

VSA ARTS of VERMONT, INC.

FINANCIAL REPORT

September 30, 2007 and 2006

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Montgomery & Merrill PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
VSA Arts of Vermont, Inc.

We have audited the accompanying statements of financial position of VSA Arts of Vermont, Inc., (a nonprofit organization) as of September 30, 2007 and 2006, and the related statements of activities, and cash flows for the years 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 audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VSA Arts of Vermont, Inc., as of September 30, 2007 and 2006 and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Montgomery & Merrill PC". The signature is written in a cursive, flowing style.

Burlington, Vermont
Registration No. 449
January 7, 2009

VSA ARTS OF VERMONT, INC.

STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 77,132	\$ 94,816
Grants receivable	29,920	8,000
Prepaid expenses	<u>1,205</u>	<u>2,044</u>
Total current assets	<u>108,257</u>	<u>104,860</u>
EQUIPMENT, net	<u>--</u>	<u>--</u>
OTHER ASSETS	<u>650</u>	<u>650</u>
Total assets	<u>\$ 108,907</u>	<u>\$ 105,510</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 14,790	\$ 4,385
Note payable – related party	--	15,000
Deferred revenue	<u>5,750</u>	<u>9,750</u>
Total current liabilities	<u>20,540</u>	<u>29,135</u>
NET ASSETS		
Unrestricted	45,859	40,375
Temporarily restricted	<u>42,508</u>	<u>36,000</u>
	<u>88,367</u>	<u>76,375</u>
Total liabilities and net assets	<u>\$ 108,907</u>	<u>\$ 105,510</u>

See Notes to Financial Statements.

VSA ARTS OF VERMONT, INC.

STATEMENTS OF ACTIVITIES
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	\$ 35,532	\$ 59,894
Grants and awards	108,073	75,050
Program fees	29,069	--
Interest	<u>1,525</u>	<u>3,862</u>
Total unrestricted revenues and gains	174,199	138,806
Net assets released from restrictions	<u>100,423</u>	<u>108,145</u>
Total unrestricted revenues, gains and other support	<u>274,622</u>	<u>246,951</u>
Expenses:		
Program	239,097	191,797
Administration	25,192	11,803
Fund raising	<u>4,849</u>	<u>5,182</u>
Total expenses	<u>269,138</u>	<u>208,782</u>
Increase in unrestricted net assets	<u>5,484</u>	<u>38,169</u>
Changes in temporarily restricted net assets		
Contributions and grants	106,931	108,937
Net assets released from restrictions	<u>(100,423)</u>	<u>(108,145)</u>
Increase in temporarily restricted net assets	<u>6,508</u>	<u>792</u>
Increase in net assets	11,992	38,961
Net assets, beginning	<u>76,375</u>	<u>37,414</u>
Net assets, ending	<u>\$ 88,367</u>	<u>\$ 76,375</u>

See Notes to Financial Statements.

VSA ARTS OF VERMONT, INC.

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 11,992	\$ 38,961
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided (used) by operating activities:		
Changes in:		
Grants receivable	(21,920)	12,800
Prepaid expenses	839	(762)
Accounts payable and accrued expenses	10,405	(7,787)
Deferred revenue	<u>(4,000)</u>	<u>9,750</u>
Net cash and cash equivalents provided (used) by operating activities	<u>(2,684)</u>	<u>52,962</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Note payable proceeds (payments)	<u>(15,000)</u>	<u>15,000</u>
Net cash and cash equivalents provided (used) by financing activities	<u>(15,000)</u>	<u>15,000</u>
Net increase (decrease) in cash and cash equivalents	(17,684)	67,962
Cash and cash equivalents:		
Beginning	<u>94,816</u>	<u>26,854</u>
Ending	<u>\$ 77,132</u>	<u>\$ 94,816</u>

See Notes to Financial Statements.

VSA ARTS OF VERMONT, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization

VSA Arts of Vermont, Inc., (the Organization), located in Winooski, Vermont, was created for the purpose of making the world of arts accessible to all Vermonters through training and education, through resource referral, and through public arts programs. The Organization is funded primarily by the following sources:

- Contributions from local individuals and businesses.
- Grants from private foundations.
- Federal program awards passed-through from the State of Vermont, the Vermont Arts Council, and Very Special Arts, the Organization's national affiliate.

A summary of significant accounting policies follows:

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.

Cash equivalents

Highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents and consist primarily of money market funds.

Revenue recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. It reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose 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 restriction.

