

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

AS220, INC.

FINANCIAL STATEMENTS

Fiscal Years Ended June 30, 2007 and 2006

AS220, INC.
FINANCIAL STATEMENTS
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FOR DISCUSSION PURPOSES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of AS220, Inc.:

We have audited the accompanying statement of financial position of AS220, Inc. (a nonprofit organization) as of June 30, 2007, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from AS220, Inc.'s 2006 financial statements and, in our report dated December 11, 2006, we expressed an unqualified opinion on those financial statements.

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 audit provides 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 AS220, Inc. as of June 30, 2007, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on pages 16 and 17 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 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.

November 5, 2007

AS220, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2007 and 2006

PRELIMINARY DRAFT
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<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 277,005	\$ 281,276
Accounts receivable	121,009	221,259
Accounts receivable - Developer fees	476,709	-
Capital pledges receivable	45,000	27,440
Prepaid expenses	12,816	14,173
TOTAL CURRENT ASSETS	<u>932,539</u>	<u>544,148</u>
<u>PROPERTY AND EQUIPMENT</u>	<u>2,216,808</u>	<u>2,217,054</u>
<u>OTHER ASSETS</u>		
Capital pledges receivable, less current portion	168,415	13,548
Inventory of donated art held for sale	34,441	34,441
Other assets	4,700	5,442
Other long-term investments	2,301,575	783,043
TOTAL OTHER ASSETS	<u>2,509,131</u>	<u>836,474</u>
TOTAL ASSETS	<u>\$ 5,658,478</u>	<u>\$ 3,597,676</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 24,380	\$ 194,849
Accrued payroll and payroll taxes	11,602	9,135
Deferred revenue	32,056	123,988
Security deposits	52,507	50,545
Bank line-of-credit	250,000	150,000
Current portion of long-term debt	273,324	559,657
TOTAL CURRENT LIABILITIES	<u>643,869</u>	<u>1,088,174</u>
<u>NON-CURRENT LIABILITIES</u>		
Non-current portion of long-term debt	<u>367,853</u>	<u>377,680</u>
TOTAL NON-CURRENT LIABILITIES	<u>367,853</u>	<u>377,680</u>
TOTAL LIABILITIES	<u>1,011,722</u>	<u>1,465,854</u>
<u>NET ASSETS</u>		
Unrestricted net assets	4,614,700	1,763,699
Temporarily restricted net assets	32,056	368,123
TOTAL NET ASSETS	<u>4,646,756</u>	<u>2,131,822</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,658,478</u>	<u>\$ 3,597,676</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR DISCUSSION PURPOSES

Fiscal Year Ended June 30, 2007

With Comparative Totals for Fiscal Year Ended June 30, 2006

	2007			2006
	Unrestricted	Temporarily Unrestricted	Total	Total
SUPPORT AND REVENUES				
Contributions and donations	\$ 83,625	\$ 703,687	\$ 787,312	\$ 352,069
Paterson Park Partners, LLC	-	383,345	383,345	-
Grants	-	695,511	695,511	1,385,817
AHP Direct Subsidy	300,000	-	300,000	-
HOME Funds	98,227	-	98,227	-
NOP RI Housing	124,832	-	124,832	-
Resident artist contributions	94,340	-	94,340	84,696
Rental income	84,216	-	84,216	61,711
Gate receipts and performance fees	161,377	-	161,377	85,751
Special events (net)	10,209	-	10,209	19,242
Bar and café	282,327	-	282,327	154,966
Gain (loss) on long-term investments	2,855	-	2,855	(933)
Developer fees	1,008,189	-	1,008,189	56,250
Interest income	1,254	-	1,254	2,514
<i>Net assets released from restrictions</i>	<u>2,118,610</u>	<u>(2,118,610)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>4,370,061</u>	<u>(336,067)</u>	<u>4,033,994</u>	<u>2,202,083</u>
EXPENSES				
Program services	787,460	-	787,460	651,363
Bar and café	258,316	-	258,316	133,141
Rental activities	277,497	-	277,497	197,017
Administration	93,157	-	93,157	88,179
Capital campaign	102,630	-	102,630	54,625
TOTAL EXPENSES	<u>1,519,060</u>	<u>-</u>	<u>1,519,060</u>	<u>1,124,325</u>
NET INCREASE IN NET ASSETS	2,851,001	(336,067)	2,514,934	1,077,758
NET ASSETS - July 1,	<u>1,763,699</u>	<u>368,123</u>	<u>2,131,822</u>	<u>1,054,064</u>
NET ASSETS - June 30,	<u>\$ 4,614,700</u>	<u>\$ 32,056</u>	<u>\$ 4,646,756</u>	<u>\$ 2,131,822</u>

