

AS220, INC.

FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

Fiscal Years Ended June 30, 2008 and 2007

AS220, INC.  
FINANCIAL STATEMENTS  
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Fiscal Years Ended June 30, 2008 and 2007

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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, 2008, 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 2007 financial statements and, in our report dated November 15, 2007; 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, 2008, 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 page 18 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.

JAMES N. NADEAU & COMPANY, LLP

September 26, 2008

AS220, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 394,651	\$ 277,005
Accounts receivable	356,086	121,009
Accounts receivable - Developer fees	-	476,709
Capital pledges receivable	45,000	45,000
Prepaid expenses	51,722	12,816
TOTAL CURRENT ASSETS	<u>847,459</u>	<u>932,539</u>
<u>PROPERTY AND EQUIPMENT</u>	<u>2,192,413</u>	<u>2,216,808</u>
<u>OTHER ASSETS</u>		
Capital pledges receivable, less current portion	123,415	168,415
Inventory of donated art held for sale	55,341	34,441
Other assets	3,958	4,700
Other long-term investments	2,127,880	2,306,905
TOTAL OTHER ASSETS	<u>2,310,594</u>	<u>2,514,461</u>
TOTAL ASSETS	<u>\$ 5,350,466</u>	<u>\$ 5,663,808</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 29,093	\$ 29,710
Accrued payroll and payroll taxes	17,508	11,602
Deferred revenue	-	32,056
Security deposits	54,096	52,507
Bank line-of-credit	-	250,000
Current portion of long-term debt	67,224	273,324
TOTAL CURRENT LIABILITIES	<u>167,921</u>	<u>649,199</u>
<u>NON-CURRENT LIABILITIES</u>		
Non-current portion of long-term debt	657,564	367,853
TOTAL NON-CURRENT LIABILITIES	<u>657,564</u>	<u>367,853</u>
TOTAL LIABILITIES	<u>825,485</u>	<u>1,017,052</u>
<u>NET ASSETS</u>		
Unrestricted net assets	4,524,981	4,614,700
Temporarily restricted net assets	-	32,056
TOTAL NET ASSETS	<u>4,524,981</u>	<u>4,646,756</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,350,466</u>	<u>\$ 5,663,808</u>

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

AS220, INC.  
 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 Fiscal Year Ended June 30, 2008  
 With Comparative Totals for Fiscal Year Ended June 30, 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
<u>SUPPORT AND REVENUES</u>				
Contributions and donations	\$ 220,076	\$ 99,917	\$ 319,993	\$ 787,312
Paterson Park Partners, LLC	-	-	-	383,345
Grants	-	660,112	660,112	695,511
AHP Direct Subsidy	-	-	-	300,000
HOME Funds	-	-	-	98,227
NOP RI Housing	-	-	-	124,832
Resident artist contributions	94,775	-	94,775	94,340
Rental income	82,207	-	82,207	84,216
Gate receipts and performance fees	236,924	-	236,924	161,377
Special events (net)	40,704	-	40,704	10,209
Bar and café	288,284	-	288,284	282,327
Gain (loss) on long-term investments	(73,695)	-	(73,695)	2,855
Developer fees	-	-	-	1,008,189
Interest income	8,337	-	8,337	1,254
<i>Net assets released from restrictions</i>	792,085	(792,085)	-	-
<b>TOTAL SUPPORT AND REVENUES</b>	<u>1,689,697</u>	<u>(32,056)</u>	<u>1,657,641</u>	<u>4,033,994</u>
<u>EXPENSES</u>				
Program services	1,033,507	-	1,033,507	787,460
Bar and café	278,699	-	278,699	258,316
Rental activities	294,102	-	294,102	277,497
Administration	108,454	-	108,454	93,157
Capital campaign	64,654	-	64,654	102,630
<b>TOTAL EXPENSES</b>	<u>1,779,416</u>	<u>-</u>	<u>1,779,416</u>	<u>1,519,060</u>
NET INCREASE (DECREASE) IN NET ASSETS	(89,719)	(32,056)	(121,775)	2,514,934
NET ASSETS - July 1,	<u>4,614,700</u>	<u>32,056</u>	<u>4,646,756</u>	<u>2,131,822</u>
NET ASSETS - June 30,	<u>\$ 4,524,981</u>	<u>\$ -</u>	<u>\$ 4,524,981</u>	<u>\$ 4,646,756</u>

