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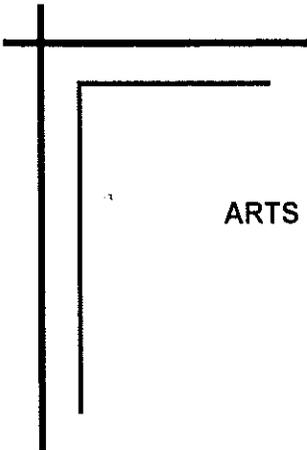
November 30, 2009

Board of Directors  
Arts Council of Indianapolis, Inc.  
and Subsidiary  
20 N. Meridian St., Ste. 500  
Indianapolis, IN 46204

We have reviewed the audit report prepared by R. J. Pile, LLC, Independent Public Accountants, for the period January 1, 2006 to December 31, 2006. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Arts Council of Indianapolis, Inc. and Subsidiary, as of December 31, 2006, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

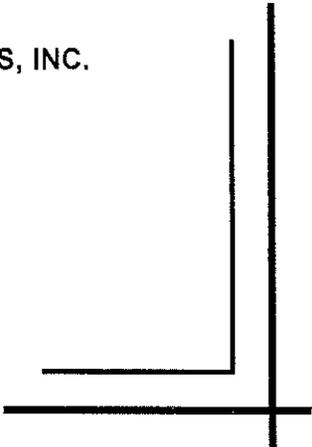
STATE BOARD OF ACCOUNTS



ARTS COUNCIL OF INDIANAPOLIS, INC.  
AND SUBSIDIARY

FINANCIAL REPORT

December 31, 2006



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## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors  
Arts Council of Indianapolis, Inc.  
and Subsidiary  
Indianapolis, Indiana

We have audited the accompanying consolidated balance sheets of Arts Council of Indianapolis, Inc. and Subsidiary as of December 31, 2006 and 2005 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arts Council of Indianapolis, Inc. and Subsidiary as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*RJPile, LLC*

Indianapolis, Indiana  
May 29, 2007

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS**

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Cash and equivalents	\$ 618,725	\$ 753,313
Cash and equivalents - restricted	2,490,374	1,967,273
Accounts receivable	421,794	209,109
Prepaid expenses	18,344	23,075
	<u>3,549,237</u>	<u>2,952,770</u>
<b>TOTAL CURRENT ASSETS</b>		
	<u>311,866</u>	<u>296,291</u>
<b><u>INVESTMENTS</u></b>		
<b><u>PROPERTY AND EQUIPMENT</u></b>		
Artsgarden building	10,680,741	10,637,246
Artsgarden furniture and equipment	1,697,453	1,673,653
Furniture and fixtures	260,094	258,270
Leasehold improvements	92,211	92,211
	<u>12,730,499</u>	<u>12,661,380</u>
Less - accumulated depreciation	(4,758,609)	(4,316,399)
	<u>7,971,890</u>	<u>8,344,981</u>
<b>TOTAL PROPERTY AND EQUIPMENT</b>		
	<u>20,000</u>	<u>20,000</u>
<b><u>OTHER ASSETS</u></b>		
Security deposits	<u>20,000</u>	<u>20,000</u>
	<u>\$ 11,852,993</u>	<u>\$ 11,614,042</u>
<b>TOTAL ASSETS</b>		
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable	\$ 49,903	\$ 33,042
Grants payable	1,282,900	1,487,155
Accrued liabilities	16,451	9,893
	<u>1,349,254</u>	<u>1,530,090</u>
<b>TOTAL CURRENT LIABILITIES</b>		
<b><u>NET ASSETS</u></b>		
Unrestricted:		
Operating	9,296,265	9,603,834
Temporarily restricted	1,207,474	480,118
	<u>10,503,739</u>	<u>10,083,952</u>
<b>TOTAL NET ASSETS</b>		
	<u>\$ 11,852,993</u>	<u>\$ 11,614,042</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		