The accompanying notes are an integral part of these financial statements.

AS220, INC.
STATEMENTS OF CASH FLOWS
 Fiscal Years Ended June 30, 2007 and 2006

PRELIMINARY DRAFT
 FOR DISCUSSION PURPOSES

	<u>2007</u>	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Increase in net assets	\$ 2,514,934	\$ 1,077,758
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	74,411	42,678
Uncollectible pledges	1,441	(8,018)
<i>(Increases) decreases in operating assets:</i>		
Accounts receivable	100,250	(28,345)
Accounts receivable - Developer fees	(476,709)	-
Capital pledges receivable	(173,868)	105,631
Prepaid expenses and other assets	1,357	(7,136)
<i>Increases (decreases) in operating liabilities:</i>		
Accounts payable	(170,469)	72,339
Accrued payroll and payroll taxes	2,467	1,812
Deferred revenue	(91,932)	(100,427)
Security deposits	1,962	50,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,783,844</u>	<u>1,206,292</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Cash payments for property and equipment	(73,423)	(1,156,603)
Other long-term investments	<u>(1,518,532)</u>	<u>(785,427)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,591,955)</u>	<u>(1,942,030)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on long-term debt	(9,333)	(8,872)
Principal payments on short-term financing	(400,000)	-
Proceeds from long-term debt	-	20,777
Proceeds from short-term financing	<u>213,173</u>	<u>650,000</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(196,160)</u>	<u>661,905</u>
DECREASE IN CASH	4,271	73,833
CASH - July 1,	<u>281,276</u>	<u>355,109</u>
CASH - June 30,	<u>\$ 277,005</u>	<u>\$ 281,276</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u>		
Interest expense paid	<u>\$ 63,870</u>	<u>\$ 23,974</u>

The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

AS220, Inc. (AS220) is a Rhode Island nonprofit corporation. Its purpose is to provide a forum and home for the arts and the creative population of Rhode Island. Its facilities and services are made available to all artists who need a place to exhibit, perform or create their original artwork, especially those who cannot obtain space to exhibit or perform from traditional sources because of financial or other limitations.

AS220 operates in two buildings, which it owns in the City of Providence, Rhode Island. In addition to programs, AS220 operates a recently renovated bar and café, rents space to other artists and art organizations, and rents space to a few commercial tenants.

FINANCIAL STATEMENT 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 Organization is required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. AS220 has two classes, unrestricted net assets and temporarily restricted assets.

Unrestricted Net Assets – consist of unrestricted amounts which are available for use in carrying out the mission of the Organization.

Temporarily Restricted Net Assets – consist of those amounts which are donor restricted for a specific purpose. When a donor restriction expires, either by the passage of a stipulated time restriction or by the accomplishment of a specific purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted resources that met the restrictions in the same reporting period are reported as unrestricted support.

BASIS OF PRESENTATION

The Organization’s financial statements are presented on the accrual basis of accounting.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2006, from which the summarized information was derived.

BASIS OF ACCOUNTING

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.

Fair Value of Financial Statements - Cash and cash equivalents, receivables, and payables are valued at their carrying amounts which approximate fair value due to the short maturity of the instruments.

Contributions - AS220 accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to Give - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contract and Grant Revenue Recognition - Contract and grant revenue is recognized when earned as the Organization fulfills the terms accompanying award of such funds. Revenue received but not earned is classified as either a liability or temporarily restricted net assets on the statement of financial position.

