

**FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

FINANCIAL STATEMENTS

MODIFIED CASH BASIS

DECEMBER 31, 2005

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Fine Arts Society of Indianapolis, Inc.:

We have audited the accompanying statements of assets and net assets – modified cash basis of the Fine Arts Society of Indianapolis, Inc. (an Indiana nonprofit organization) as of December 31, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows – modified cash basis for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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.

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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of the Fine Arts Society of Indianapolis, Inc. as of December 31, 2005, and its revenues, expenses and changes in net assets and its cash flows for the year then ended in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary statement is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.



ENT & IMLER CPA GROUP, P.C.

**FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

**STATEMENT OF ASSETS AND NET ASSETS**  
**MODIFIED CASH BASIS**

**DECEMBER 31, 2005**

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 162,362
Unrestricted Investments	1,333,893
Other current assets	<u>1,573</u>
Total Current Assets	<u>1,497,828</u>

**PROPERTY AND EQUIPMENT, at cost:**

Office equipment	115,623
Music collection	<u>48,014</u>
Less: accumulated depreciation	<u>(86,710)</u>
Total Property and Equipment, net	<u>76,927</u>

**\$ 1,574,755**

**NET ASSETS**

**NET ASSETS:**

Unrestricted	<b><u>\$ 1,574,755</u></b>
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**FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

**STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**MODIFIED CASH BASIS**

**YEAR ENDED DECEMBER 31, 2005**

**REVENUES, GAINS AND SUPPORT (Unrestricted):**

Individual contributions	\$ 202,381
Individual bequests	200,000
Corporate underwriting	139,754
Corporate grants	500
Foundation grants	52,000
Government grants	11,500
In-kind contributions	15,383
Music education	23,681
Broadcast income	20,940
Interest and dividend income	33,498
Unrealized gain (loss) on investments	(14,479)
Gain (loss) on sale of investments	34,616
Miscellaneous income	<u>1,492</u>
 Total Revenues, Gains and Support	 <u>721,266</u>

**EXPENSES:**

Program services (Schedule I)	
Broadcasting	251,785
Education	59,822
Supporting services (Schedule I)	
Administration	164,741
Fundraising	<u>106,557</u>
 Total Expenses	 <u>582,905</u>

**CHANGE IN NET ASSETS** 138,361

**NET ASSETS, beginning of year** 1,436,394

**NET ASSETS, end of year** \$ 1,574,755

**FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

**STATEMENT OF CASH FLOWS**  
**MODIFIED CASH BASIS**

**YEAR ENDED DECEMBER 31, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Change in net assets	\$ 138,361
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	11,865
Unrealized loss on investments	14,479
Gain on sale of investments	(34,616)
Increase in:	
Other current assets	<u>(1,573)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 128,516

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Capital expenditures	(17,234)
Purchase of investments	(587,621)
Proceeds from sale of investments	<u>450,278</u>

**NET CASH USED BY INVESTING ACTIVITIES** (154,577)

**NET DECREASE IN CASH** (26,061)

**CASH, beginning of year** 188,423

**CASH, end of year** \$ 162,362

# **FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

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

#### **Nature of Business**

Fine Arts Society of Indianapolis, Inc. (the "Society") is a non-profit organization organized in the state of Indiana and is primarily engaged to promote the understanding and appreciation of classical music.

#### **Basis of Accounting**

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, the only asset recognized is cash, investments, and property purchased and no liabilities are recognized.

#### **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization 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.

#### **Net Assets**

The financial statements report amounts separately by class of net assets:

##### **Unrestricted net assets**

Unrestricted amounts are those, which are currently available by the Board for use in the Society's activities.

##### **Temporarily restricted net assets**

Temporarily restricted expendable amounts are those, which are restricted by donors for specific purposes. Currently the Society has no temporarily restricted net assets

##### **Permanently restricted net assets**

Permanently restricted amounts are those, which are subject to donor-imposed stipulations that require that they be maintained permanently by the Society. Generally, the donors of these assets permit the use of all or part of the income earned on the related investments for general or specific purposes. Currently the Society has no permanently restricted net assets.

### Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Society considers all investments with a maturity of three months or less to be cash equivalents. In the normal course of business, the Society may maintain cash held at financial institutions in excess of the FDIC limit of \$100,000.

### Investments

The Society has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Association". Under SFAS No. 124, investments in mutual funds with readily determinable fair values are reported at their fair values in the statement of financial position. The Society carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the Statement of Assets and Net Assets – Modified Cash Basis. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis.

### Property and Equipment

Assets are recorded at historical cost, or for donations, at fair market value at the date of the donation. Depreciation of property and equipment is computed using the accelerated method and based upon the estimated useful lives of the assets ranging from 3 to 7 years. Expenditures for property and equipment and for renewals or betterments which extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Depreciation expense was \$11,865 for the year ended December 31, 2005.

### Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society. Volunteers also provided program and fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

In-kind contributions are recorded at fair market value and recognized as revenue in the accounting period when they are received. The Society had \$15,383 recorded as in-kind contribution revenue in the Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis at December 31, 2005.

### Advertising Costs

The Society expenses advertising as incurred. Advertising expense was \$18,439 for the year ended December 31, 2005.

### Concentration of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and temporary cash investments.

The Society maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits of \$100,000. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant credit risk on cash or cash equivalents, however at December 31, 2005 the Society had a \$62,362 uninsured cash balance

The Society places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. These investments are primarily in the form of proprietary mutual funds and equity securities which are not insured or guaranteed by the Federal Deposit Insurance Corporation. The Society has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on temporary cash equivalents.

### Income Taxes

The Society is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Therefore, no expenses have been recognized for income taxes in the accompanying financial statements. The Society has been classified as an organization that is not a private foundation under Section 509(a).