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

AS220, INC.  
**STATEMENTS OF CASH FLOWS**  
 Fiscal Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Increase (decrease) in net assets	\$ (121,775)	\$ 2,514,934
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>		
Depreciation	96,641	73,669
Amortization	742	742
Donated inventory	(20,900)	-
Uncollectible pledges	(2,609)	1,441
Bad debt	17,858	-
<i>(Increases) decreases in operating assets:</i>		
Accounts receivable	(252,935)	100,250
Accounts receivable - Developer fees	476,709	(476,709)
Capital pledges receivable	47,609	(173,868)
Prepaid expenses and other assets	(38,906)	1,357
<i>Increases (decreases) in operating liabilities:</i>		
Accounts payable	4,713	(170,469)
Accrued payroll and payroll taxes	5,906	2,467
Deferred revenue	(32,056)	(91,932)
Security deposits	1,589	1,962
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>182,586</u>	<u>1,783,844</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Cash payments for property and equipment	(72,246)	(73,423)
Other long-term investments	173,695	(1,518,532)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>101,449</u>	<u>(1,591,955)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on long-term debt	(9,766)	(9,333)
Principal payments on short-term financing	(413,176)	(400,000)
Proceeds from short-term financing	256,553	213,173
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>(166,389)</u>	<u>(196,160)</u>
<b>INCREASE (DECREASE) IN CASH</b>	117,646	(4,271)
CASH - July 1,	<u>277,005</u>	<u>281,276</u>
CASH - June 30,	<u>\$ 394,651</u>	<u>\$ 277,005</u>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u></b>		
Interest expense paid	<u>\$ 43,401</u>	<u>\$ 63,870</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</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, 2007, 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, 2008 and 2007.

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2008 and 2007

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, 2008 and 2007.

Concentrations of Credit Risk – AS220, Inc. maintains its cash balances in financial institutions located in the State of Rhode Island. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 for each depositor in each institution. The Company's cash balances fluctuate throughout the year and may exceed insured limits from time to time. The Company has not experienced any losses on such accounts and monitors the credit-worthiness of the financial institutions with which it conducts business. Management believes that the Company is not exposed to significant credit risk with respect to its cash balances. At June 30, 2008, the Company's cash balances exceeded the FDIC limit by \$150,000.

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 2007 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.

AS220, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008 and 2007

**NOTE 2 – ACCOUNTS RECEIVABLE**

Accounts receivable consists of grant funds, commercial and residential rents, and miscellaneous receivables. For the year ended June 30, 2007, AS220 used the specific identification method in estimating for bad debts. During the year ended June 30, 2008, AS220 changed its methods for estimating bad debt to the allowance method. For the year ended June 30, 2008 the allowance for bad debt amounted to \$17,858.

Accounts receivable at June 30, 2008 and 2007 were as follows:

	2008	2007
Grant Receivables	\$ 147,685	\$ 95,181
Commercial and Residential Rents	3,336	-
Perishable Theater Rent	3,055	3,539
Board Donations	13,305	8,000
Patterson Park Partners	19,706	22,206
121 Washington Street, LP	36,931	(14,750)
AS220, GP, Inc.	(1,234)	(1,000)
Mercantile Block, LLC	149,224	-
Other Receivables	1,936	7,833
	373,944	121,009
Less: Allowance for Doubtful Accounts	17,858	-
	<u>\$ 356,086</u>	<u>\$ 121,009</u>

**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, 2008 and 2007 were as follows:

	2008	2007
Capital pledges receivable	\$ 200,000	\$ 250,000
Less: Discount to present value	(31,216)	(33,607)
Less: Allowance for unfulfilled pledges	(369)	(2,978)
	168,415	213,415
Less: Current portion of capital pledges	45,000	45,000
	<u>\$ 123,415</u>	<u>\$ 168,415</u>

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2008 and 2007

Capital pledges receivable at June 30, 2008 are expected to be collected as follows:

<u>Year Ending June 30,</u>	
2009	\$ 45,000
2010	43,191
2011	41,109
2012	<u>39,116</u>
	<u>\$168,416</u>

**NOTE 4 – PREPAID EXPENSES**

Prepaid expenses consist of items paid in advance of their required terms or actual use. AS220, as part of the 115 Empire Street Project Phase II, elected to prepay part of the State of Rhode Island Historic Tax Credit fee.

