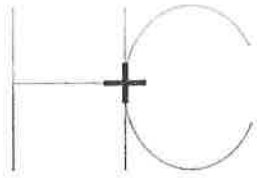


VSA MASSACHUSETTS, INC.
FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

VSA MASSACHUSETTS, INC.

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One West Foster Street
Melrose, MA 02176.3852
Telephone 781.665.7100
Facsimile 781.665.9380

Certified Public Accountants

David J. McCaughin, CPA
John S. McNamara, CPA

Independent Auditors' Report

To the Board of Directors
VSA Massachusetts, Inc.
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of VSA Massachusetts, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

To the Board of Directors
Page two

internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VSA Massachusetts, Inc. as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hughes and Company, P.C.

HUGHES AND COMPANY, P.C.
Melrose, Massachusetts
June 6, 2014

VSA MASSACHUSETTS, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

| <u>ASSETS</u> | | |
|--|-------------------|-------------------|
| | <u>2013</u> | <u>2012</u> |
| Current Assets | | |
| Cash and cash equivalents | \$ 177,433 | \$ 164,637 |
| Investments | 99,840 | 87,756 |
| Accounts receivable | 56,553 | 40,314 |
| Prepaid expenses | 11,051 | 11,633 |
| Total Current Assets | <u>344,877</u> | <u>304,340</u> |
| Property and Equipment | | |
| Furniture and equipment | 35,675 | 36,525 |
| Leasehold improvements | 9,936 | 9,936 |
| | <u>45,611</u> | <u>46,461</u> |
| Less accumulated depreciation | (38,530) | (33,364) |
| Property and Equipment, Net | <u>7,081</u> | <u>13,097</u> |
| Other Assets | | |
| Cash, restricted | 12,442 | - |
| Security deposit | 2,795 | 2,795 |
| | <u>15,237</u> | <u>2,795</u> |
| Total Assets | <u>\$ 367,195</u> | <u>\$ 320,232</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts payable | \$ 10,060 | \$ 13,249 |
| Accrued expenses | 26,265 | 36,858 |
| Due to fiscal agencies | 12,515 | - |
| Total Current Liabilities | <u>48,840</u> | <u>50,107</u> |
| Net Assets | | |
| Unrestricted, operating | 121,913 | 97,919 |
| Unrestricted, Board designated, Maida Abrams Memorial Fund | 113,249 | 99,197 |
| Unrestricted, property and equipment | 7,081 | 13,097 |
| Temporarily restricted | 76,112 | 59,912 |
| Total Net Assets | <u>318,355</u> | <u>270,125</u> |
| Total Liabilities and Net Assets | <u>\$ 367,195</u> | <u>\$ 320,232</u> |

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

VSA MASSACHUSETTS, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| UNRESTRICTED NET ASSETS | | |
| Support and Revenue | | |
| The Kennedy Center VSA | \$ 40,530 | \$ 36,000 |
| Massachusetts Department of Education | 170,000 | 161,800 |
| Massachusetts Cultural Council | 10,525 | 5,075 |
| Local Cultural Councils | - | 4,000 |
| Massachusetts Rehabilitation Commission | 18,000 | 18,000 |
| Foundations and corporations | 66,093 | 59,161 |
| Maida Abrams Memorial Fund | - | 15,000 |
| Individual support | 27,777 | 36,783 |
| Program service revenue | 145,565 | 136,340 |
| In-Kind contributions | 27,756 | 14,949 |
| Total Support and Revenue | <u>506,246</u> | <u>487,108</u> |
| Net Assets Released from Restrictions | <u>56,250</u> | <u>57,454</u> |
| | <u>562,496</u> | <u>544,562</u> |
| Expenses | | |
| Program services | 407,070 | 518,244 |
| Management and general | 84,207 | 76,556 |
| Fundraising | 53,411 | 52,849 |
| Total Expenses | <u>544,688</u> | <u>647,649</u> |
| Increase (Decrease) in Unrestricted Net Assets Before Non-Operating Activities | <u>17,808</u> | <u>(103,087)</u> |
| Non-Operating Activities | | |
| Investment income | 2,263 | 2,138 |
| Realized gain (loss) | (125) | (8,425) |
| Unrealized Gain (Loss) on investments | 12,084 | 24,884 |
| Total Non-Operating Activities | <u>14,222</u> | <u>18,597</u> |
| Increase (Decrease) in Unrestricted Net Assets | <u>32,030</u> | <u>(84,490)</u> |
| TEMPORARILY RESTRICTED NET ASSETS | | |
| Foundations and corporations | 72,450 | 56,250 |
| Net assets released from restrictions | | |
| Satisfaction of program restrictions | <u>(56,250)</u> | <u>(57,454)</u> |
| Increase (Decrease) in Temporarily Restricted Net Assets | <u>16,200</u> | <u>(1,204)</u> |
| Increase (Decrease) in Net Assets | 48,230 | (85,694) |
| Net Assets, Beginning of Year | <u>270,125</u> | <u>355,819</u> |
| Net Assets, End of Year | <u>\$ 318,355</u> | <u>\$ 270,125</u> |