Property, Equipment, and Depreciation - Property and equipment is stated at cost except donated property and equipment, which is capitalized at its fair market value at the date of donation. Depreciation is provided for by use of the straight-line method over the estimated useful lives of the assets.

Donated Goods and Services - The Organization records donated goods and services received in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, at fair market value at date of donation. No donated goods and services were recorded for the years ended June 30, 2007 and 2006.

Cash and Cash Equivalents – For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. AS220, Inc. did not have any cash equivalents at June 30, 2007 and 2006.

Income Taxes – The Internal Revenue Service has determined that the Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Unrestricted Net Assets – Unrestricted net assets are not subject to donor-imposed stipulations. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose having been accomplished and/or the stipulated time period having elapsed, are reported as transfers between the applicable classes of net assets.

Temporarily Restricted Net Assets – Temporarily restricted net assets include grants, gifts, unconditional promises to give, income, and gains which can be expended but for which restrictions have not yet been met. Such restrictions include restrictions where donors have specified the purpose for which the net assets are to be spent, or time limitations imposed by donors or implied by the nature of the gift (capital projects, unconditional promises to give to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period).

Functional Allocation of Expenses - Expenses not directly related to a particular program or supporting services cost center are distributed on a percentage allocation method based on management's judgment consistent with the prior year's allocation except when change is warranted.

Reclassifications – Certain reclassifications have been made to the 2006 financial statement presentation to correspond to the current year's format. Total net assets and changes in net assets are unchanged due to these reclassifications.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consists of grant funds receivable, rents receivable, and miscellaneous receivables. AS220 uses the specific identification method in estimating for bad debts. All amounts in accounts receivable were considered collectible at June 30, 2007 and 2006.

NOTE 3 – CAPITAL PLEDGES RECEIVABLE

Capital pledges receivable consist of pledges receivable made by individuals, corporations, government agencies, and foundations towards AS220’s \$3.5 million capital campaign initiated during fiscal year 2001.

Capital pledges receivable at June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Capital pledges receivable	\$ 250,000	\$ 45,542
Less: Discount to present value	(33,607)	(3,017)
Less: Allowance for unfulfilled pledges	<u>(2,978)</u>	<u>(1,537)</u>
	213,415	40,988
Less: Current portion of capital pledges	<u>45,000</u>	<u>27,440</u>
	<u>\$ 168,415</u>	<u>\$ 13,548</u>

Capital pledges receivable at June 30, 2007 are expected to be collected as follows:

<u>Year Ending June 30,</u>	
2008	\$ 45,000
2009	45,000
2010	43,190
2011	41,109
2012	<u>39,116</u>
	<u>\$213,415</u>

NOTE 4 – INVENTORY OF DONATED ART HELD FOR SALE

BUILDING BOX CAMPAIGN

During fiscal year 1990, AS220 embarked on an innovative capital campaign to raise funds to purchase a building or building space. Five artists each produced a piece of art for a portfolio, which AS220 would sell to raise funds in the capital campaign. The portfolio consisted of four lithographs and one cibacrome print.

AS220 paid \$8,309 to reproduce 101 sets of the art portfolios, \$7,528 to buy 101 archive portfolios in which to store the sets and \$450 to print a cover page explaining the contents for a total cost of \$16,287. AS220 calls these art portfolios “Building Boxes”. AS220 sold 22 sets at \$1,000 each and attempted to sell the remaining 79 sets at \$1,200 each. The total value of the portfolios was determined to be \$116,800, and was recorded as inventory in fiscal year 1992. The difference between the \$116,800 gross selling price of the sets and the \$16,287 in costs to

produce the sets was recorded as a donation of artwork in AS220's financial records for fiscal year 1994. This amounted to \$100,513.

In fiscal year 1994, the value of the remaining donated art was reduced in value to \$20,000 for financial statement purposes to reflect the current market value based on a conservative estimate by management. The sets are still being offered for sale at the original sales price of \$1,000 each. One set was sold in fiscal year 1995, two sets were sold in fiscal year 2001, and two sets were sold in fiscal year 2003.

