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January 21, 2010

Board of Directors  
Arts Council of Southwestern  
Indiana, Inc.  
318 Main St., Ste. 110  
Evansville, IN 47714

We have reviewed the audit report prepared by Timothy J. Otte CPA, PC, Independent Public Accountant, for the period July 1, 2007 to June 30, 2008. 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 Southwestern Indiana, Inc., as of June 30, 2008, 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

Timothy J.  Otte CPA, PC

**ARTS COUNCIL OF SOUTHWESTERN INDIANA, INC.**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2008**

4266 Bell Road, Suite II • P.O. Box 308 • Newburgh IN. 47629  
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Member of American Institute of Certified Public Accountants

# ARTS COUNCIL OF SOUTHWESTERN INDIANA, INC.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Arts Council of Southwestern Indiana, Inc.

We have audited the accompanying statements of assets, liabilities, and net assets- modified cash basis of the Arts Council of Southwestern, Indiana, Inc. (a nonprofit organization) as of June 30, 2008, and the related statements of support, revenue, and expenses- modified cash basis and functional expenses- modified cash basis for the year then ended. These financial statements are the responsibility of Organization's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards generally accepted in the United States of America. Those standards require that we plan 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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Arts Council of Southwestern Indiana, Inc. as of June 30, 2008 and its support, revenue, and expenses for the year then ended, on the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Arts Council of Southwestern Indiana, Inc., taken as a whole. The accompanying schedule of expenditures of state and local awards is presented for purposes of additional analysis as required by the Indiana State Board of Accounts and is not a required part of the financial statements of Arts Council of Southwestern Indiana, Inc. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Newburgh, IN  
October 9, 2008

**Arts Council of Southwestern Indiana, Inc.**  
**Statement of Assets, Liabilities and Net Assets- Modified Cash Basis**  
**June 30, 2008**

**ASSETS**

**Current Assets**

Petty Cash	\$ 120
Cash- Fifth Third- Checking	12,642
Cash- ONB- #7003	98
Cash- ONB- #0731	162,499
Cash Evansville Commerce	3,300
Pledges Receivable	92,043
Total Current Assets	<u>\$ 270,702</u>

**Long Term Assets**

Property & Equipment-Net	244,295
Pledges Receivable	99,742
Investments	5,000
Total Noncurrent Assest	<u>349,037</u>

Total Assets	<u><u>\$ 619,739</u></u>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accrued Expenses	\$ 1,162
Simple-IRA	532
Total Current Liabilities	<u>1,693</u>

**Net Assets**

Net Assets- Unrestricted	263,664
Net Assets- Board Designated	354,382
Total Net Assets	<u>618,046</u>

Liabilities and Net Assets	<u><u>\$ 619,739</u></u>
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See notes to financial statements

**Arts Council of Southwestern Indiana, Inc.**  
**Statement of Support, Revenue, and Expenses- Modified Cash Basis**  
**For the Year Then Ended June 30, 2008**

	<b>Unrestricted</b>
<b>Support and Revenue</b>	<b>\$ 205,943</b>
Grants	23,130
Corporate Memberships/Sponsorships	58,706
Other Private Support	20,810
Individual Dues	3,150
Organizational Dues	27,775
Tickets & Admissions	8,935
Fees & Registrations	5,225
Sales	4,269
Interest Income	500
Dividend Income	11,799
Gallery Sales	1,310
Miscellaneous	371,552
<b>Total Support and revenue</b>	<b>371,552</b>
 <b>Expenses</b>	 <b>185,853</b>
Supporting Services	180,874
Program Services	366,727
<b>Total Expenses</b>	<b>366,727</b>
 <b>Change in Net Assets</b>	 <b>4,825</b>
 <b>Prior Period Adjustment</b>	 <b>(8,252)</b>
 <b>Net Assets as of beginning of year</b>	 <b>621,472</b>
 <b>Net Assets as of end of year</b>	 <b>\$ 618,046</b>