Prepaid expenses at June 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Prepaid insurance	\$ 17,972	\$ 12,816
Prepaid Historic Tax Credit fee	<u>33,750</u>	<u>-</u>
	<u>\$ 51,722</u>	<u>\$ 12,816</u>

**NOTE 5 – 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

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2008 and 2007

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. AS220 had sixteen artists each create one different piece of art for a portfolio which AS220 would sell to raise funds for the capital campaign.

AS220 paid \$25,000 to reproduce 100 portfolios of the donated art work. AS220 retained 75 of each of the 16 portfolios "Suite 16" and gave 25 of each of the 16 portfolios to the respective artist. 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, 2008 and 2007 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 2008 and 2007. As of June 30, 2008 a total of 77 prints have been sold.

*VISIONAIRES*

During fiscal year ended June 30, 2008, AS220 received an unrestricted donation from Visionaires. The donation is a series of 14 different photo and text journals of collaborations from artists, celebrities and personalities from around the world. The donor provided 338 copies ranging in retail value from \$175 to \$750 with an estimated fair market value totaling \$115,800. AS220 currently has the copies selling in a range from \$125 to \$325. There are currently 265 copies available through the online store and 13 copies available on consignment at local bookstores for a total retail value at June 30, 2008 of \$41,800. Of the 14 available series, one of the series contains 207 of the 265 total copies. For financial statement purposes, management of AS220, Inc. has valued the current inventory of the books at June 30, 2008 at \$20,900. Management believes this value is a conservative estimate as to the actual final retail price it will receive.

The inventory balance at June 30, 2008 and 2007 is as follows:

	2008	2007
Building Box Campaign	\$ 16,889	\$ 16,889
Capital Campaign	17,552	17,552
Visionaires	20,900	-
	<u>\$ 55,341</u>	<u>\$ 34,441</u>

**NOTE 6 – 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:

	2008	2007
Land	\$ 80,000	\$ 80,000
Building and building improvements	2,654,399	2,582,153
Office furniture and equipment	47,525	47,525
	<u>2,781,924</u>	<u>2,709,678</u>
Less: Accumulated depreciation	(589,511)	(492,870)
	<u>\$ 2,192,413</u>	<u>\$ 2,216,808</u>

Depreciation expense charged to operations was \$96,641 and \$73,669 for the fiscal years ended June 30, 2008 and 2007, 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 7 – 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 investment in these companies at June 30, 2008 and 2007 amounted to \$2,127,880 and \$2,306,905, respectively.

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2008 and 2007

The combined results of operations and financial position of AS220's equity basis investments at June 30, 2008 are summarized below:

	AS220 GP, Inc.	121 Washington Street, LP
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 21,996	\$ 288,181
Non-current assets	2,125,552	7,443,518
TOTAL ASSETS	<u>\$ 2,147,548</u>	<u>\$ 7,731,699</u>
Current liabilities	\$ 19,668	\$ 75,258
Non-current liabilities	-	1,880,768
Equity	2,127,880	5,775,673
TOTAL LIABILITIES AND EQUITY	<u>\$ 2,147,548</u>	<u>\$ 7,731,699</u>
<u>Condensed Income Statement Information:</u>		
Revenues	\$ 158,364	\$ 39,750
Expenses	156,520	133,120
Net income (loss) before equity in affiliates	1,844	(93,370)
Less: Loss on investment	74,915	-
Net equity - July 1, 2007	1,958,812	2,471,432
Capital/partner contributions	92,309	3,397,611
NET EQUITY - June 30, 2008	<u>\$ 2,127,880</u>	<u>\$ 5,775,673</u>

The combined results of operations and financial position of AS220's equity basis investments at June 30, 2007 are summarized below:

	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	<u>\$ 2,319,275</u>	<u>\$ 8,315,650</u>
Current liabilities	\$ 12,370	\$ 504,697
Non-current liabilities	-	1,899,306
Equity	2,306,905	5,911,647
TOTAL LIABILITIES AND EQUITY	<u>\$ 2,319,275</u>	<u>\$ 8,315,650</u>
<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)
Less: Loss on investment	-	-
Net equity - July 1, 2006	1,958,812	2,471,432
Capital/partner contributions	347,834	3,497,801
NET EQUITY - June 30, 2007	<u>\$ 2,306,905</u>	<u>\$ 5,911,647</u>