CAPITAL CAMPAIGN

During fiscal year 2001, AS220 embarked on a significant capital campaign to raise \$3.5 million. Part of this campaign included selling donated art work. Four artists produced sixteen different pieces of art for a portfolio which AS220 would sell to raise funds for the capital campaign.

AS220 paid \$25,000 to reproduce 100 prints of the donated art work. AS220 retained 75 of each of the 16 prints and gave 25 of each of the 16 prints to the respective artists. The total value of the donated art work was originally estimated to be \$125,000. For financial statement purposes, the value of the donated artwork at June 30, 2007 and 2006 was \$17,552 and \$17,552, respectively to reflect the current market value based on a conservative estimate by management.

There were no prints sold in fiscal years 2007 and 2006. As of June 30, 2007 a total of 77 prints have been sold.

The inventory balance at June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Building Box Campaign	\$16,889	\$16,889
Capital Campaign	<u>17,552</u>	<u>17,552</u>
	<u>\$34,441</u>	<u>\$34,441</u>

NOTE 5 – PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at cost or, if donated, at the approximate fair market value at the date of donation, less accumulated depreciation:

	<u>2007</u>	<u>2006</u>
Land	\$ 80,000	\$ 80,000
Building and building improvements	2,582,153	2,518,616
Office furniture and equipment	<u>47,525</u>	<u>106,207</u>
	2,709,678	2,704,823
Less: Accumulated depreciation	<u>(492,870)</u>	<u>(487,769)</u>
	<u>\$ 2,216,808</u>	<u>\$ 2,217,054</u>

AS220, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2007 and 2006

Depreciation expense charged to operations was \$73,669 and \$41,936 for the fiscal years ended June 30, 2007 and 2006, respectively.

The useful lives of property and equipment for purposes of computing depreciation are as follows:

Building and building improvements	31 Years
Office furniture and equipment	5 – 7 Years

NOTE 6 – OTHER LONG-TERM INVESTMENTS

During fiscal year ended June 30, 2005, two new entities were established to facilitate the purchase and development of the Dreyfus Hotel property located at 121 Washington Street, Providence, Rhode Island. AS220 accounts for the investments in these companies using the equity method of accounting. AS220's investment in these companies consists of the following:

1. AS220, Inc. owns one hundred percent interest in AS220 GP, Inc., which is engaged solely as the general partner in 121 Washington Street Limited Partnership. AS220 GP, Inc. owns eighty percent of 121 Washington Street Limited Partnership.
2. 121 Washington Street Limited Partnership is engaged solely to facilitate the development of the Dreyfus Hotel property. 121 Washington Street Limited Partnership is owned eighty percent by AS220, GP, Inc. and twenty percent by 121 Washington Street Master Tenant, LLC, a wholly-owned subsidiary of Bank of America.

The investments in these companies at June 30, 2007 amounted to \$2,306,905 and \$5,911,647, respectively. The combined results of operations and financial position of AS220's equity basis investments are summarized below:

AS220, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2007 and 2006

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	AS220 GP, Inc.	121 Washington Street, LP
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 18,267	\$ 827,328
Non-current assets	2,301,008	7,488,322
TOTAL ASSETS	\$ 2,319,275	\$ 8,315,650
Current liabilities	\$ 12,370	\$ 504,697
Non-current liabilities	-	1,899,306
Equity	2,306,905	5,911,647
TOTAL LIABILITIES AND EQUITY	\$ 2,319,275	\$ 8,315,650
<u>Condensed Income Statement Information:</u>		
Revenues	\$ 88,875	\$ 19,875
Expenses	88,616	77,461
Net income (loss) before equity in affiliates	259	(57,586)
Equity in net income of affiliates	2,306,646	5,969,233
NET EQUITY	\$ 2,306,905	\$ 5,911,647

The investments in these companies at June 30, 2006 amounted to \$785,898 and \$783,477, respectively. The combined results of operations and financial position of AS220's equity basis investments are summarized below:

