

***WHITE BEAR CENTER FOR THE ARTS  
(A MINNESOTA NOT-FOR-PROFIT  
ORGANIZATION)***

***FINANCIAL STATEMENTS***

***DECEMBER 31, 2013***

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**INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
White Bear Center for the Arts  
White Bear Lake, MN

We have audited the accompanying financial statements of White Bear Center for the Arts (a Minnesota nonprofit Organization), which comprise the statements of financial position as of December 31, 2013 and 2012 and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of White Bear Center for the Arts as of December 31, 2013 and 2012, and the results of its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Boyum & Barenscheer, PLLP*

Minneapolis, Minnesota  
July 23, 2014

**WHITE BEAR CENTER FOR THE ARTS**  
**STATEMENTS OF FINANCIAL POSITION**

<b>DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 260,202	\$ 828,088
Investments - common stock	49,841	2,184
Pledges receivable, current portion	273,050	429,885
Accounts receivable, trade	6,500	4,500
Prepaid expenses	1,607	1,474
Property and equipment, net	2,640,726	1,017,193
<b><i>Total assets</i></b>	<b>\$ 3,231,926</b>	<b>\$ 2,283,324</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 78,926	\$ 14,581
Accrued salaries and payroll tax liabilities	17,946	10,897
Deferred revenue	12,929	10,523
Line of credit	181,839	-
<b><i>Total liabilities</i></b>	<b>291,640</b>	<b>36,001</b>
<b>NET ASSETS</b>		
Permanently restricted	45,000	-
Temporarily restricted	273,050	1,126,680
Unrestricted	2,622,236	1,120,643
<b><i>Total net assets</i></b>	<b>2,940,286</b>	<b>2,247,323</b>
<b><i>Total liabilities and net assets</i></b>	<b>\$ 3,231,926</b>	<b>\$ 2,283,324</b>

The Notes to Financial Statements are an integral part of these statements.

**WHITE BEAR CENTER FOR THE ARTS**

**STATEMENTS OF ACTIVITIES**

**YEARS ENDED DECEMBER 31,**

**2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Capital campaign	\$ -	\$ 891,024	-	\$ 891,024
Membership revenue	25,426	-	-	25,426
Contributions	138,051	-	45,000	183,051
Grants	48,112	-	-	48,112
Other income	8,865	-	-	8,865
Realized losses and fees on donated investments	(1,050)	-	-	(1,050)
Heart 4 Art and Polly Shank events, net of direct benefit to donor expenses of \$5,695 and \$4,633 for 2013 and 2012, respectively	44,042	-	-	44,042
Art education	203,056	-	-	203,056
Community programs	5,695	-	-	5,695
<b><i>Total support and revenue</i></b>	<b>472,197</b>	<b>891,024</b>	<b>45,000</b>	<b>1,408,221</b>
<b>NET ASSETS RELEASED FROM RESTRICTION</b>				
	<b>1,744,654</b>	<b>(1,744,654)</b>	<b>-</b>	<b>-</b>
<b>EXPENSES</b>				
Program services	530,731	-	-	530,731
Management and general	52,679	-	-	52,679
Fundraising *	131,848	-	-	131,848
<b><i>Total expenses</i></b>	<b>715,258</b>	<b>-</b>	<b>-</b>	<b>715,258</b>
<b><i>Increase in net assets</i></b>	<b>1,501,593</b>	<b>(853,630)</b>	<b>45,000</b>	<b>692,963</b>
<b>Net assets, beginning of year</b>	<b>1,120,643</b>	<b>1,126,680</b>	<b>-</b>	<b>2,247,323</b>
<b><i>Net assets, end of year</i></b>	<b>\$ 2,622,236</b>	<b>\$ 273,050</b>	<b>\$ 45,000</b>	<b>\$ 2,940,286</b>

\* Fundraising expenses are proportionately high in 2013 and 2012 due to a capital campaign.

The Notes to Financial Statements are an integral part of these statements.