See notes to financial statements

**Arts Council of Southwestern Indiana, Inc.**  
**Statement of Functional Expenses- Modified Cash Basis**  
**For the Year Then Ended June 30, 2008**

	General	Art Exhibits	Relocation	Arts in Education	Awards Banquet	Gallery	Regional Partnership	Programs/Activities	Total
Salaries, Taxes & Fringes	123,862	-	-	-	-	1,695	-	-	125,557
Commissions on Sales	-	-	-	-	-	1,347	-	-	1,347
Office Rent	16,967	-	-	-	-	-	-	-	16,967
Supplies	5,965	14	2,639	-	16	537	-	-	9,171
Telephone	2,129	-	-	-	-	-	-	-	2,129
Postage	3,064	-	-	-	132	-	-	-	3,196
Printing and Promotion	2,799	1,118	73	-	-	-	-	-	3,990
Hospitality	646	121	-	-	11,128	2,271	27	55	14,248
Artist Honoraria	463	150	-	3,326	300	50	100	-	4,389
Travel and Lodging	33	-	-	-	-	-	244	-	277
Professional Development	110	-	-	-	-	-	-	-	110
Insurance	5,032	-	-	-	-	-	-	-	5,032
Professional Fees	8,142	350	-	-	-	150	-	510	9,152
Grants and Regranting	-	-	-	-	-	-	133,154	-	133,154
Awards	-	3,850	1,493	-	1,121	-	-	-	6,464
Equipment, Expense & Maint.	2,252	-	466	-	2,768	2,133	-	-	7,619
Contract Labor	726	-	349	-	-	-	-	-	1,075
Utilities	3,497	-	-	-	-	-	-	-	3,497
Miscellaneous	1,774	150	534	-	416	500	-	-	3,374
Artist Fund	-	-	-	-	-	7,587	-	-	7,587
Depreciation	8,392	-	-	-	-	-	-	-	8,392
<b>Total Expenses</b>	<b>185,853</b>	<b>5,753</b>	<b>5,554</b>	<b>3,326</b>	<b>15,881</b>	<b>16,270</b>	<b>133,525</b>	<b>565</b>	<b>366,727</b>

See notes to financial statements

**Arts Council of Southwestern Indiana, Inc.  
Notes to Financial Statements  
For the Year Then Ended June 30, 2008**

**NOTE 1- SIGNIFICANT ACCOUNTING POLICIES**

Mission- To increase awareness and accessibility of the arts in Southwestern Indiana.

Modified Cash Basis- The Organization maintains its accounting records on the modified cash basis of accounting with modifications for the capitalization of property and equipment and the recording of depreciation and the recording of gallery liabilities. Accordingly, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when cash is disbursed rather than when the obligation is incurred. Therefore, the accompanying statements are not intended to and do not present the financial position or results of operations of the organization in accordance with generally accepted accounting principles.

Basis of Presentation- Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The accompanying financial statements include the assets, liabilities, net assets and financial activities maintained by and directly under the administration of the Arts Council of Southwestern Indiana, Inc.

Federal Income Taxes- The Organization is exempt under section 501(c)(3) of the Internal Revenue Code.

Use of estimates- The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents- The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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

Property and Equipment- Property and equipment are stated at cost. Provisions for depreciation of property and equipment have been computed on the straight-line method over the estimated useful life. Acquisitions of property and equipment in excess of \$500 are capitalized.

Pledges Receivable- The Organization reports promises to give (Pledges) in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires the Organization to record unconditional promises to give as revenue when the promise is made. Pledges receivable are stated at the amount management expects to collect.

**Arts Council of Southwestern Indiana, Inc.  
Notes to Financial Statements  
For the Years Then Ended June 30, 2008**

**NOTE 2 – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2008 consisted of the following:

	<u>2008</u>
Renovations	\$ 187,774
Office Equipment	10,456
Furniture & Fixtures	54,457
Less Accum. Depr.	<u>(8,392)</u>
	<u>\$ 244,295</u>

Depreciation expense for the year ended June 30, 2008 was \$8,392.

