

AS220, INC.  
FINANCIAL STATEMENTS  
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Fiscal Years Ended June 30, 2006 and 2005

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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 non-profit organization) as of June 30, 2006, 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 the Organization's 2005 financial statements and, in our report dated October 14, 2005 we expressed an unqualified opinion on those financial statements.

We conducted our audits 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, 2006, 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 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*James N. Nadeau & Company, LLP*

December 11, 2006

AS220, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 281,276	\$ 355,109
Accounts receivable	221,259	192,914
Capital pledges receivable	27,440	123,121
Prepaid expenses	14,173	7,037
TOTAL CURRENT ASSETS	<u>544,148</u>	<u>678,181</u>
<u>PROPERTY AND EQUIPMENT</u>	<u>2,217,054</u>	<u>1,102,387</u>
<u>OTHER ASSETS</u>		
Capital pledges receivable, less current portion	13,548	15,480
Inventory of donated art held for sale	34,441	34,441
Other assets	5,442	6,184
Other long-term investments	783,043	(2,384)
TOTAL OTHER ASSETS	<u>836,474</u>	<u>53,721</u>
TOTAL ASSETS	<u>\$ 3,597,676</u>	<u>\$ 1,834,289</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 194,849	\$ 122,510
Accrued payroll and payroll taxes	9,135	7,323
Deferred revenue	123,988	224,415
Security deposits	50,545	545
Bank line-of-credit	150,000	-
Current portion of long-term debt	559,657	9,187
TOTAL CURRENT LIABILITIES	<u>1,088,174</u>	<u>363,980</u>
<u>NON-CURRENT LIABILITIES</u>		
Non-current portion of long-term debt	377,680	416,245
TOTAL NON-CURRENT LIABILITIES	<u>377,680</u>	<u>416,245</u>
TOTAL LIABILITIES	<u>1,465,854</u>	<u>780,225</u>
<u>NET ASSETS</u>		
Unrestricted net assets	1,763,699	909,669
Temporarily restricted net assets	368,123	144,395
TOTAL NET ASSETS	<u>2,131,822</u>	<u>1,054,064</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,597,676</u>	<u>\$ 1,834,289</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, 2006

With Comparative Totals for Fiscal Year Ended June 30, 2005

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
<u>SUPPORT AND REVENUES</u>				
Contributions and donations	\$ 53,309	\$ 298,760	\$ 352,069	\$ 375,008
Grants	-	1,385,817	1,385,817	817,684
Resident artist contributions	84,696	-	84,696	78,947
Rental income	61,711	-	61,711	61,195
Gate receipts and performance fees	142,001	-	142,001	106,874
Special events (net)	19,242	-	19,242	25,517
Café receipts	154,966	-	154,966	90,540
Loss on long-term investments	(933)	-	(933)	(3,384)
Interest income	2,514	-	2,514	2,408
<i>Net assets released from restrictions</i>	<u>1,460,849</u>	<u>(1,460,849)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUES	<u>1,978,355</u>	<u>223,728</u>	<u>2,202,083</u>	<u>1,554,789</u>
<u>EXPENSES</u>				
Program services	651,363	-	651,363	694,055
Café operations	133,141	-	133,141	137,138
Rental activities	197,017	-	197,017	172,593
Administration	88,179	-	88,179	88,362
Capital campaign	<u>54,625</u>	<u>-</u>	<u>54,625</u>	<u>86,350</u>
TOTAL EXPENSES	<u>1,124,325</u>	<u>-</u>	<u>1,124,325</u>	<u>1,178,498</u>
NET INCREASE IN NET ASSETS	854,030	223,728	1,077,758	376,291
NET ASSETS - July 1,	<u>909,669</u>	<u>144,395</u>	<u>1,054,064</u>	<u>677,773</u>
NET ASSETS - June 30,	<u>\$ 1,763,699</u>	<u>\$ 368,123</u>	<u>\$ 2,131,822</u>	<u>\$ 1,054,064</u>