	AS220 GP, Inc.	121 Washington Street, LP
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 1,000	\$ 10,609
Non-current assets	-	1,790,202
TOTAL ASSETS	\$ 1,000	\$ 1,800,811
Current liabilities	\$ 1,433	\$ 85,050
Non-current liabilities	-	932,284
Equity	785,898	783,477
TOTAL LIABILITIES AND EQUITY	\$ 787,331	\$ 1,800,811
<u>Condensed Income State Information:</u>		
Revenues	\$ -	\$ -
Expenses	933	-
Net loss before equity in affiliates	(933)	-
Equity in net income (loss) of affiliates	786,831	783,477
NET EQUITY (DEFICIT)	\$ 785,898	\$ 783,477

NOTE 7 – DEFERRED REVENUE

Deferred revenue represents various grant revenue received in advance of being earned. At June 30, 2007 and 2006, AS220 had deferred revenue as follows:

	<u>2007</u>	<u>2006</u>
BBS Mentoring	\$ -	\$ 18,970
BBS Artworks	-	11,268
Wallace Foundation	-	10,000
Other Fiscal Agency	-	9,500
College Visions	32,056	18,000
Developer Fees	-	56,250
	<u>\$ 32,056</u>	<u>\$ 123,988</u>

NOTE 8 – BANK LINE-OF-CREDIT

AS220 maintains a demand line-of-credit with Sovereign Bank, which is secured by a commercial building. The total line-of-credit was increased during fiscal year 2007 from \$150,000 to \$250,000. AS220 borrowed \$150,000 from this demand line-of-credit during fiscal year 2006 and \$100,000 during fiscal year 2007. Borrowings bear interest at 8.25% and 8.00% at June 30, 2007 and 2006, respectively. The line had no available funds at June 30, 2007 and 2006, respectively.

NOTE 9 – LONG-TERM DEBT

SOVEREIGN BANK

In September 1999, AS220's Fleet Bank participation loan was refinanced by Sovereign Bank with a five-year participation loan between Sovereign Bank (66 2/3%) and Citizens Bank (33 1/3%) totaling \$434,134. Scheduled principal and interest payments were calculated assuming a twenty-five year amortization and interest at 7%. AS220 was required to make sixty monthly principal and interest payments of \$3,068 through September 2004, at which time the loan provided for a balloon payment of the remaining principal.

In October 2003, AS220 refinanced the loan with Sovereign Bank. The new loan is a ten-year commercial mortgage loan with scheduled monthly principal and interest payments of \$2,397 through October of 2008; thereafter, monthly principal and interest will be adjusted to the Bank's cost of funds rate, with a final balloon payment on all unpaid principal in October of 2013. The loan's current interest rate is 5%. The loan is secured by the building located at 115 Empire Street, Providence, Rhode Island.

BANK OF AMERICA

In October, 2005, AS220 was awarded recoverable grant financing in the amount of \$50,000 from Bank of America to provide funding for predevelopment costs associated with the development of a building. The entire amount awarded through recoverable grant financing was paid in full during the fiscal year ended June 30, 2007. As of June 30, 2007 and 2006, the outstanding recoverable grant financing balance was \$0 and \$50,000, respectively.

LOCAL INITIATIVE SUPPORT CORPORATION

In January 2005, AS220 was awarded recoverable grant financing in the amount of \$50,000 from the Local Initiatives Support Corporation (LISC) to provide funding associated with the purchase of a building. Funding is received on a requisition basis and is required to be repaid in full on February 1, 2007. The entire amount awarded through recoverable grant financing was paid in full during the fiscal year ended June 30, 2007. As of June 30, 2007 and 2006, the outstanding recoverable grant financing balance was \$0 and \$50,000, respectively.

PROVIDENCE PRESERVATION SOCIETY REVOLVING FUND

AS220 began to borrow funds from the Providence Preservation Society Revolving Fund loan that was executed in September 2005. Borrowings occurred during September 2005, October 2005, and January 2006 totaled \$450,000 and were used to provide funding associated with the purchase of a building. As of June 30, 2007 and 2006, the outstanding loan balance was \$150,000 and \$450,000, respectively.