<b>2012</b>		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ 916,255	\$ 916,255
19,510	-	19,510
65,834	-	65,834
25,308	-	25,308
255	-	255
(839)	-	(839)
28,304	-	28,304
179,216	-	179,216
9,753	-	9,753
<b>327,341</b>	<b>916,255</b>	<b>1,243,596</b>
<b>376,015</b>	<b>(376,015)</b>	-
373,790	-	373,790
44,692	-	44,692
108,433	-	108,433
<b>526,915</b>	-	<b>526,915</b>
<b>176,441</b>	<b>540,240</b>	<b>716,681</b>
<b>944,202</b>	<b>586,440</b>	<b>1,530,642</b>
<b>\$ 1,120,643</b>	<b>\$ 1,126,680</b>	<b>\$ 2,247,323</b>

**WHITE BEAR CENTER FOR THE ARTS**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2013</b>			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 195,659	\$ 20,778	\$ 25,215	\$ 241,652
Payroll taxes	15,697	1,667	2,023	19,387
Professional fees	15,437	12,350	3,087	30,874
Office work- consultant	-	-	-	-
Graphics/special event	3,833	-	78	3,911
Insurance	8,620	750	-	9,370
Strategic planning	1,750	-	-	1,750
Staff/board development	1,636	409	-	2,045
Year-end giving campaign	-	-	1,039	1,039
Donor recognition	-	-	-	-
General office expense	10,321	897	-	11,218
Advertising and marketing	2,006	-	-	2,006
Clay	2,594	-	-	2,594
Instructor fees	78,895	-	-	78,895
Studio expenses	2,887	-	-	2,887
Customized class expense	6,537	-	-	6,537
Credit card usage fees	3,674	-	408	4,082
Art education catalog	19,599	-	-	19,599
Community programs	1,013	-	-	1,013
Art in Elementary expenses	13,516	-	-	13,516
Depreciation	46,520	4,045	-	50,565
Heart 4 Art and Polly Shank event expenses	-	-	5,109	5,109
Capital campaign printing and distribution	-	-	10,911	10,911
Capital campaign events	-	-	26,578	26,578
Capital campaign management	-	-	57,400	57,400
Utilities and maintenance	22,630	1,968	-	24,598
Other building development expenses	42,846	3,726	-	46,572
In-kind expense	24,201	6,050	-	30,251
Miscellaneous	10,860	39	-	10,899
<b>Total expenses</b>	<b>\$ 530,731</b>	<b>\$ 52,679</b>	<b>\$ 131,848</b>	<b>\$ 715,258</b>

The Notes to Financial Statements are an integral part of these statements.

<b>2012</b>			
<b>Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
\$ 127,282	\$ 17,543	\$ 22,409	\$ 167,234
10,153	1,401	1,788	13,342
10,168	8,134	2,034	20,336
4,717	1,179	-	5,896
5,647	-	115	5,762
5,937	1,484	-	7,421
1,500	-	-	1,500
1,858	465	-	2,323
-	-	2,963	2,963
-	-	-	-
8,874	2,218	-	11,092
2,822	-	-	2,822
1,635	-	-	1,635
72,122	-	-	72,122
3,928	-	-	3,928
5,183	-	-	5,183
2,613	-	290	2,903
16,513	-	-	16,513
4,660	-	-	4,660
30,130	-	-	30,130
9,861	2,465	-	12,326
-	-	2,911	2,911
-	-	4,969	4,969
-	-	13,632	13,632
-	-	57,322	57,322
10,117	1,124	-	11,241
21,185	5,296	-	26,481
12,480	3,120	-	15,600
4,405	263	-	4,668
<b>\$ 373,790</b>	<b>\$ 44,692</b>	<b>\$ 108,433</b>	<b>\$ 526,915</b>



**WHITE BEAR CENTER FOR THE ARTS**

**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31,	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 692,963	\$ 716,681
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donation of stock	(50,891)	(29,284)
Realized (gains) losses and fees from donated stock	1,050	839
Depreciation	50,565	12,326
Change in allowance for uncollectible pledges	10,000	-
Changes in assets and liabilities:		
Pledges receivable	146,835	(141,160)
Accounts receivable, trade	(2,000)	300
Employee receivable	-	538
Grant receivable	-	10,000
Prepaid expenses	(133)	(48)
Accounts payable	64,345	(15,202)
Deferred revenue	2,406	(2,456)
Accrued salaries and payroll tax liabilities	7,049	(1,264)
<b><i>Net cash provided by operating activities</i></b>	<b>922,189</b>	<b>551,270</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(1,674,098)	(207,504)
Proceeds from the sale of donated stock	2,184	31,387
<b><i>Net cash used by investing activities</i></b>	<b>(1,671,914)</b>	<b>(176,117)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net advances on line of credit	181,839	-
<b><i>Net cash provided by financing activities</i></b>	<b>181,839</b>	<b>-</b>
<b><i>Net increase (decrease) in cash</i></b>	<b>(567,886)</b>	<b>375,153</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>828,088</b>	<b>452,935</b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b>\$ 260,202</b>	<b>\$ 828,088</b>