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

AS220, INC.  
 STATEMENTS OF CASH FLOWS  
 Fiscal Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Increase in net assets	\$ 1,077,758	\$ 376,291
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	42,678	43,201
Uncollectible pledges	(8,018)	(25,876)
<i>(Increases) decreases in operating assets:</i>		
Accounts receivable	(28,345)	(97,691)
Capital pledges receivable	105,631	189,886
Inventory of donated art held for sale	-	47
Prepaid expenses and other assets	(7,136)	278
<i>Increases (decreases) in operating liabilities:</i>		
Accounts payable	72,339	94,637
Accrued payroll and payroll taxes	1,812	624
Deferred revenue	(100,427)	2,045
Security deposits	<u>50,000</u>	<u>(230)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,206,292</u>	<u>583,212</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Cash payments for property and equipment	(1,156,603)	(403,531)
Other long-term investments	<u>(785,427)</u>	<u>2,384</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(1,942,030)</u>	<u>(401,147)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Principal payments on long-term debt	(8,872)	(8,436)
Proceeds from long-term debt	20,777	29,223
Proceeds from short-term financing	<u>650,000</u>	<u>-</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>661,905</u>	<u>20,787</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	(73,833)	202,852
<b>CASH AND CASH EQUIVALENTS - July 1,</b>	<u>355,109</u>	<u>152,257</u>
<b>CASH AND CASH EQUIVALENTS - June 30,</b>	<u>\$ 281,276</u>	<u>\$ 355,109</u>
<b><u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u></b>		
Interest expense paid	<u>\$ 23,974</u>	<u>\$ 20,573</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 non-profit corporation. Its purpose is to provide a forum for artists who need a place to exhibit work or perform but who cannot obtain space to exhibit or perform from traditional sources due to financial or other limitations.

AS220 operates in a building, which it owns in the City of Providence, Rhode Island. In addition to programs, the Organization operates the AS220 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, 2005, 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, 2006 and 2005.

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2006 and 2005

Cash and Cash Equivalents - Cash on hand and cash in bank accounts are considered cash equivalents for the purpose of the presentation of cash and cash equivalents in the statement of cash flows.

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 2005 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, 2006 and 2005.

**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, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
Capital pledges receivable	\$ 45,542	\$ 154,001
Less: Discount to present value	(3,017)	(5,845)
Less: Allowance for unfulfilled pledges	<u>(1,537)</u>	<u>(9,555)</u>
	40,988	138,601
Less: Current portion of capital pledges	<u>27,440</u>	<u>123,121</u>
	<u>\$ 13,548</u>	<u>\$ 15,480</u>

Capital pledges receivable at June 30, 2006 were expected to be collected as follows:

<u>Year Ending June 30,</u>	
2007	\$27,440
2008	<u>13,548</u>
	<u>\$40,988</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 to store the sets in and \$450 to print a cover page explaining the contents for a total cost of \$16,287. AS220 called these art portfolios “Building Boxes”. The Organization sold 22 sets at \$1,000 and will attempt to sell 79 sets at \$1,200. 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.

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2006 and 2005

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, however, at the original sales price. 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, and part of this campaign includes 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 is estimated to be worth \$125,000. For financial statement purposes, the value of the donated artwork at June 30, 2006 and 2005 was \$17,552 and \$17,552, respectively to reflect the current market value based on a conservative estimate by management.

In fiscal year 2006 there were no prints sold. In fiscal year 2005 there were three prints sold. As of June 30, 2006 a total of 77 prints have been sold.

The inventory balance at June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</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>2006</u>	<u>2005</u>
Land	\$ 80,000	\$ 80,000
Building and building improvements	2,518,616	1,369,662
Office furniture and equipment	<u>106,207</u>	<u>98,558</u>
	2,704,823	1,548,220
Less: Accumulated depreciation	<u>(487,769)</u>	<u>(445,833)</u>
	<u>\$ 2,217,054</u>	<u>\$ 1,102,387</u>

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2006 and 2005

Depreciation expense charged to operations was \$41,936 and \$42,459 for the years ended June 30, 2006 and 2005, 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, AS220 created two new entities 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. 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 one percent of 121 Washington Street Limited Partnership.
2. Ninety-nine percent interest in 121 Washington Street Limited Partnership, which is engaged solely to facilitate the development of the Dreyfus Hotel property.