CANANWILL, INC.

AS220 executed a premium finance agreement with Cananwill, Inc. due in monthly installments of \$2,183 including principal and interest through September 28, 2007. This note bears interest at 10.19% and is secured by the unearned premiums of the insurance policy.

The following is a summary of long-term debt at June 30, 2007 and 2006, respectively.

	2007	2006
Sovereign Bank	\$ 378,004	\$ 387,337
Bank of America Recoverable Grant	-	50,000
LISC Recoverable Grant	-	50,000
Providence Preservation Society Revolving Fund	150,000	450,000
Cananwill, Inc.	13,173	-
TRAC Builder, Inc.	100,000	-
	<u>641,177</u>	<u>937,337</u>
Less: Current Portion	273,324	559,657
Total Long-term Debt	<u>\$ 367,853</u>	<u>\$ 377,680</u>

Minimum payments of principal to be repaid are as follows:

<u>Fiscal Year Ended June 30,</u>	
2008	\$ 273,324
2009	10,671
2010	11,217
2011	11,791
2012	12,394
Thereafter	<u>321,780</u>
	<u>\$ 641,177</u>

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Time Restrictions - Capital Campaign	\$ <u>32,056</u>	\$ <u>368,123</u>

NOTE 11 – SPECIAL EVENTS

AS220 held two fundraising events for the fiscal years ended June 30, 2007 and 2006. A summary of income and expenses is as follows:

	<u>2007</u>	<u>2006</u>
Income	\$27,560	\$37,413
Expenses	<u>17,351</u>	<u>18,171</u>
Net	<u>\$10,209</u>	<u>\$19,242</u>

NOTE 12 – RELATED PARTY TRANSACTIONS

Some of the artists who rent space at AS220 are also Board or staff members. The rent is determined by the Board of Directors and is the same for all resident artists.

NOTE 13 – OPERATING LEASE

On February 27, 2005, AS220 entered into a new operating lease for a Toshiba copier. The lease term was 36 months at \$187 per month. The rental expense for the fiscal years ended June 30, 2007 and 2006 was \$2,244 and \$2,244, respectively.

NOTE 14 – UNRELATED BUSINESS ACTIVITIES

The bar and café operated by AS220 as well as certain rental operations are considered unrelated business activities under IRS rules governing exempt organizations and are subject to income taxes on profits earned. The bar and café had a net profit for the fiscal year ended June 30, 2007, and a net loss for the fiscal year ended June 30, 2006. The rental operations had a net loss for the fiscal years ended June 30, 2007 and 2006.

AS220 has a net operating loss carry forward of \$252,823, which may be used to offset unrelated business activity income. The net operating loss carry forwards expire over the next twenty years.

NOTE 15 – LOAN AFFIRMATIVE, FINANCIAL AND NEGATIVE COVENANTS

The following are loan covenants as required by Sovereign Bank.

1. Within one hundred and twenty (120) days of the end of each calendar year, the Organization is required to submit its federal income tax returns, operating cash flow schedules, current rent roll, audited balance sheets and statements of profit and loss and retained earnings, reconciliation of net worth and source, and application of funds for such fiscal year, each prepared in accordance with GAAP, consistently applied in reasonable detail and certified without qualification by independent certified public accountants showing its financial condition at the close of such fiscal year and the results of operating during such year. At June 30, 2007 and 2006, AS220 was in compliance with this covenant.
2. Maintain at all times aggregate debt service coverage of 1.25 on the premises and with respect to its operation, which debt service coverage ratio shall be tested on an annual basis. At June 30, 2007, the debt service coverage ratio was 87.34 and the minimum debt service coverage ratio was 5.25. At June 30, 2006, the debt service coverage ratio was 37.47 and the minimum debt service coverage ratio was 1.02.
3. Maintain at all times a maximum loan to value ratio of 75 percent. This data was not available at June 30, 2007 and 2006.
4. AS220 will not, directly or indirectly, incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any indebtedness, liability or lease commitment, except upon such terms and conditions as may be mutually agreed upon in advance by AS220 and Sovereign Bank except for indebtedness incurred in the normal course of business. At June 30, 2007 and 2006, AS220 was in compliance with this covenant.