See Notes to Consolidated Financial Statements



AND SUBSIDIARY

OF ACTIVITIES

2006 and 2005

<u>2005</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,811,077	\$ 296,490	\$ 2,107,567
289,572	-	289,572
-	2,663,448	2,663,448
65,416	-	65,416
(1,405)	-	(1,405)
6,806	-	6,806
<u>2,171,466</u>	<u>2,959,938</u>	<u>5,131,404</u>
<u>3,166,727</u>	<u>(3,166,727)</u>	<u>-</u>
<u>5,338,193</u>	<u>(206,789)</u>	<u>5,131,404</u>
5,792,425	-	5,792,425
<u>195,470</u>	<u>-</u>	<u>195,470</u>
<u>5,987,895</u>	<u>-</u>	<u>5,987,895</u>
(649,702)	(206,789)	(856,491)
<u>10,253,536</u>	<u>686,907</u>	<u>10,940,443</u>
<u>\$ 9,603,834</u>	<u>\$ 480,118</u>	<u>\$ 10,083,952</u>

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Increase (decrease) in net assets	\$ 419,787	\$ (856,491)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	442,211	469,812
Realized and unrealized loss (gain)	378	(5,401)
Changes in certain assets and liabilities:		
Restricted cash	(523,101)	(223,366)
Accounts receivable	(212,685)	42,757
Prepaid expenses	4,731	(14,990)
Accounts payable and accrued liabilities	23,419	(31,214)
Grants payable	(204,255)	430,155
Net cash provided by (used in) operating activities	<u>(49,515)</u>	<u>(188,738)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of investments	(76,714)	(94,552)
Proceeds from sale of investments	60,760	89,748
Additions to property and equipment	(69,119)	(67,481)
Net cash used in investing activities	<u>(85,073)</u>	<u>(72,285)</u>
Net increase (decrease) in cash and equivalents	(134,588)	(261,023)
<b><u>CASH AND EQUIVALENTS</u></b>		
Beginning of year	<u>753,313</u>	<u>1,014,336</u>
End of year	<u>\$ 618,725</u>	<u>\$ 753,313</u>

See Notes to Consolidated Financial Statements

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Arts Council of Indianapolis, Inc. is a not-for-profit corporation established in July 1988. The Organization promotes art in the community through support from corporate, foundation, and government grants.

Significant accounting policies followed by the Organization are listed below:

A. Principles of Consolidation

The consolidated financial statements include the accounts of Arts Council of Indianapolis, Inc. and the its wholly-owned subsidiary, Artsgarden, LLC. All significant inter-company accounts and transactions have been eliminated.

B. Basis of Accounting

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with Statements of Financial Accounting Standards No. 116 and 117 adopted by the Financial Accounting Standards Board (FASB) in June 1993. This has been done by classification of transactions and balances into three categories of net assets: unrestricted net assets which have no donor-imposed restrictions, temporarily restricted net assets which have donor-imposed restrictions that will expire in the future, and permanently restricted net assets which have donor-imposed restrictions which do not expire. Currently, the Organization has no permanently restricted net assets.

Grant income is released from temporarily restricted net assets when the restriction is met. The commitment to individual arts organizations for funding is considered a release of restriction. Therefore, grants committed to these individual arts organizations, but unpaid, are classified as unrestricted grants payable.

C. Revenue and Expense

Support revenue that is restricted by the donor is reported as an increase in temporarily restricted net assets. A restriction expires when the stipulated time has elapsed, or the stipulated purpose for which the resource was restricted has occurred. When a restriction expires, temporarily restricted net assets are released and reclassified to unrestricted net assets.

It is the Organization's policy to consider a donor restriction of or for long-lived assets satisfied when the asset is purchased and put into service.

The Organization records grant expense as the grants are awarded to other organizations throughout the state at which time they are released from restriction and included in the unrestricted net assets.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

C. Revenue and Expense - continued

Expenses have been directly and indirectly allocated between program and supporting expenses.

Gains and losses on investments are classified as an increase or decrease in unrestricted net assets.

D. Cash and Equivalents

Cash and cash equivalents consist of checking, savings, and cash management accounts. Cash equivalents are stated at cost, which approximates fair value, and consist of amounts on deposit in the Dreyfus Cash Management Fund.