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2008 and 2007

**NOTE 8 – DEFERRED REVENUE**

Deferred revenue represents grant revenue received in advance of being earned. At June 30, 2008 and 2007, AS220 had deferred revenue as follows:

	<u>2008</u>	<u>2007</u>
College Visions	\$ -	\$ 32,056
	<u>\$ -</u>	<u>\$ 32,056</u>

**NOTE 9 – 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 for fiscal year ended June 30, 2008 and 2007 was -0- and \$250,000, respectively. AS220 borrowed \$250,000 from Providence Preservation Society Fund, Inc. and utilized the proceeds to pay down the Sovereign Bank line-of-credit. Borrowings on the line-of-credit bore interest at 8.00% at June 30, 2007. The line expired as of June 30, 2008.

**NOTE 10 – 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.

*LOCAL INITIATIVE SUPPORT CORPORATION*

In December 2007, 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

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2008 and 2007

purchase of a building. Funding is received on a requisition basis and is required to be repaid in full on August 31, 2009. None of the amount awarded through recoverable grant financing had been distributed during the fiscal year ended June 30, 2008. In August 2008 the Mercantile Building was purchased. The Mercantile Project is expected to begin in fiscal year 2009.

*PROVIDENCE PRESERVATION SOCIETY REVOLVING FUND*

In September 2005, AS220 obtained a five-year bridge loan from the Providence Preservation Society Revolving Fund (PPSR). The note calls for annual interest payments. Additionally, the note calls for annual principal payments of \$50,000 with a balloon payment due on September 1, 2010. The current interest rate is 5.5%. Borrowings occurred during September 2005, October 2005, and January 2006 and totaled \$450,000. Proceeds from the loan were used to make capital improvements to the building located at 115 Empire Street. During fiscal year ending June 30, 2008, AS220 borrowed an additional \$250,000. The proceeds from the additional borrowing were used to pay down the revolving line-of-credit with Sovereign Bank. As of June 30, 2008 and 2007, the outstanding loan balance was \$350,000 and \$150,000, 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, 2008. This note bears interest at 10.20% and is secured by the unearned premiums of the insurance policy.

The following is a summary of long-term debt at June 30, 2008 and 2007, respectively.

	<u>2008</u>	<u>2007</u>
Sovereign Bank	\$ 368,238	\$ 378,004
Providence Preservation Society Revolving Fund	350,000	150,000
Cananwill, Inc.	6,553	13,173
TRAC Builder, Inc.	-	100,000
	<u>724,791</u>	<u>641,177</u>
Less: Current Portion	67,224	273,324
Total Long-term Debt	<u>\$ 657,567</u>	<u>\$ 367,853</u>

Minimum payments of principal to be repaid are as follows:

<u>Fiscal Year Ended June 30,</u>	
2009	\$ 67,224
2010	311,217
2011	11,791
2012	12,394
2013	13,028
Thereafter	<u>309,138</u>
	<u>\$ 724,791</u>

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2008 and 2007

**NOTE 11 – UNRESTRICTED NET ASSETS**

AS220's Board of Directors designated \$50,000 of funds received in fiscal year 2008 towards fiscal year 2009 activities. These funds were received from The Rhode Island Foundation during fiscal year 2008. There were no grant restrictions on the proceeds.

Unrestricted net assets were as follows at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Unrestricted net assets	\$4,474,981	\$4,614,700
Board designated	<u>50,000</u>	<u>-</u>
	<u>\$4,524,981</u>	<u>\$4,614,700</u>

**NOTE 12 – SPECIAL EVENTS**

AS220 held two fundraising events for the fiscal years ended June 30, 2008 and 2007. A summary of income and expenses is as follows:

	<u>2008</u>	<u>2007</u>
Income	\$74,460	\$27,560
Expenses	<u>33,756</u>	<u>17,351</u>
Net	<u>\$40,704</u>	<u>\$10,209</u>

**NOTE 13 – 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 14 – OPERATING LEASE**

On June 13, 2008, AS220 entered into a new operating lease for a Toshiba copier. The lease term was 36 months at \$263 per month. The rental expense for the fiscal years ended June 30, 2008 and 2007 for this lease and all leased office equipment amounted to \$4,053 and \$3,726, respectively.

**NOTE 15 – 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

AS220, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2008 and 2007

taxes on profits earned. The bar and café had a net profit for the fiscal years ended June 30, 2008 and 2007. The rental operations had a net loss for the fiscal years ended June 30, 2008 and 2007.