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:

	<u>AS220 GP, INC.</u>	<u>121 Washington Street, L.P.</u>
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 1,000	\$ 10,609
Non-current assets	-	1,790,202
TOTAL ASSETS	<u>\$ 1,000</u>	<u>\$ 1,800,811</u>
Current liabilities	\$ 1,433	\$ 85,050
Non-current liabilities	-	932,284
Equity	785,898	783,477
TOTAL LIABILITIES AND EQUITY	<u>\$ 787,331</u>	<u>\$ 1,800,811</u>
<u>Condensed Income Statement 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)	<u>\$ 785,898</u>	<u>\$ 783,477</u>

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2006 and 2005

The investments in these companies at June 30, 2005 amounted to \$471 and (\$2,855), respectively. The combined results of operations and financial position of AS220's equity basis investments are summarized below:

	<u>AS220 GP, INC.</u>	<u>121 Washington Street, L.P.</u>
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 1,000	\$ -
Non-current assets	-	811,968
<b>TOTAL ASSETS</b>	<b>\$ 1,000</b>	<b>\$ 811,968</b>
Current liabilities	\$ 500	\$ 34,852
Non-current liabilities	29	780,000
Equity	471	(2,884)
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,000</b>	<b>\$ 811,968</b>
<u>Condensed Income Statement Information:</u>		
Revenues	\$ -	\$ -
Expenses	529	2,855
Net loss before equity in affiliates	(529)	(2,855)
Equity in net income (loss) of affiliates	1,000	-
<b>NET EQUITY (DEFICIT)</b>	<b>\$ 471</b>	<b>\$ (2,855)</b>

**NOTE 7 – DEFERRED REVENUE**

Deferred revenue represents various grant revenue received in advance of being earned. At June 30, 2006 and 2005, AS220 had deferred revenue as follows:

	<u>2006</u>	<u>2005</u>
BBS Mentoring	\$ 18,970	\$ 30,973
BBS Artworks	11,268	11,942
Wallace Foundation	10,000	175,000
Other Fiscal Agency	9,500	-
College Visions	18,000	-
Developer Fee	56,250	-
RI Foundation - Simon Grant	-	4,800
Peoples School	-	1,700
	<b>\$ 123,988</b>	<b>\$ 224,415</b>

**NOTE 8 – BANK LINE-OF-CREDIT**

AS220 maintains a demand line-of-credit with Sovereign Bank, which is secured by a commercial building. In January, 2006, AS220 borrowed \$150,000 from this demand line-of-credit. Borrowings bear interest at 8.00% and 6.25% at June 30, 2006 and 2005, respectively. The line had \$0 and \$150,000 available at June 30, 2006 and 2005, 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. As of June 30, 2006 and 2005, the outstanding recoverable grant financing balance was \$50,000 and \$0, 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. As of June 30, 2006 and 2005, AS220 requested \$50,000 and \$29,223, respectively.

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2006 and 2005

*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 totaling \$450,000 to provide funding associated with the purchase of a building. As of June 30, 2006 and 2005, the outstanding loan balance was \$450,000 and \$0, respectively.

The following is a summary of long-term debt at June 30, 2006 and 2005, respectively.

	<u>2006</u>	<u>2005</u>
Sovereign Bank	\$ 387,337	\$ 396,209
Bank of America Recoverable Grant	450,000	-
LISC Recoverable Grant	50,000	29,223
Providence Preservation Society Revolving Fund	<u>50,000</u>	<u>-</u>
Total Long-term Debt	937,337	425,432
Less: Current Portion	<u>559,657</u>	<u>9,187</u>
	<u>\$ 377,680</u>	<u>\$ 416,245</u>

Minimum payments of principal to be repaid are as follows:

<u>Fiscal Year Ended June 30,</u>	
2007	\$ 559,657
2008	10,151
2009	10,671
2010	11,217
Thereafter	<u>345,641</u>
	<u>\$ 937,337</u>

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following as of June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Time Restrictions - Capital Campaign	<u>\$ 368,123</u>	<u>\$ 144,395</u>

**NOTE 11 – SPECIAL EVENTS**

AS220 held two fundraising events for the year ended June 30, 2006, and one fundraising event for the year ended June 30, 2005. A summary of income and expenses is as follows:

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Income	\$37,413	\$26,515
Expenses	<u>18,171</u>	<u>998</u>
Net	<u>\$19,242</u>	<u>\$25,517</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, 2002, 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, 2006 and 2005 was \$2,244 and \$2,244, respectively. At the completion of the lease, the lease was converted to a month to month lease.

