

AS220, INC.  
FINANCIAL STATEMENTS  
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Fiscal Years Ended June 30, 2005 and 2004

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of AS220, Inc.:

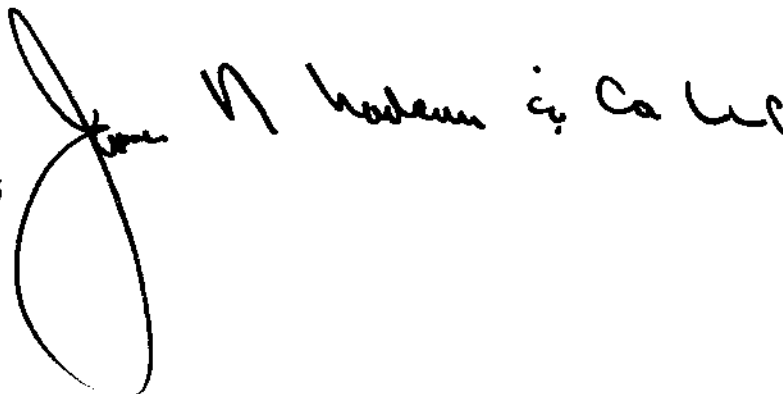
We have audited the accompanying statement of financial position of AS220, Inc. (a non-profit organization) as of June 30, 2005, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's 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 2004 financial statements and, in our report dated August 29, 2004, 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, 2005, 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 supplemental information contained on pages 15 and 16 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.

October 14, 2005



James N. Nadeau, CPA

AS220, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 355,109	\$ 152,257
Accounts receivable	192,914	95,223
Capital pledges receivable	123,121	116,012
Prepaid expenses	7,037	7,315
TOTAL CURRENT ASSETS	<u>678,181</u>	<u>370,807</u>
<u>PROPERTY AND EQUIPMENT</u>	<u>1,102,387</u>	<u>741,315</u>
<u>OTHER ASSETS</u>		
Capital pledges receivable, less current portion	15,480	186,599
Inventory of donated art held for sale	34,441	34,488
Other assets	6,184	6,926
Other long-term investments	(2,384)	-
TOTAL OTHER ASSETS	<u>53,721</u>	<u>228,013</u>
TOTAL ASSETS	<u>\$ 1,834,289</u>	<u>\$ 1,340,135</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 122,510	\$ 27,873
Accrued payroll and payroll taxes	7,323	6,699
Deferred revenue	224,415	222,370
Security deposits	545	775
Current portion of long-term debt	9,187	8,740
TOTAL CURRENT LIABILITIES	<u>363,980</u>	<u>266,457</u>
<u>NON-CURRENT LIABILITIES</u>		
Non-current portion of long-term debt	<u>416,245</u>	<u>395,905</u>
TOTAL NON-CURRENT LIABILITIES	<u>416,245</u>	<u>395,905</u>
TOTAL LIABILITIES	<u>780,225</u>	<u>662,362</u>
<u>NET ASSETS</u>		
Unrestricted net assets	909,669	283,184
Temporarily restricted net assets	144,395	394,589
TOTAL NET ASSETS	<u>1,054,064</u>	<u>677,773</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,834,289</u>	<u>\$ 1,340,135</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, 2005

