



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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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, 2007 to December 31, 2007. 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., as of December 31, 2007, 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, 2007



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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, 2007 and 2006 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Rj Pile, LLC

Indianapolis, Indiana
April 10, 2008

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and equivalents	\$ 752,578	\$ 618,725
Cash and equivalents - restricted	1,881,318	2,490,374
Accounts receivable	381,860	421,794
Prepaid expenses	<u>19,568</u>	<u>18,344</u>
TOTAL CURRENT ASSETS	<u>3,035,324</u>	<u>3,549,237</u>
<u>INVESTMENTS</u>	<u>326,972</u>	<u>311,866</u>
<u>PROPERTY AND EQUIPMENT</u>		
Artsgarden building	10,680,741	10,680,741
Artsgarden furniture and equipment	1,760,013	1,697,453
Furniture and fixtures	274,544	260,094
Leasehold improvements	<u>92,211</u>	<u>92,211</u>
	12,807,509	12,730,499
Less - accumulated depreciation	<u>(5,175,108)</u>	<u>(4,758,609)</u>
TOTAL PROPERTY AND EQUIPMENT	<u>7,632,401</u>	<u>7,971,890</u>
<u>OTHER ASSETS</u>		
Security deposits	<u>20,000</u>	<u>20,000</u>
TOTAL ASSETS	<u>\$ 11,014,697</u>	<u>\$ 11,852,993</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 74,785	\$ 49,903
Grants payable	1,278,973	1,282,900
Accrued liabilities	<u>14,940</u>	<u>16,451</u>
TOTAL CURRENT LIABILITIES	<u>1,368,698</u>	<u>1,349,254</u>
<u>NET ASSETS</u>		
Unrestricted:		
Operating	9,043,654	9,296,265
Temporarily restricted	<u>602,345</u>	<u>1,207,474</u>
TOTAL NET ASSETS	<u>9,645,999</u>	<u>10,503,739</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,014,697</u>	<u>\$ 11,852,993</u>

See Notes to Consolidated Financial Statements

2006

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,160,812	\$ 1,510,950	\$ 2,671,762
306,337	-	306,337
-	3,092,255	3,092,255
104,661	-	104,661
(3,378)	-	(3,378)
<u>3,000</u>	<u>-</u>	<u>3,000</u>
1,571,432	4,603,205	6,174,637
<u>3,875,849</u>	<u>(3,875,849)</u>	<u>-</u>
<u>5,447,281</u>	<u>727,356</u>	<u>6,174,637</u>
5,524,614	-	5,524,614
<u>230,236</u>	<u>-</u>	<u>230,236</u>
<u>5,754,850</u>	<u>-</u>	<u>5,754,850</u>
(307,569)	727,356	419,787
<u>9,603,834</u>	<u>480,118</u>	<u>10,083,952</u>
<u>\$ 9,296,265</u>	<u>\$ 1,207,474</u>	<u>\$ 10,503,739</u>

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase (decrease) in net assets	\$ (857,740)	\$ 419,787
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	416,498	442,211
Realized and unrealized loss (gain)	(2,254)	378
Changes in certain assets and liabilities:		
Restricted cash	609,056	(523,101)
Accounts receivable	39,934	(212,685)
Prepaid expenses	(1,224)	4,731
Accounts payable and accrued liabilities	23,371	23,419
Grants payable	<u>(3,927)</u>	<u>(204,255)</u>
Net cash provided by (used in) operating activities	<u>223,714</u>	<u>(49,515)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of investments	(189,744)	(76,714)
Proceeds from sale of investments	176,893	60,760
Additions to property and equipment	<u>(77,010)</u>	<u>(69,119)</u>
Net cash used in investing activities	<u>(89,861)</u>	<u>(85,073)</u>
Net increase (decrease) in cash and equivalents	133,853	(134,588)
<u>CASH AND EQUIVALENTS</u>		
Beginning of year	<u>618,725</u>	<u>753,313</u>
End of year	<u>\$ 752,578</u>	<u>\$ 618,725</u>

See Notes to Consolidated Financial Statements

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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, 2007

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>2007</u>	<u>2006</u>
Dreyfus Cash Management Fund	\$ 1,809,148	\$ 1,825,066
Cash on hand and in banks	<u>824,748</u>	<u>1,284,033</u>
Total cash and equivalents	2,633,896	3,109,099
Less restricted amounts	<u>(1,881,318)</u>	<u>(2,490,374)</u>
Unrestricted cash and equivalents	<u><u>\$ 752,578</u></u>	<u><u>\$ 618,725</u></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 56% and 41% of the Council's total support and revenue was derived from two large grants in 2007 and 2006, 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 8% and 6% of total support and revenue for the years ended December 31, 2007 and 2006, 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.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

NOTE 1 NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES- continued

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 in 2007 of \$416,498 includes Artsgarden depreciation of \$391,381.