The Notes to Financial Statements are an integral part of these statements.

# **WHITE BEAR CENTER FOR THE ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Organization:***

White Bear Center for the Arts serves the community through education and enrichment opportunities through art education. The Organization provides classes for individuals throughout the summer and school year. The Organization also facilitates art classes in elementary schools. The mission of the Organization is to provide a gateway to diverse art experiences. Contributions and other revenues come primarily from individuals, foundations, and organizations in the Minnesota Twin Cities area. Contributions from one donor amounted to approximately 35% of revenue for the year ended December 31, 2013.

#### ***Basis of accounting:***

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

#### ***Basis of presentation:***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its ASC 958. Under ASC 958, *Financial Statements of Not-for-Profit Organizations*, White Bear Center for the Arts is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor restrictions.

#### ***Use of estimates:***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

#### ***Cash and cash equivalents:***

For purposes of the statement of cash flows, the Organization considers short-term, highly liquid investments and investments purchased with a maturity of three months or less to be cash equivalents.

The Organization maintains its accounts in one commercial bank. At times, the amounts on deposit in the bank might exceed the insurance limit of the Federal Deposit Insurance Corporation.

# WHITE BEAR CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. (CONTINUED)

#### *Investments:*

Donated investments received by the Organization are recorded at fair value on the date they are received as a donation. The Organization's policy with handling stock donations is to sell them as soon as possible. Investment income is recorded as unrestricted revenue unless a donor has stipulated how the income is to be used.

#### *Fair value measurements:*

ASC 820 ("Fair Value Measurements") establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobserved inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Conference has the ability to access.

**Level 2:** Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

#### *Support and revenue recognition:*

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

# **WHITE BEAR CENTER FOR THE ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

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### **NOTE 1. (CONTINUED)**

The Organization recognizes art education revenue when the related class occurs and, accordingly, defers revenue for prepaid class fees at year-end.

Accounts and grant receivables are reported at the amount management expects to collect from outstanding balances. Differences between the amount due and the amount management expect to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable.

Receivables consist primarily of amounts due from pledges. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of the outstanding receivables.

Donated facilities, investments and supplies are reflected as contributions in the accompanying statements at their estimated fair values at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

There were no contributed services meeting the requirements for recognition in the financial statements for the years ended December 31, 2013 and 2012. No amounts are recorded in the financial statements for the value of ordinary donated services, which totaled approximately 3,400 and 3,050 volunteer hours in the years ended December 31, 2013 and 2012, respectively.

#### ***Property, equipment and depreciation methods:***

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Purchased property and equipment are recorded at acquisition cost. Improvements and betterments are capitalized, while repairs and maintenance expenditures are expensed in the statement of activities. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The following estimated lives are used in computing depreciation: equipment and furniture: 5 to 7 years, building and improvements: 39 years.

#### ***Advertising:***

Advertising costs are expensed as incurred. Advertising costs totaled \$2,006 and \$2,822 for the years ended December 31, 2013 and 2012, respectively.

# WHITE BEAR CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1. (CONTINUED)

#### *Income taxes:*

White Bear Center for the Arts is exempt from federal and Minnesota taxation pursuant to the provisions of Section 501(c) (3) of the Internal Revenue Code and Section 290.05 of the Minnesota Statutes and is only subject to federal and state income taxes on net unrelated business income. Since the Organization had no unrelated business taxable income in 2013 and 2012, the accompanying financial statements do not include any provision for federal or state income taxes.

The Organization's filings with the Internal Revenue Service are subject to audit. The information returns for the past three and one-half years are open to examination. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in Accounting Standards Codification (ASC) section 740.