Federal funds and other contract revenues are recognized upon performance of the contract requirements. Program income is recognized as income as the service is provided.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Public support and revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed goods and services

Income and expenses relating to contributed goods are recognized when received and estimable. Contributed services are recognized as income and expense if they increase non-financial assets or are provided by an expert which would otherwise need to be purchased. There are no contributed services included in these statements.

Advertising

Advertising costs are expensed when incurred and are included in program expenses.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has a classification that is not a private foundation under Section 509(a)(2).

Equipment

Equipment is stated at cost, or in the case of donated assets, at fair market value at date of receipt. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

Note 2. Grants and Awards

Grants receivable consist primarily of federal and foundation funds retained by the grantor until submittal of final reports.

Note 3. Major Revenue Sources

Very Special Arts, the Organization's national affiliate, provided 26% and 27% of the Organization's revenue in 2007 and 2006, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 4. Equipment

Equipment consisted of the following at September 30:

	<u>Life</u>	<u>2007</u>	<u>2006</u>
Equipment	3	\$ 18,183	\$ 18,183
Less accumulated depreciation		<u>18,183</u>	<u>18,183</u>
		<u>\$ --</u>	<u>\$ --</u>
Depreciation expense		<u>\$ --</u>	<u>\$ --</u>

Note 5. Note Payable – Related Party

This note payable, a demand note from a member of the Organization’s Board of Directors at no interest, was paid in full during the year ended September 30, 2007.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted as follows:

Public awareness	\$ 5,000	\$ --
Education	5,000	--
Start with the arts	27,500	36,000
Website	4,000	--
Can-do	<u>1,008</u>	<u>--</u>
	<u>\$ 42,508</u>	<u>\$ 36,000</u>

Note 7. Operating Lease

The Organization leases operating space at \$500 per month plus utilities, taxes and common area maintenance on a month-to-month basis. Rent expense for years ended September 30, 2007 and 2006 was \$7,712 and \$6,057, respectively.

Note 8. Contingency

VSA Arts of Vermont, Inc. receives significant financial assistance from the United States government. Entitlement to the resources is generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund that receives the grant. As of September 30, 2007, the Organization estimates that no material liabilities will result from such audits.

SUPPLEMENTARY INFORMATION

Montgomery & Merrill PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
VSA Arts of Vermont, Inc.

Our report on our audits of the basic financial statements of VSA Arts of Vermont, Inc. for years ending September 30, 2007 and 2006 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Montgomery & Merrill PC

Burlington, Vermont
Registration No. 449
January 7, 2007

VSA ARTS OF VERMONT, INC.

SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended September 30, 2007

	<u>Program</u>	<u>Administration</u>	<u>Fund-raising</u>	<u>Total</u>
Salary & wages	\$ 134,062	\$ 4,078	\$ 2,039	\$ 140,179
Payroll taxes	12,185	556	--	12,741
Employee benefits	6,336	91	--	6,427
Postage	707	284	--	991
Office expense	14,836	1,338	240	16,414
Printing and publications	160	700	--	860
Travel & meals	12,847	480	42	13,369
Meetings & conferences	192	1,095	--	1,287
Professional services	6,420	15,554	--	21,974
Insurance	2,751	125	--	2,876
Supplies	--	--	2,528	2,528
Direct Costs				
Artists	737	--	--	737
Art supplies	6,291	861	--	7,152
Instructors	300	30	--	330
Safe arts	<u>41,273</u>	<u>--</u>	<u>--</u>	<u>41,273</u>
	<u>\$ 239,097</u>	<u>\$ 25,192</u>	<u>\$ 4,849</u>	<u>\$ 269,138</u>

VSA ARTS OF VERMONT, INC.

**SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended September 30, 2006**

	<u>Program</u>	<u>Administration</u>	<u>Fund-raising</u>	<u>Total</u>
Salary & wages	\$ 110,645	\$ 1,684	\$ 2,962	\$ 115,291
Payroll taxes	10,964	410	296	11,670
Employee benefits	3,852	26	--	3,878
Postage	2,002	60	324	2,386
Office supplies expense	39	703	--	742
Printing and publications	1,995	686	1,100	3,781
Telephone	3,390	156	--	3,546
Travel & meals	6,025	64	--	6,089
Meetings & conferences	220	1,470	--	1,690
Rent	5,442	615	--	6,057
Professional services	--	5,209	--	5,209
Insurance	2,807	220	--	3,027
Direct Costs				
Artists	825	--	--	825
Art supplies	8,789	500	500	9,789
Instructors	<u>34,802</u>	<u>--</u>	<u>--</u>	<u>34,802</u>
	<u>\$ 191,797</u>	<u>\$ 11,803</u>	<u>\$ 5,182</u>	<u>\$ 208,782</u>