With Comparative Totals for Fiscal Year Ended June 30, 2004

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
<b>SUPPORT AND REVENUES</b>				
Contributions and donations	\$ 36,737	\$ 338,271	\$ 375,008	\$ 318,238
Grants	-	817,684	817,684	603,381
Resident artist contributions	78,947	-	78,947	77,313
Rental income	61,195	-	61,195	82,248
Gate receipts and performance fees	106,874	-	106,874	102,250
Special events (net)	25,517	-	25,517	33,794
Café receipts	90,540	-	90,540	110,927
Loss on long-term investments	(3,384)	-	(3,384)	-
Interest income	2,408	-	2,408	122
<i>Net assets released from restrictions</i>	<u>1,406,149</u>	<u>(1,406,149)</u>	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,804,983</u>	<u>(250,194)</u>	<u>1,554,789</u>	<u>1,328,273</u>
<b>EXPENSES</b>				
Program services	694,055	-	694,055	699,636
Café operations	137,138	-	137,138	147,203
Rental activities	172,593	-	172,593	209,734
Administration	88,362	-	88,362	96,700
Capital campaign	86,350	-	86,350	92,402
<b>TOTAL EXPENSES</b>	<u>1,178,498</u>	<u>-</u>	<u>1,178,498</u>	<u>1,245,675</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>				
	626,485	(250,194)	376,291	82,598
<b>NET ASSETS - July 1,</b>	<u>283,184</u>	<u>394,589</u>	<u>677,773</u>	<u>595,175</u>
<b>NET ASSETS - June 30,</b>	<u>\$ 909,669</u>	<u>\$ 144,395</u>	<u>\$ 1,054,064</u>	<u>\$ 677,773</u>

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

AS220, INC.  
 STATEMENTS OF CASH FLOWS  
 Fiscal Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase in net assets	\$ 376,291	\$ 82,598
<i>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</i>		
Depreciation and amortization	43,201	41,159
Uncollectible pledges	(25,876)	19,051
<i>(Increases) decreases in operating assets:</i>		
Accounts receivable	(97,691)	(18,872)
Capital Pledges receivable	189,886	(174,238)
Inventory of donated art	47	(7,917)
Prepaid and other assets	278	(8,066)
<i>Increases (decreases) in operating liabilities:</i>		
Accounts payable	94,637	8,690
Accrued payroll and payroll taxes	624	(16,736)
Deferred revenue	2,045	176,618
Security deposits	(230)	(185)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>583,212</u>	 <u>102,102</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Cash payments for equipment	(403,531)	(27,152)
Other long-term investments	2,384	-
 NET CASH USED BY INVESTING ACTIVITIES	 <u>(401,147)</u>	 <u>(27,152)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Principal payments on long-term debt	(8,436)	(407,426)
Proceeds from long-term debt	29,223	410,000
Principal payments on capitalized lease	-	(827)
 NET CASH PROVIDED BY FINANCING ACTIVITIES	 <u>20,787</u>	 <u>1,747</u>
 INCREASE IN CASH AND CASH EQUIVALENTS	 202,852	 76,697
CASH AND CASH EQUIVALENTS - July 1,	<u>152,257</u>	<u>75,560</u>
CASH AND CASH EQUIVALENTS - June 30,	<u>\$ 355,109</u>	<u>\$ 152,257</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</u>		
Interest expense paid	<u>\$ 20,573</u>	<u>\$ 25,080</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, 2004, 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 with 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, 2005 and 2004.

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 2004 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, 2005 and 2004.

**NOTE 3 – CAPITAL PLEDGES RECEIVABLE**

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

Capital pledges receivable at June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Capital pledges receivable	\$ 154,001	\$ 354,306
Less: Discount to present value	(5,845)	(16,264)
Less: Allowance for unfulfilled pledges	<u>(9,555)</u>	<u>(35,431)</u>
	138,601	302,611
Less: Current Portion of Capital Pledges	<u>123,121</u>	<u>116,012</u>
	<u>\$ 15,480</u>	<u>\$ 186,599</u>

Capital pledges receivable at June 30, 2005 were expected to be collected as follows:

<u>Year Ending June 30,</u>	
2006	\$136,801
2007	<u>17,200</u>
	<u>\$154,001</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, 2005 and 2004

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, 2005 and 2004 was \$17,552 and \$17,559, respectively to reflect the current market value based on a conservative estimate by management.

In fiscal year 2005 there were three prints sold. In fiscal year 2004 there were no prints sold. As of June 30, 2005 a total of 77 prints have been sold.