**NOTE 3- OPERATING LEASE**

The Organization has entered into a twenty year lease agreement for office facilities commencing October 1, 2007. Lease years one through five requires rent of \$31,330 per year subject to the base rent being reduced by \$1,000 per month depending on commissions paid from gallery sales. During the years six through twenty, the Landlord maintains the right to increase rent based on a cost of living index. Rent expense for the year ended June 30, 2008 was \$16,967.

In addition, the Organizations leased a digital copier in June of 2005 under a noncancelable operating agreement. Rental expense for the year ended June 30, 2008 was \$792. Future minimal rent payments are \$66 per month for the twenty six remaining payments.

**NOTE 4- CONTINGENCIES**

The Organization has participated in grants awarded by the Indiana Arts Commission. These grants are conditioned upon the availability of funds appropriated and allotted to the commission or available to it from other sources.

**NOTE 5- CONCENTRATIONS OF CREDIT RISK**

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents. At times, such cash and cash equivalents in banks are in excess of the FDIC insurance limit. Credit risk with respect to cash and cash equivalents is minimized by using a high-credit quality financial institution.

**Arts Council of Southwestern Indiana, Inc.  
Notes to Financial Statements  
For the Years Then Ended June 30, 2008**

**NOTE 6- REGIONAL PARTNERSHIP**

The Organization is a Regional Partner with the Indiana Arts Commission providing grants and services to Gibson, Knox, Pike, Posey, Spencer, Vanderburgh, and Warrick Counties. Grants are disbursed to applicants who meet certain qualifications in the arts and cultural areas.

**NOTE 7- INVESTMENTS**

Investments at June 30, 2008 consisted of corporate preferred stock which is carried at par value.

**NOTE 8- RETIREMENT PLAN**

The Organization has established a (SIMPLE IRA) retirement plan. Under the plan, employees may contribute up to \$10,500 (\$13,000 for employees who will be at least fifty by the end of the year) of their pre-tax compensation and the Organization will match up to 3% of each participating employee's pretax contribution. Plan expenses incurred for the year then ended were \$3,073.

**NOTE 9- BOARD DESIGNATED FUNDS**

Board-designated funds consist of \$354,382 in unrestricted contributions at June 30, 2008 to be used for the relocation of its offices and operational expenses. The Organization has raised over \$600,000 in gifts and pledges toward the estimated needed to set up offices, a gallery and information center.

**NOTE 10- PLEDGES RECEIVABLE**

Pledges receivable consists of pledges related to the capital campaign associated with the move to the new office. Uncollectible pledges are expected to be insignificant.

Pledges receivable at June 30, 2008 consist of the following:

Due less than one year	\$ 92,043
Due in one to two years	<u>99,742</u>
Net pledges receivable	<u>\$ 191,785</u>

**NOTE 11- PRIOR PERIOD ADJUSTMENT**

Net Assets were adjusted to reflect changes from original pledges at June 30, 2007 and also to reverse an adjustment made in the prior year related to discounting pledges.

**SUPPLEMENTARY INFORMATION**

**Arts Council of Southwestern Indiana, Inc.**  
**Schedule of State & Local Awards**  
**For the Year Then Ended June 30, 2008**

	<u>Total Award</u>	<u>Prior Receipts</u>	<u>Current Year Receipts</u>	<u>Current Year Expenses</u>
<b>State</b>				
Indiana Arts Commision-FY2008	190,443	-	190,443	190,443
<b>Local</b>				
City of Evansville- 2007	15,500	7,750	7,750	7,750
City of Evansville- 2008	<u>15,500</u>	<u>-</u>	<u>7,750</u>	<u>7,750</u>
<b>Total</b>	<u>\$ 221,443</u>	<u>\$ 7,750</u>	<u>\$ 205,943</u>	<u>\$ 205,943</u>

**Basis of Presentation:** The schedule of state & local awards is presented on the modified cash basis of accounting