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 U.S. 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 \$60,200 and \$58,200 for the years ended December 31, 2007 and 2006, respectively.

NOTE 2 INVESTMENTS

Investments are composed of the following:

	<u>2007</u>	<u>2006</u>
Money Market	\$ 19,294	\$ 31,253
Equity Mutual Funds	130,139	123,106
Fixed Mutual Funds	177,539	157,507
	<u>\$ 326,972</u>	<u>\$ 311,866</u>

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

NOTE 3 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Art and Soul	\$ 77,829	\$ 75,933
Robert D. Beckmann, Jr. Estate	112,985	117,500
Artist Service	12,500	-
Creative Renewal	175,000	550,750
Central Indiana Community Foundation	45,000	-
Perception Research - Ballet	-	6,800
Audience Development	-	205,941
Public Art Maintenance Fund	63,550	63,550
Public Art Purchase	115,481	187,000
	<u>\$ 602,345</u>	<u>\$ 1,207,474</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, 2007 and 2006 was \$181,274 and \$172,155, respectively.

Future minimum base rent payments are as follows:

2008	\$ 154,320
2009	157,896
2010	157,896
2011	157,896
2012	78,948
Thereafter	-
	<u>\$ 706,956</u>

NOTE 5 PENSION PLAN

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. Contributions to the plan for 2007 and 2006 were \$42,638 and \$30,894, respectively.

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

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 Artsgarden's physical structure and contents.

As of December 31, 2007 and 2006, \$147,522 and \$335,989, respectively, was due from CCDC under this agreement.

NOTE 7 FUNCTIONAL EXPENSES

Functional expenses are as follows:

	<u>2007</u>	<u>2006</u>
Program:		
Artsgarden	\$ 688,082	\$ 717,911
Art & Soul	95,543	91,635
Audience Development	206,542	176,242
Creative Renewal	391,722	187,675
City Grants	2,550,592	2,498,565
Promoting the Arts and Funding	613,543	618,636
Public Art	597,636	797,984
Regional Arts Partnership	530,974	435,966
Total program expenses	<u>5,674,634</u>	<u>5,524,614</u>
Supporting:		
Fundraising	58,121	60,782
General and administrative	85,548	169,454
Total supporting expenses	<u>143,669</u>	<u>230,236</u>
	<u>\$ 5,818,303</u>	<u>\$ 5,754,850</u>

NOTE 8 RELATED PARTY TRANSACTIONS

The Arts Council purchased services from three different board members' companies during 2007 and three in 2006. These services relate to providing legal consulting services and insurance services to the Council. Arts Council paid these related parties a total of \$27,865 in 2007 and \$20,432 in 2006.

**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, 2007 and 2006, 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.

Rj Pile, LLC

Indianapolis, Indiana
April 10, 2008

ARTS COUNCIL OF INDIANAPOLIS, INC. AND SUBSIDIARY

SCHEDULES OF CONSOLIDATED FUNCTIONAL EXPENSES

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Artist, technical fees	\$ 123,739	\$ 108,499
Consultants and outside services	609,732	517,975
Depreciation	416,498	442,211
Dues and subscriptions	4,327	5,080
Insurance	17,290	20,133
Internet	10,268	12,105
Legal and accounting	18,603	19,486
Marketing	74,099	65,870
Meetings	37,179	21,122
Miscellaneous	4,963	7,742
Office expense	13,812	16,294
Panelist expenses	18,725	16,646
Postage	11,175	7,614
Printing	39,537	117,198
Regrants	2,975,346	2,971,175
Rent	181,274	172,155
Repairs and maintenance	38,313	44,511
Salaries and related benefits	1,103,734	1,056,340
Special projects	84,290	87,677
Telephone	19,220	28,074
Travel and lodging	<u>16,179</u>	<u>16,943</u>
Total Functional Expenses	<u>\$ 5,818,303</u>	<u>\$ 5,754,850</u>