AS220, INC.
 SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES
 Fiscal Year Ended June 30, 2007
 With Comparative Totals for Fiscal Year Ended June 30, 2006

FOR DISCUSSION PURPOSES ONLY

	Program Services	Bar and Café	Rental Activities	Administration	Capital Campaign	2007 Total	2006 Total
Salaries	\$ 363,264	\$ 107,058	\$ 43,018	\$ 71,697	\$ -	\$ 585,037	\$ 500,108
Payroll taxes and workers compensation	40,151	11,833	4,755	7,925	-	64,664	54,952
Health insurance	36,256	10,685	4,293	7,156	-	58,390	51,240
Office expenses	50,798	2,262	6,120	4,284	-	63,464	55,882
Professional fees	9,190	4,837	-	2,095	-	16,122	12,831
Artist fees	165,157	-	-	-	-	165,157	66,532
Publicity	50	-	-	-	-	50	910
Performance and program expenses	73,154	-	-	-	-	73,154	77,352
Gallery expenses	12,349	-	-	-	-	12,349	12,994
Utilities	6,728	6,728	53,823	-	-	67,279	64,254
Repair and maintenance	3,395	3,395	27,156	-	-	33,946	25,533
Property tax	-	-	15,159	-	-	15,159	14,384
Property & liability insurance	2,164	2,164	17,315	-	-	21,643	7,591
Interest expense	6,387	3,194	54,289	-	-	63,870	23,974
Depreciation	18,417	3,683	51,569	-	-	73,669	41,936
Direct capital campaign expenses	-	-	-	-	102,630	102,630	54,625
Bar and café expenses	-	102,477	-	-	-	102,477	59,227
Total Expenses	\$ 787,460	\$ 258,316	\$ 277,497	\$ 93,157	\$ 102,630	\$ 1,519,060	\$ 1,124,325

AS220, INC.

SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Fiscal Year Ended June 30, 2007

PRELIMINARY DRAFT
FOR DISCUSSION PURPOSES ONLY

	ANNUAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Rental Income	\$ 185,839	\$ 178,555	\$ (7,284)
Fundraising - General	162,675	282,494	119,819
Fundraising - Capital Campaign	-	703,687	703,687
Paterson Park Partners, LLC	-	383,345	383,345
Grant Income	250,191	524,202	274,011
AHP Direct Subsidy	-	300,000	300,000
HOME Funds	-	98,227	98,227
NOP RI Housing	-	124,832	124,832
Bar and Café Income	43,321	282,326	239,005
Program Income	100,000	159,766	59,766
Other Income	-	1,611	1,611
Gain on Investments	-	2,855	2,855
Developer Fees	-	1,008,189	1,008,189
Interest Income	-	1,254	1,254
TOTAL REVENUES	742,026	4,051,343	3,309,317
EXPENSES			
Bar and Café Expenses	14,608	97,023	(82,415)
Building - Maintenance, Taxes, and Insurance	12,000	71,328	(59,328)
Utilities	-	67,278	(67,278)
Personnel Costs - Office	339,464	708,092	(368,628)
Office Expenses	9,320	57,687	(48,367)
Professional Fees	-	16,122	(16,122)
Direct Grant and Program Expenses	32,142	61,337	(29,195)
Artist Fees	-	160,168	(160,168)
Gallery Expenses	-	12,349	(12,349)
Fundraising Costs - General	-	17,351	(17,351)
Fundraising Costs - Capital Campaign	-	102,630	(102,630)
Depreciation	-	73,669	(73,669)
Consultant Fees	-	4,989	(4,989)
Interest Expense	71	63,870	(63,799)
Other Expenses	334,421	22,516	311,905
TOTAL EXPENSES	742,026	1,536,409	(794,383)
NET INCOME	\$ -	\$ 2,514,934	\$ 2,514,934