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INDEPENDENT AUDITOR'S REPORT

**PRAIRIE LAKES REGIONAL
ARTS COUNCIL, INC.**

AS OF JUNE 30, 2008 AND 2007

**MEULEBROECK, TAUBERT & CO., PLLP
CERTIFIED PUBLIC ACCOUNTANTS
PO BOX 707
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Prairie Lakes Regional Arts Council, Inc.
Waseca, Minnesota

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Prairie Lakes Regional
Arts Council, Inc.
Waseca, Minnesota 56093

We have audited the accompanying statements of financial position of the Prairie Lakes Regional Arts Council, Inc. (a nonprofit organization) as of June 30, 2008 and 2007 and the related statements of activities, cash flows and functional expenditures for the years then ended. These financial statements are the responsibility of the Prairie Lakes Regional Arts Council, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits 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 audits provide 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 the Prairie Lakes Regional Arts Council, Inc. as of June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Meulebroeck, Taubert & Co., PLLP
Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants

August 19, 2008

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STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	31,231	37,388
Certificates of Deposit	45,419	41,161
Reimbursements Receivable	-	230
Total Current Assets	<u>76,650</u>	<u>78,779</u>
 <u>Property, Plant and Equipment</u>		
Furniture and Equipment	7,383	11,300
Accumulated Depreciation	(6,451)	(10,232)
Total Property, Plant and Equipment	<u>932</u>	<u>1,068</u>
Total Assets	<u><u>77,582</u></u>	<u><u>79,847</u></u>
 <u>Liabilities and Net Assets</u>		
<u>Current Liabilities</u>		
Funds Committed	34,767	30,509
Fiscal Agent Payable	378	279
Total Current Liabilities	<u>35,145</u>	<u>30,788</u>
 <u>Net Assets</u>		
Unrestricted Net Assets	42,437	49,059
Total Net Assets	<u>42,437</u>	<u>49,059</u>
Total Liabilities and Net Assets	<u><u>77,582</u></u>	<u><u>79,847</u></u>

See accompanying notes to the financial statements.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008</u>	<u>2007</u>
<u>Support and Revenue</u>				
<u>Public Support</u>				
MNSAB Grants	171,637		171,637	143,175
McKnight Grants	50,000		50,000	50,000
Other Grants		10,900	10,900	9,800
Total Public Support	<u>221,637</u>	<u>10,900</u>	<u>232,537</u>	<u>202,975</u>
<u>Other Revenue</u>				
Interest Income	7,989	-	7,989	6,747
Other Income	4,260	-	4,260	5,271
Net Assets Released from Restriction	10,900	(10,900)	-	-
Total Other Revenue	<u>23,149</u>	<u>(10,900)</u>	<u>12,249</u>	<u>12,018</u>
Total Support and Revenue	<u>244,786</u>	<u>-</u>	<u>244,786</u>	<u>214,993</u>
<u>Expenditures</u>				
Program Services	209,680	-	209,680	174,783
General and Administrative	40,881	-	40,881	28,793
Fundraising	847	-	847	1,281
Total Expenditures	<u>251,408</u>	<u>-</u>	<u>251,408</u>	<u>204,857</u>
Increase (Decrease) to Net Assets	(6,622)	-	(6,622)	10,136
Net Assets - July 1	49,059	-	49,059	38,923
Net Assets - June 30	<u>42,437</u>	<u>-</u>	<u>42,437</u>	<u>49,059</u>

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<u>Sources of Cash From Operating Activities</u>		
Increase (Decrease) to Net Assets for the Year	(6,622)	10,136
Adjustments to Reconcile Increase (Decrease) to Net Assets to Cash Provided by Operating Activities:		
Depreciation	405	488
Loss on Damaged Assets	(269)	
(Increase) Decrease in Reimbursement Receivable	230	(230)
(Increase) Decrease in Accrued Interest	(4,258)	(1,161)
Increase (Decrease) in Funds Committed	4,258	(1,954)
Increase (Decrease) in Fiscal Agent Payable	99	(828)
Net Cash Flows From Operating Activities	<u>(6,157)</u>	<u>6,451</u>
<u>Cash Flows From Financing Activities</u>		
Investment in Certificate of Deposit	-	<u>(10,000)</u>
Net Cash Flows From Financing Activities	<u>-</u>	<u>(10,000)</u>
Net Increase (Decrease) in		
Cash and Cash Equivalents	(6,157)	(3,549)
Cash and Cash Equivalents-July 1	<u>37,388</u>	<u>40,937</u>
Cash and Cash Equivalents-June 30	<u><u>31,231</u></u>	<u><u>37,388</u></u>

See accompanying notes to the financial statements.