#### *Functional allocation of expenses:*

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### *Reclassification:*

Certain amounts from the 2012 financial statements have been reclassified in order to be comparable with the 2013 presentation.

### NOTE 2. INVESTMENTS

At December 31, 2013, the fair values of the investments are determined as follows:

	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>	<b>Total</b>
Common stocks	\$ 49,841	\$ -	\$ -	\$ 49,841
	<b>\$ 49,841</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 49,841</b>

**WHITE BEAR CENTER FOR THE ARTS**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. PROMISES TO GIVE**

Unconditional promises to give include pledges and grants receivable and consist of the following:

<b>DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
Amounts due in less than one year:		
Operating	\$ 15,900	\$ 33,475
Capital campaign	143,300	216,093
	<hr/>	<hr/>
<b>Total amounts due in less than one year</b>	<b>159,200</b>	<b>249,568</b>
Amounts due in one to five years:		
Operating	24,350	34,150
Capital campaign	104,500	151,167
	<hr/>	<hr/>
<b>Total amounts due in one to five years</b>	<b>128,850</b>	<b>185,317</b>
<b>Total unconditional promises to give</b>	<b>288,050</b>	<b>434,885</b>
Less allowance for uncollectible promises to give	(15,000)	(5,000)
	<hr/>	<hr/>
<b>Net unconditional promises to give</b>	<b>\$ 273,050</b>	<b>\$ 429,885</b>

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

<b>DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
Land	\$ 575,921	\$ 506,939
Land improvements	177,826	-
Building and improvements	1,913,688	372,250
Construction in progress	-	137,402
Equipment and furniture	59,805	36,551
	<hr/>	<hr/>
<b>Total property and equipment, at cost</b>	<b>2,727,240</b>	<b>1,053,142</b>
Less accumulated depreciation	(86,514)	(35,949)
	<hr/>	<hr/>
<b>Net property and equipment</b>	<b>\$ 2,640,726</b>	<b>\$ 1,017,193</b>

# WHITE BEAR CENTER FOR THE ARTS

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5. LINE OF CREDIT

The Organization entered into a loan agreement during the year with their bank, through which they have a \$650,000 line of credit available. Interest accrues monthly at the prime rate (3.25% at December 31, 2013). As of December 31, 2013, \$181,839 was outstanding on the line of credit. The debt is secured by the building, equipment and inventory of the Organization. The line of credit facility is set to expire on December 31, 2017. The Organization paid interest of \$7,203 during 2013, which is included in miscellaneous expense on the statements of functional expenses.

### NOTE 6. RESTRICTION ON NET ASSETS

The Organization has been in the process of a capital campaign for the purpose of the purchase and build out of a new facility in White Bear Lake, Minnesota. The building was purchased during December 2010 and work took place in 2011 and 2012. The construction was completed in 2013 and the Organization began operating at the new facility. Temporarily restricted net assets as of December 31, 2013 were \$273,050, and were time-restricted and partially purpose-restricted for the renovation of the new arts center, related capital campaign expenses, and related debt payments. Temporarily restricted net assets as of December 31, 2012 were \$1,126,680, and were available for the design, development, and renovation of the new arts center and related capital campaign expenses.

During 2013, the Organization received a contribution from an individual with the intention to start an endowment fund. The balance of permanently restricted net assets as of December 31, 2013 was \$45,000. While the principal will be held indefinitely, the income from the fund will be used to support the general operations of the Organization.

### NOTE 7. NON-CASH CONTRIBUTIONS

Included in contributions in the statements of activities are non-cash contributions as follows:

<b>YEARS ENDED DECEMBER 31,</b>	<b>2013</b>	<b>2012</b>
Event expenses	\$ 3,846	\$ -
Equipment and supplies for new facility	8,200	-
Rent for old facility	7,800	15,600
Video production	8,000	-
Art supplies	2,404	-
<b><i>Total</i></b>	<b>\$ 30,250</b>	<b>\$ 15,600</b>

***WHITE BEAR CENTER FOR THE ARTS***

***NOTES TO FINANCIAL STATEMENTS***

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**NOTE 8. SUBSEQUENT EVENTS**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 23, 2014, the date the financial statements were available to be issued.