### Management Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. It is least reasonably possible that the significant estimates used will change within the next year. Actual results could differ from those estimates.

### Impairment of Long-Lived Assets

Each year, the Society evaluates whether there has been an impairment that is other than temporary in any of its long-lived assets. An impairment in value is considered to have occurred when the undiscounted future net operating cash flows associated with the long-lived assets are not sufficient to cover the carrying value of the long-lived assets. If it is determined that an impairment in value has occurred, the carrying value will be written down to the present value of the future operating cash flows to be generated by the long-lived assets. Management has determined that no impairment existed as of December 31, 2005.

### Functional Allocation of Expenses

The cost of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses – Modified Cash Basis. Some expenses relate directly to specific programs or supportive services while others do not. Expenses that relate to more than one program or supporting service are allocated among the applicable functions.

Costs are allocated to the programs, supporting services and fundraising costs. Management periodically evaluates its allocation method and revises it when necessary. General and supporting expenses include those expenses that are indirectly identifiable with other specific functions, but provide for the overall support and direction of the Society.

**NOTE 2 – MUSIC COLLECTIONS**

The Society capitalizes its music collections. The collections are being capitalized, but not depreciated due to the undeterminable estimated life of the assets, thereby deeming them nondepreciable. Accessions are capitalized at cost if purchased and at appraised or fair value at the date of accessions if received by donation. Gains and losses on deaccessions of donated collections are recorded based on the presence or absence of donor restrictions placed on items at the date of donation.

**NOTE 3 - INVESTMENTS**

Investments are stated at fair value and consist of stocks, mutual funds, and bonds. Fair values and unrealized gains (losses) at December 31, 2005 are summarized as follows:

Money market	\$ 278,442
Stocks and options	667,624
Preferreds/Fixed rate	14,464
Fixed income securities	<u>373,363</u>
	<u><u>\$ 1,333,893</u></u>

The following schedule summarizes the investment return and its classification in the Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis for the years ended December 31, 2005:

Interest and dividends	\$ 33,498
Realized gain	34,616
Unrealized loss	<u>(14,479)</u>
Total investment income	<u><u>\$ 53,635</u></u>

**NOTE 4 – BARTERED TRANSACTIONS**

The Society bartered advertising airtime for printing, catering and other services throughout the year valued at \$11,230. Therefore, no gain on exchange was recognized. The revenue and expenses associated with this transaction relates to revenue and expenses in 2005 and is included as an in-kind contribution revenue and as advertising expense on the statement of revenues, expenses, and changes in net assets – modified cash basis..

#### **NOTE 5- RELATED PARTY TRANSACTIONS**

The Society has transactions with the University of Indianapolis (the "University"), which has no common board members. The Society and the University have entered into an agreement by which the University provides office space for the Society for which it receives a designated number of airtime hours of classical music in return. At this time there is no determinable value placed on the exchange of the services. However, if there was there would be an in-kind contribution in revenue with a corresponding rent expense. The Society is also responsible for all expenses incurred during its daily activities in return for the space provided.

#### **NOTE 6 – INDIVIDUAL RETIREMENT PLAN**

The Society has a Simple IRA for its employees who contribute the desired amount each pay period and the Society contributes a discretionary amount. For the year ended December 31, 2005 the Society's expense was \$7,496.

**FINE ARTS SOCIETY OF INDIANAPOLIS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS**

**DECEMBER 31, 2005**

	<u>Program Sevices</u>			<u>Support Services</u>			
	<u>Broadcasting</u>	<u>Education</u>	<u>Total</u>	<u>Administration</u>	<u>Fund raising</u>	<u>Total</u>	<u>Total Expenses</u>
Salaries	\$ 164,684	\$ 46,696	\$211,380	\$ 68,419	\$ 71,969	\$140,388	\$ 351,768
Payroll taxes	12,598	3,572	16,170	5,234	5,506	10,740	26,910
Employee benefits	<u>14,584</u>	<u>8,215</u>	<u>22,799</u>	<u>6,772</u>	<u>7,040</u>	<u>13,812</u>	<u>36,611</u>
 Total Salaries and Related Expenses	 191,866	 58,483	 250,349	 80,425	 84,515	 164,940	 415,289
 Professional fees	 -	 -	 -	 9,337	 -	 9,337	 9,337
Supplies	174	-	174	6,821	2,155	8,976	9,150
Postage and printing	-	101	101	10,915	16,010	26,925	27,026
Telephone	-	-	-	2,882	-	2,882	2,882
Travel	-	-	-	-	726	726	726
Syndication fees	37,422	-	37,422	-	-	-	37,422
Marketing	-	-	-	15,824	2,615	18,439	18,439
Software	1,150	-	1,150	3,087	-	3,087	4,237
Development	-	-	-	1,120	-	1,120	1,120
Other operating expenses	<u>18,786</u>	<u>1,238</u>	<u>20,024</u>	<u>24,852</u>	<u>536</u>	<u>25,388</u>	<u>45,412</u>
 Total Expenses Before Depreciation	 249,398	 59,822	 309,220	 155,263	 106,557	 261,820	 571,040
 Depreciation	 <u>2,387</u>	 <u>-</u>	 <u>2,387</u>	 <u>9,478</u>	 <u>-</u>	 <u>9,478</u>	 <u>11,865</u>
 Total Expenses	 <u>\$ 251,785</u>	 <u>\$ 59,822</u>	 <u>\$311,607</u>	 <u>\$ 164,741</u>	 <u>\$ 106,557</u>	 <u>\$271,298</u>	 <u>\$ 582,905</u>

See independent auditors' report and accompanying notes to the financial statements.