STATEMENTS OF FUNCTIONAL EXPENDITURES
ALL FUNDS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

<u>Expenditures</u>	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Supporting Services</u>
		<u>General and Administrative</u>	<u>Fund Raising</u>	
Salaries	46,257	22,662	434	23,096
Payroll Taxes	3,778	1,509	18	1,527
Grant Expense	127,865	-	-	-
Travel, Meals and Lodging	4,228	-	-	-
Council Travel	1,888	-	-	-
Meeting Expense	882	-	-	-
Newsletter	494	-	-	-
Telephone	772	454	24	478
Postage	1,356	127	5	132
Copying and Printing	354	-	-	-
Office Supplies	4,241	454	25	479
Rent	4,054	3,443	153	3,596
Maintenance	-	3,294	-	3,294
Insurance	395	298	-	298
Professional Services	2,100	-	-	-
Membership Dues	-	616	-	616
Internet Service	683	264	-	264
Miscellaneous Expense	-	25	-	25
Depreciation	-	405	-	405
Benefit Expenses	6,528	7,330	188	7,518
Art Exhibition Expenses	3,805	-	-	-
Total Expenditures	209,680	40,881	847	41,728

See accompanying notes to the financial statements.

<u>2008</u>	<u>2007</u>
69,353	64,042
5,305	4,893
127,865	101,580
4,228	3,738
1,888	1,951
882	1,072
494	-
1,250	1,337
1,488	1,460
354	624
4,720	1,068
7,650	5,720
3,294	-
693	677
2,100	1,425
616	475
947	803
25	24
405	488
14,046	9,505
3,805	3,975
<u>251,408</u>	<u>204,857</u>

Prairie Lakes Regional Arts Council, Inc.
Waseca, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1

Reporting Entity

The Prairie Lakes Regional Arts Council was incorporated as a Minnesota non-profit organization in 1993. The purpose of the Council is to support and promote the arts in the south-central Minnesota area. The Organization solicits public and private contributions to allocate among various organizations throughout the area.

The council is an exempt organization under section 501 (c)(3) of the Internal Revenue Code.

Note 2

Summary of Significant Accounting Policies

Accounting Method

The accounts of the Prairie Lakes Regional Arts Council are maintained on the accrual basis of accounting.

Financial Statement Presentation

Net assets and revenues of the Organization are classified based upon donor imposed restrictions. Consequently, net assets and changes therein are classified and reported in the following manner:

Unrestricted – Resources over which the Board of Directors has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted – Resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or by the passage of time.

Permanently Restricted – Resources subject to a donor imposed restriction to be maintained permanently by the Organization. The donor of these resources permitted to the Organization that all or part of the income earned, capital appreciation, or the related investments from these resources be used for unrestricted and temporarily restricted purposes.

Funds Committed

Throughout the year the Organization approves grants to various art related projects. At the start of the project 80% of the grant is distributed to the recipient; upon completion of the project the remaining 20% is distributed. The Funds Committed represents grants that have been approved by the Board and either have not yet commenced or are not completed as of year end.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Note 2

Summary of Significant Accounting Policies - continued

Furniture and Equipment

The Organization capitalizes purchases of assets with useful lives greater than one year. The cost of significant renewals or betterments is also capitalized. The furniture and equipment capitalized are valued at cost. Depreciation is calculated using the straight line method over the estimated useful lives of the asset. When assets are retired or disposed of, the cost and accumulated depreciation respective to that asset are removed from the balance sheet and the resulting gain or loss is recognized as income for that period.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a remaining maturity of three months or less to be cash equivalents.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Functional Allocation of Expenses

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

Contributed Services

During the year ended June 30, 2008, the value of contributed services meeting the requirement for recognition in the financial statements was not material and has not been recorded. In addition, individuals volunteer their time in assisting the Organization, but these services do not meet the criteria for recognition as contributed services.

Advertising

The Organization expenses advertising as incurred. Total advertising expenses for the year ended June 30, 2008 equaled \$93.

Note 3

Leases

Prairie Lakes Regional Arts Council leases its office space on a month to month basis. During the fiscal year, the Organization's office space had water damage. The lease at that time was terminated and the total rent paid at that time was \$7,140, including the termination penalty. The Organization, on April 1, 2008, entered into a new real estate lease through March 31, 2011. This lease calls for monthly payments of \$510. As an incentive to enter into a three year lease, the Organization was given six months of rent at no cost other than the \$510 security deposit. Total lease payments for the year totaled \$7,650.

Prairie Lakes Regional Arts Council, Inc.
Waseca, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Note 4

Income Taxes

The council is exempt from income taxes under IRS code section 501 (c)(3). Therefore, no provision for income tax is made in these statements. Form 990, Return of Organization Exempt from Income Tax, is filed annually.

Note 5

Current Vulnerability Due to Certain Concentrations

The organization receives approximately 91.9% of its support from Government and Public Grants. Although there are no plans to discontinue these programs, if these programs were to cease, it would cause a severe impact on the organization and its ability to continue its operations. The organization does not expect, in any way, that the support will be lost in the near term.

Note 6

Risk Management and Litigation

The Organization is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Organization has obtained coverage from commercial insurance companies to manage this risk. The Organization estimates that the amount of actual or potential claims against the Organization as of June 30, 2008, will not materially affect the financial condition of the Organization.