AS220 has a net operating loss carry forward of \$258,753, which may be used to offset unrelated business activity income. The net operating loss carry forwards expire over the next twenty years.

**NOTE 16– 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, 2008 and 2007, 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, 2008, the debt service coverage ratio was a negative 4.23 and the minimum debt service coverage ratio was 2.07. The debt agreement contains restrictive covenants concerning the maintenance of a debt service coverage ratio of 1.25. At June 30, 2008 the Company is not in compliance with such covenants. At June 30, 2007, the debt service coverage ratio was 87.44 and the minimum debt service coverage ratio was 5.25. At June 30, 2007 the Company was in compliance with such covenants.
3. Maintain at all times a maximum loan to value ratio of 75 percent. At June 30, 2008 the loan to value ratio was 20%.
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, 2008 and 2007, AS220 was in compliance with this covenant.

**NOTE 17 – SUBSEQUENT EVENTS**

On July 31, 2008 AS220 created two new entities as part of a new real estate development project.

The two new entities are as follows:

Mercantile Block Manager, Inc. – This Company is one hundred percent owned by AS220 and will be engaged solely as the general partner in Mercantile Block, LLC. This entity currently owns one hundred percent of the Mercantile Block, LLC.

Mercantile Block, LLC – This Company was formed solely for the real estate development of the former Mercantile building located at 125-135 Washington Street, Providence, Rhode Island. The real estate development project will consist of a complete rehabilitation of the former Mercantile building. Currently the Mercantile Block Manager, Inc. owns one hundred percent of this entity.

On July 31, 2008, the Mercantile Block, LLC purchased the former Mercantile building located at 121-135 Washington Street, Providence, Rhode Island. AS220 provided the initial down payment of \$161,503 during fiscal year ending June 30, 2008 to secure the building.

The final purchase price of the building was \$1,600,000. The Mercantile Block, LLC also purchased the prepaid State of Rhode Island historical tax fee totaling \$265,500.

To purchase the building, the Mercantile Block, LLC obtained financing from the Providence Economic Development Partnership (\$1,635,000) and from the Mercantile Block Associates, LLC (the former owner) (\$265,500).

At the closing, the Mercantile Block, LLC received cash proceeds totaling \$225,513 which will be used to fund the initial rehabilitation costs.

AS220, INC.  
 SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
 Fiscal Year Ended June 30, 2008  
 With Comparative Totals for Fiscal Year Ended June 30, 2007

	Program Services	Bar and Café	Rental Activities	Administration	Capital Campaign	2008 Total	2007 Total
Salaries	\$ 416,153	\$ 115,074	\$ 49,281	\$ 82,135	\$ -	\$ 662,643	\$ 585,037
Payroll taxes and workers compensation	42,104	11,642	4,986	8,310	-	67,042	64,664
Health insurance	47,586	13,158	5,635	9,392	-	75,771	58,390
Office expenses	71,988	2,051	8,673	6,071	-	88,783	63,464
Professional fees	11,165	5,876	-	2,546	-	19,587	16,122
Artist fees	185,372	-	-	-	-	185,372	165,157
Marketing	11,001	-	-	-	-	11,001	50
Performance and program expenses	189,213	-	-	-	-	189,213	73,154
Gallery expenses	16,440	-	-	-	-	16,440	12,349
Utilities	6,902	6,902	55,217	-	-	69,021	67,279
Repair and maintenance	4,404	4,404	35,231	-	-	44,039	33,946
Property tax	-	-	14,944	-	-	14,944	15,159
Property & liability insurance	1,950	1,950	15,595	-	-	19,495	21,643
Interest expense	4,340	2,170	36,891	-	-	43,401	63,870
Depreciation	24,161	4,832	67,649	-	-	96,642	73,669
General fundraising	728	-	-	-	-	728	-
Direct capital campaign expenses	-	-	-	-	64,654	64,654	102,630
Bar and café expenses	-	110,640	-	-	-	110,640	102,477
<b>Total Expenses</b>	<b>\$ 1,033,507</b>	<b>\$ 278,699</b>	<b>\$ 294,102</b>	<b>\$ 108,454</b>	<b>\$ 64,654</b>	<b>\$ 1,779,416</b>	<b>\$ 1,519,060</b>