The balance remaining inventory at June 30, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Building Box Campaign	\$16,889	\$16,889
Capital Campaign	<u>17,552</u>	<u>17,599</u>
	<u>\$34,441</u>	<u>\$34,488</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>2005</u>	<u>2004</u>
Land	\$ 80,000	\$ 80,000
Building and building improvements	1,369,662	975,068
Office furniture and equipment	<u>98,558</u>	<u>89,621</u>
	1,548,220	1,144,689
Less: Accumulated depreciation	<u>(445,833)</u>	<u>(403,374)</u>
	<u>\$ 1,102,387</u>	<u>\$ 741,315</u>

AS220, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2005 and 2004

Depreciation expense charged to operations was \$42,459 and \$40,664 for the years ended June 30, 2005 and 2004, 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, 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:

	AS220 GP, INC.	121 Washington Street, L.P.
<u>Condensed Balance Sheet Information:</u>		
Current assets	\$ 1,000	\$ -
Non-current assets	-	811,968
<b>TOTAL ASSETS</b>	<u>\$ 1,000</u>	<u>\$ 811,968</u>
Current liabilities	\$ 500	\$ 34,852
Non-current liabilities	29	780,000
Equity	471	(2,884)
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 1,000</u>	<u>\$ 811,968</u>
<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>	<u>\$ 471</u>	<u>\$ (2,855)</u>

**NOTE 7 – DEFERRED REVENUE**

Deferred revenue represents various grant revenue received in advance of being earned. At June 30, 2005 and 2004, AS220 had deferred revenue as follows:

	<u>2005</u>	<u>2004</u>
BBS Mentoring	\$ 30,973	\$ 52,765
BBS Artworks	11,942	13,674
BBS RITS Music	-	1,250
BBS Cox Grant	-	11,000
Wallace Foundation	175,000	98,242
RI Foundation - Prov Development.	-	20,000
RI Foundation- Gallery	-	16,000
RI Foundation - BERT	-	2,500
RI Foundation- Simon Grant	4,800	5,000
Peoples School	1,700	1,939
	<u>\$ 224,415</u>	<u>\$ 222,370</u>

**NOTE 8 – 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 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, 2005, AS220 requested \$29,223.

AS220, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2005 and 2004

The following is a summary of long-term debt at June 30, 2005 and 2004, respectively.

	<u>2005</u>	<u>2004</u>
Sovereign Bank	\$ 396,209	\$ 404,645
LISC Recoverable Grant	<u>29,223</u>	<u>-</u>
Total Long-term Debt	425,432	404,645
Less: Current Portion	<u>9,187</u>	<u>8,740</u>
	<u>\$ 416,245</u>	<u>\$ 395,905</u>

Minimum payments of principal to be repaid are as follows:

<u>Fiscal Year Ended June 30,</u>	
2006	\$ 9,187
2007	38,881
2008	10,151
2009	10,671
Thereafter	<u>356,542</u>
	<u>\$ 425,432</u>

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following as of June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Time Restrictions - Capital Campaign	<u>\$ 203,101</u>	<u>\$ 394,589</u>

**NOTE 10 – SPECIAL EVENTS**

AS220 held one fund raising event for both years ended June 30, 2005 and 2004. A summary of income and expenses are as follows:

	<u>2005</u>	<u>2004</u>
Income	\$26,515	\$56,609
Expenses	<u>998</u>	<u>22,815</u>
Net	<u>\$25,517</u>	<u>\$33,794</u>

**NOTE 11 – 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 12 – OPERATING LEASE**

On February 27, 2002, AS220 entered into a new operating lease for a Toshiba copier. The lease term is 36 months at \$187 per month. The rental expense for the fiscal years ended June 30, 2005 and 2004 was \$2,244 and \$2,244, respectively. At the completion of the lease the lease was converted to a month to month lease.

**NOTE 13 – 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, 2005 and 2004.

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 14 – 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.
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, 2005, the debt service coverage ratio was 13.08 and the minimum debt service coverage ratio was 2.08.