	<u>2006</u>	<u>2005</u>
Dreyfus Cash Management Fund	\$ 1,825,066	\$ 1,856,484
Cash on hand and in banks	<u>1,284,033</u>	<u>864,102</u>
Total cash and equivalents	3,109,099	2,720,586
Less restricted amounts	<u>(2,490,374)</u>	<u>(1,967,273)</u>
Unrestricted cash and equivalents	<u>\$ 618,725</u>	<u>\$ 753,313</u>

E. Concentration of Credit Risk

The Organization maintains its cash balances with two financial institutions and a cash management fund. The demand deposit accounts, excluding the Dreyfus Cash Management Fund, are each insured by the Federal Deposit Insurance Corporation up to \$100,000. During the year, cash deposits exceed the insured limit.

Approximately 41% and 55% of the Council's total support and revenue was derived from two large grants in 2006 and 2005, respectively. A substantial portion of these two grants is required to be granted to individual arts organizations. After removing this portion of the funding to be granted, these two grants would approximate 6% and 11% of total support and revenue for the years ended December 31, 2006 and 2005, respectively.

F. Investments

Statement of Financial Accounting Standards No. 124, Accounting for Certain Investments Held by Not-For-Profit Organizations, requires investments in equity securities with readily determinable fair values and all investments in debt securities to be measured at fair value.

G. Property and Equipment

Property and equipment are stated at cost. Donated property and equipment is recorded at fair value. The Council's capitalization policy is \$1,000 for assets purchased with an estimated useful life of three years or more. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for furniture and equipment range from 3 to 10 years and a 40-year life is used for buildings and improvements. Total depreciation of \$442,211 includes Artsgarden depreciation of \$411,366.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - continued

H. Tax Status

The Arts Council is exempt from federal and state income taxes on its related activities under Internal Revenue Service Code Section 501(c)(3).

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Advertising

Advertising costs are generally paid on behalf of the individual arts organizations and are expensed as incurred. Program advertising expense was \$58,200 and \$95,134 for the years ended December 31, 2006 and 2005, respectively.

K. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. On the 2005 Statement of Activities, \$1,057,000 of government-related grants was removed from revenues and was netted in grant distribution expense. This reclassification did not affect net income.

NOTE 2 INVESTMENTS

Investments are composed of the following:

	<u>2006</u>	<u>2005</u>
Money Market	\$ 31,253	\$ 17,126
Equity Mutual Funds	123,106	116,987
Fixed Mutual Funds	157,507	162,178
	<u>\$ 311,866</u>	<u>\$ 296,291</u>

**ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2006

**NOTE 3 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following:

	<u>2006</u>	<u>2005</u>
Art and Soul	\$ 75,933	\$ 79,485
Robert D. Beckmann, Jr. Estate	117,500	117,500
Creative Renewal	550,750	205,111
Perception Research - Ballet	6,800	-
Audience Development	205,941	61,122
Public Art Purchase	187,000	-
Public Art Maintenance	63,550	-
Pacers	-	16,900
	<u>\$ 1,207,474</u>	<u>\$ 480,118</u>

**NOTE 4 OPERATING LEASE**

The Council leases office space pursuant to an operating lease agreement that expires August 31, 2012. Office lease expense includes the Council's share of building operating costs. Rental expense for the years ended December 31, 2006 and 2005 were \$172,155 and \$164,055, respectively.

Future minimum base rent payments are as follows:

2007	\$ 145,496
2008	154,320
2009	157,896
2010	157,896
2011	157,896
Thereafter	78,948
	<u>\$ 852,452</u>

**NOTE 5 PENSION PLAN**

Effective January 1, 2006, the Council contributes 5% of the employees' base salary into a 401(a) tax-deferred annuity plan after an employee has completed one full year of employment. Previously the percentage was 10%. Employees are 100% vested immediately. Contributions to the plan for 2006 and 2005 were \$30,894 and \$57,141, respectively.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

NOTE 6 MANAGEMENT AGREEMENT

The Arts Council and Circle Center Development Company (CCDC) entered into an agreement on April 30, 2003. The agreement states that CCDC is to pay Arts Council an annual payment of \$250,000. The payment is for marketing, programming, direct and indirect administrative expenses, and overhead expenses incurred by the Council for the Subsidiary. The agreement expires in April 2036. In addition, CCDC pays for all repairs and replacements for the physical structure and contents.