**NOTE 14 – UNRELATED BUSINESS ACTIVITIES**

The AS220 Café and certain rental operations are considered unrelated business activities under IRS rules governing exempt organizations and are subject to income taxes on profits earned. The Café and rental operations had a net loss for the fiscal year ended June 30, 2006 and 2005.

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.

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2006 and 2005

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, 2006, the debt service coverage ratio was 37.47 and the minimum debt service coverage ratio was 1.02. At June 30, 2005, the debt service coverage ratio was 13.08 and the minimum debt service coverage ratio was 2.08.
3. Maintain at all times a maximum loan to value ratio of 75 percent. This data was not available at June 30, 2006 and 2005.
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, 2006 and 2005, AS220 was in compliance with this covenant.

AS220, INC.  
 SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
 Fiscal Year Ended June 30, 2006  
 With Comparative Totals for Fiscal Year Ended June 30, 2005

	Program Services	Café Operations	Rental Activities	Administration	Capital Campaign	2006 Total	2005 Total
Salaries	\$ 346,815	\$ 43,773	\$ 41,070	\$ 68,450	\$ -	\$ 500,108	\$ 504,709
Payroll taxes and workers compensation	37,175	6,038	4,402	7,337	-	54,952	51,301
Health insurance	35,448	4,598	4,198	6,996	-	51,240	43,384
Office expenses	44,205	2,623	5,326	3,728	-	55,882	56,754
Professional fees	7,314	3,849	-	1,668	-	12,831	14,139
Artist fees	66,532	-	-	-	-	66,532	103,664
Publicity	910	-	-	-	-	910	1,166
Performance and program expenses	77,352	-	-	-	-	77,352	94,079
Gallery expenses	12,994	-	-	-	-	12,994	3,204
Utilities	6,425	6,425	51,404	-	-	64,254	48,254
Repair and maintenance	2,553	2,553	20,427	-	-	25,533	6,158
Property tax	-	-	14,384	-	-	14,384	13,608
Property & liability insurance	759	759	6,073	-	-	7,591	16,491
Interest expense	2,397	1,199	20,378	-	-	23,974	20,573
Depreciation	10,484	2,097	29,355	-	-	41,936	42,459
Direct capital campaign expenses	-	-	-	-	54,625	54,625	86,350
Café expenses	-	59,227	-	-	-	59,227	72,205
<b>Total Expenses</b>	<b>\$ 651,363</b>	<b>\$ 133,141</b>	<b>\$ 197,017</b>	<b>\$ 88,179</b>	<b>\$ 54,625</b>	<b>\$ 1,124,325</b>	<b>\$ 1,178,498</b>

AS220, INC.

SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Fiscal Year Ended June 30, 2006

	ANNUAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Rental Income	\$ 164,761	\$ 146,407	\$ (18,354)
Fundraising - General	161,500	194,049	32,549
Fundraising - Capital Campaign	15,000	298,760	283,760
Grant Income	509,404	1,282,491	773,087
Café Income	78,532	154,966	76,434
Program Income	119,500	136,460	16,960
Other Income	-	5,541	5,541
Loss on Investments	-	(933)	(933)
Interest Income	-	2,514	2,514
TOTAL REVENUES	<u>1,048,697</u>	<u>2,220,255</u>	<u>1,171,558</u>
<u>EXPENSES</u>			
Café Expenses	33,126	54,464	(21,338)
Building - Maintenance, Taxes, and Insurance	70,810	47,954	22,856
Utilities	46,353	64,254	(17,901)
Personnel Costs - Office	610,750	606,300	4,450
Office Expenses	42,250	39,108	3,142
Professional Fees	13,064	13,018	46
Direct Grant and Program Expenses	74,835	76,408	(1,573)
Artist Fees	86,200	63,404	22,796
Gallery Expenses	6,300	12,994	(6,694)
Fundraising Costs - General	23,000	18,171	4,829
Fundraising Costs - Capital Campaign	-	54,625	(54,625)
Depreciation	-	41,936	(41,936)
Consultant Fees	3,500	3,128	372
Interest Expense	21,854	23,974	(2,120)
Other Expenses	16,655	22,759	(6,104)
TOTAL EXPENSES	<u>1,048,697</u>	<u>1,142,497</u>	<u>(93,800)</u>
NET INCOME	<u>\$ -</u>	<u>\$ 1,077,758</u>	<u>\$ 1,077,758</u>