AS220, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005 and 2004

3. Maintain at all times a maximum loan to value ratio of 75 percent. This data was not available at June 30, 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, 2005, AS220 was in compliance with this covenant.

AS220, INC.  
 SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES  
 Fiscal Year Ended June 30, 2005  
 With Comparative Totals for Fiscal Year Ended June 30, 2004

	Program Services	Café Operations	Rental Activities	Administration	Capital Campaign	2005 Total	2004 Total
Salaries	\$ 353,825	\$ 39,150	\$ 41,900	\$ 69,834	\$ -	\$ 504,709	\$ 576,788
Payroll taxes and workers compensation	35,026	5,214	4,148	6,913	-	51,301	43,252
Health insurance	30,341	3,462	3,593	5,988	-	43,384	40,468
Office expenses	44,929	2,623	5,413	3,789	-	56,754	45,833
Professional fees	8,059	4,242	-	1,838	-	14,139	14,600
Artist fees	103,664	-	-	-	-	103,664	82,699
Publicity	1,166	-	-	-	-	1,166	4,120
Performance and program expenses	94,079	-	-	-	-	94,079	73,859
Gallery expenses	3,204	-	-	-	-	3,204	4,992
Utilities	4,825	4,825	38,604	-	-	48,254	49,476
Repair and maintenance	616	616	4,926	-	-	6,158	39,951
Property tax	-	-	13,608	-	-	13,608	12,340
Property & liability insurance	1,649	1,649	13,193	-	-	16,491	20,687
Interest expense	2,057	1,029	17,487	-	-	20,573	25,080
Depreciation	10,615	2,123	29,721	-	-	42,459	40,664
Direct capital campaign expenses	-	-	-	-	86,350	86,350	92,402
Café expenses	-	72,205	-	-	-	72,205	78,464
<b>Total Expenses</b>	<b>\$ 694,055</b>	<b>\$ 137,138</b>	<b>\$ 172,593</b>	<b>\$ 88,362</b>	<b>\$ 86,350</b>	<b>\$ 1,178,498</b>	<b>\$ 1,245,675</b>

AS220, INC.

SUPPLEMENTARY SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Fiscal Year Ended June 30, 2005

	ANNUAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>			
Rental Income	\$ 158,256	\$ 140,142	\$ (18,114)
Fundraising - General	178,471	199,327	20,856
Fundraising - Capital Campaign	-	338,271	338,271
Grant Income	675,890	709,357	33,467
Café Income	103,000	90,540	(12,460)
Program Income	77,100	104,824	27,724
Other Income	-	2,050	2,050
Loss on Investments	-	(3,384)	(3,384)
Interest Income	-	2,408	2,408
TOTAL REVENUES	<u>1,192,717</u>	<u>1,583,535</u>	<u>390,818</u>
<u>EXPENSES</u>			
Café Expenses	66,285	72,205	(5,920)
Building - Maintenance, Taxes, and Insurance	63,004	40,466	22,538
Utilities	44,082	48,254	(4,172)
Personnel Costs - Office	723,877	599,393	124,484
Office Expenses	39,648	43,141	(3,493)
Professional Fees	14,557	17,498	(2,941)
Direct Grant and Program Expenses	89,600	63,919	25,681
Artist fees	54,200	92,395	(38,195)
Gallery Expenses	6,300	3,204	3,096
Fundraising Costs - General	29,000	1,370	27,630
Fundraising Costs - Capital Campaign	-	85,978	(85,978)
Depreciation	-	42,459	(42,459)
Consultant Fees	3,000	7,878	(4,878)
Interest Expense	21,852	20,573	1,279
Other Expenses	37,312	40,763	(3,451)
TOTAL EXPENSES	<u>1,192,717</u>	<u>1,179,496</u>	<u>13,221</u>
NET INCOME	<u>\$ -</u>	<u>\$ 404,039</u>	<u>\$ 404,039</u>