As of December 31, 2006 and 2005, \$335,989 and \$143,114, respectively, was due from CCDC under this agreement.

NOTE 7 FUNCTIONAL EXPENSES

Functional expenses are as follows:

	<u>2006</u>	<u>2005</u>
Program:		
Artsgarden	\$ 717,911	\$ 671,877
Art & Soul	91,635	72,886
Audience Development	176,242	47,868
Creative Renewal	187,675	301,469
City Grants	2,498,565	2,374,751
Promoting the Arts and Funding	618,636	1,155,594
Public Art	797,984	656,976
Regional Arts Partnership	435,966	511,004
Total program expenses	<u>5,524,614</u>	<u>5,792,425</u>
Supporting:		
Fundraising	60,782	52,447
General and administrative	169,454	143,023
Total supporting expenses	<u>230,236</u>	<u>195,470</u>
	<u>\$ 5,754,850</u>	<u>\$ 5,987,895</u>

NOTE 8 COMMITMENTS

Consulting Agreement

The Arts Council entered into an agreement during 2006 for an outside consultant to provide a customer experience research study, develop an Audience Development Summit and evaluate and overhaul the Council's website. These services are to be completed by June 2007 and the total cost of \$101,000 is payable in monthly installments. As of December 31, 2006, five payments, totaling \$45,909, have been paid. Since the remaining \$55,091 is contingent on the progress of the project, no liability was recorded at the end of the year.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

NOTE 8 COMMITMENTS - continued

Purchase of Public Art

In 2006, the Arts Council negotiated the purchase of two pieces of public art from the Otterness collection for the City of Indianapolis. The art is being purchased from gifts from private individuals and foundations. Though an agreement has not yet been finalized with the City, it is expected that the funds collected in excess of the art purchases will be held for maintenance of the art pieces over the next ten years. The final payment due and the maintenance fund are included in temporarily restricted net assets as of December 31, 2006.

As of December 31, 2006:		
Total funds collected	\$	550,550
Total paid to the seller		<u>(300,000)</u>
Balance remaining		250,550
Final payment due in 2007		<u>(187,000)</u>
Remainder for maintenance fund	\$	<u>63,550</u>

NOTE 9 RELATED PARTY TRANSACTIONS

The Arts Council purchased services from three different board members' companies during 2006 and two in 2005. These services relate to providing legal consulting services and insurance services to the Council. Arts Council paid these related parties a total of \$20,432 in 2006 and \$51,043 in 2005.



(savvy) - astute, knowledgeable, intuitive, proficient

**INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Arts Council of Indianapolis, Inc.  
and Subsidiary  
Indianapolis, Indiana

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements as of and for the years ended December 31, 2006 and 2005, taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*RJPile, LLC*

Indianapolis, Indiana  
May 29, 2007

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

SCHEDULES OF CONSOLIDATED FUNCTIONAL EXPENSES

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Artist, technical fees	\$ 108,499	\$ 98,808
Consultants and outside services	517,975	373,548
Depreciation	442,211	469,273
Dues and subscriptions	5,080	2,855
Insurance	20,133	28,155
Internet	12,105	10,866
Legal and accounting	19,486	9,905
Marketing	65,870	98,299
Meetings	21,122	29,905
Miscellaneous	7,742	6,708
Office expense	16,294	16,734
Panelist expenses	16,646	22,154
Postage	7,614	13,756
Printing	117,198	135,589
Regrants	2,971,175	3,350,566
Rent	172,155	164,055
Repairs and maintenance	44,511	24,920
Salaries and related benefits	1,056,340	981,637
Special projects	87,677	102,987
Telephone	28,074	29,276
Travel and lodging	16,943	17,899
Total Functional Expenses	<u>\$ 5,754,850</u>	<u>\$ 5,987,895</u>