arts Board Grant	\$496,677	\$ -	\$496,677	\$505,602
McKnight Foundation Grant	-	60,000	60,000	56,000
Interest Income	66	-	66	41
Other Revenue	1,146	-	1,146	3,008
Net Assets Released From Restrictions	<u>52,509</u>	<u>(52,509)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Reclassifications	<u>\$550,398</u>	<u>\$ (52,509)</u>	<u>\$557,889</u>	<u>\$564,651</u>
EXPENSES				
Program Services				
General Program	\$108,557	\$ -	\$108,557	\$127,302
McKnight Foundation	46,664	-	46,664	73,702
Arts and Cultural Heritage	<u>404,322</u>	<u>-</u>	<u>404,322</u>	<u>323,266</u>
Total Program Services	\$559,543	\$ -	\$559,543	\$524,270
General and Administrative	<u>26,457</u>	<u>-</u>	<u>26,457</u>	<u>16,768</u>
Total Expenses	<u>\$586,000</u>	<u>\$ -</u>	<u>\$586,000</u>	<u>\$541,038</u>
Change in Net Assets	\$ (35,602)	\$ 7,491	\$ (28,111)	\$ 23,613
Prior Period Adjustment	9,751	-	9,751	
NET ASSETS - Beginning of Year	<u>75,670</u>	<u>784</u>	<u>76,454</u>	<u>52,841</u>
NET ASSETS - End of Year	<u>\$ 49,819</u>	<u>\$ 8,275</u>	<u>\$ 58,094</u>	<u>\$ 76,454</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	2011					2010
	General Program	McKnight Foundation	Arts and Cultural Heritage	General and Administrative	Total	Total
EXPENSES						
Salaries and Wages	\$ 29,244	\$ 3,410	\$ 77,318	\$ 2,040	\$112,012	\$ 93,375
Payroll Taxes	2,302	307	6,085	176	8,870	9,374
Employee Benefits	2,992	2,867	6,149	171	12,179	10,118
Newsletter and Website	556	-	39,180	-	39,736	10,389
Grants and Awards	61,200	18,000	252,187	-	331,387	326,940
Travel, Meals and Lodging	3,005	939	1,593	4,766	10,303	9,246
Telephone	400	200	999	400	1,999	1,913
Postage	331	165	827	331	1,654	1,114
Electricity	208	91	502	450	1,251	1,076
Office Expenses	990	342	1,340	512	3,184	6,996
Rent	3,360	17,280	8,400	10,560	39,600	28,500
Gallery Expense	-	1,507	897	-	2,404	12,573
Artist and Mentor Program	2,231	-	-	-	2,231	13,191
Repairs and Maintenance	241	123	603	241	1,208	1,463
Parking	99	50	247	99	495	338
Insurance	-	-	-	966	966	806
Professional Services	1,163	1,113	1,313	3,548	7,137	6,314
Consultants	-	-	-	-	-	765
Memberships	-	-	-	941	941	1,177
Workshops	235	-	2,913	249	3,397	1,518
Depreciation	-	270	3,154	931	4,355	2,949
Miscellaneous	-	-	615	76	691	903
	<u>\$108,557</u>	<u>\$46,664</u>	<u>\$404,322</u>	<u>\$ 26,457</u>	<u>\$586,000</u>	<u>\$541,038</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$(18,361)	\$ 23,613
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	4,355	2,949
(Increase) Decrease in Operating Assets		
Accounts Receivable	-	-
Prepaid Expenses	(1,941)	(819)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	10,459	(1,356)
Agency Funds	(2,069)	(205)
Grants Payable	<u>29,453</u>	<u>41,413</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>21,896</u>	\$ <u>65,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	\$ <u>-</u>	\$ <u>(17,385)</u>
Net Cash Provided (Used) by Investing Activities	\$ <u>-</u>	\$ <u>(17,385)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 21,896	\$ 48,210
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>130,865</u>	<u>82,655</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$152,761</u>	<u>\$130,865</u>

See Notes to Financial Statements.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 three major sources: the Minnesota State Legislature appropriation, the Minnesota Arts and Cultural Heritage Fund 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, 2011

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 \$4,355 for the year ended June 30, 2011 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, 2011 a total of \$101,658 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, 2011 consisted of the following components:

	<u>June 30, 2011</u>
Unrestricted:	
General Program	\$ <u>49,819</u>
Temporarily Restricted:	
McKnight Foundation	\$ <u>8,275</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 activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Costs which have been allocated include salaries, payroll taxes, telephone, occupancy costs and postage.

NOTE 5. Lease Commitment

On August 31, 2009, the Corporation entered into a two-year lease for office space and for an art gallery. The lease term runs from September 1, 2009 through August 31, 2011. The lease calls for monthly payments of \$3,600 due on the first day of each month.

LAKE REGION ARTS COUNCIL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6. 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, 2011, from which the summarized information was derived.