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

VSA MASSACHUSETTS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2013 Totals</u> | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2012 Totals</u> |
|--------------------------|-----------------------------|-----------------------------------|--------------------|------------------------|-----------------------------|-----------------------------------|--------------------|------------------------|
| Salaries | \$ 139,697 | \$ 62,317 | \$ 23,782 | \$ 225,796 | \$ 195,663 | \$ 47,678 | \$ 30,711 | \$ 274,052 |
| Payroll taxes | 13,016 | 2,622 | 2,170 | 17,808 | 18,145 | 3,811 | 2,835 | 24,791 |
| Employee benefits | 24,084 | 4,852 | 4,016 | 32,952 | 43,074 | 6,170 | 6,373 | 55,617 |
| Advertising | 350 | - | - | 350 | 40 | - | - | 40 |
| Audit | 5,408 | 1,090 | 902 | 7,400 | 5,264 | 854 | 882 | 7,000 |
| Bank charges | 100 | 128 | 238 | 466 | 32 | 135 | 33 | 200 |
| Conferences and meetings | 85 | - | 7,819 | 7,904 | 260 | 115 | - | 375 |
| Consultants | 151,740 | 1,600 | 174 | 153,514 | 153,666 | 7,080 | 441 | 161,187 |
| Depreciation | 5,577 | 1,124 | 930 | 7,631 | 5,730 | 930 | 960 | 7,620 |
| Dues and subscriptions | 150 | 265 | - | 415 | 845 | 265 | - | 1,110 |
| Equipment rental | - | - | 1,220 | 1,220 | - | 10 | 1 | 11 |
| Food, lodging and travel | 3,930 | 450 | 1,026 | 5,406 | 8,672 | 1,327 | 624 | 10,623 |
| Honorarium | - | - | - | - | 105 | - | - | 105 |
| Insurance | 7,573 | 2,576 | 1,263 | 11,412 | 7,833 | 2,319 | 1,312 | 11,464 |
| Miscellaneous | - | - | - | - | - | - | - | - |
| Occupancy | 29,305 | 5,501 | 4,553 | 39,359 | 30,660 | 4,496 | 4,643 | 39,799 |
| Printing and copying | 924 | 11 | 506 | 1,441 | 829 | - | 961 | 1,790 |
| Postage and shipping | 1,429 | 213 | 592 | 2,234 | 1,331 | 147 | 956 | 2,434 |
| Program support | 2,285 | - | - | 2,285 | 17,000 | - | - | 17,000 |
| Public relations | 4,500 | - | - | 4,500 | 6,000 | - | - | 6,000 |
| Repairs and maintenance | 1,899 | 383 | 317 | 2,599 | 1,827 | 296 | 306 | 2,429 |
| Supplies | 9,798 | 161 | 806 | 10,765 | 12,096 | 94 | 446 | 12,636 |
| Training and development | 463 | 20 | - | 483 | 2,140 | 40 | - | 2,180 |
| Telephone and internet | 3,444 | 629 | 1,058 | 5,131 | 3,771 | 479 | 1,045 | 5,295 |
| Utilities | 1,313 | 265 | 219 | 1,797 | 1,911 | 310 | 320 | 2,541 |
| Video | - | - | 1,820 | 1,820 | 1,350 | - | - | 1,350 |
| Total Expenses | <u>\$ 407,070</u> | <u>\$ 84,207</u> | <u>\$ 53,411</u> | <u>\$ 544,688</u> | <u>\$ 518,244</u> | <u>\$ 76,556</u> | <u>\$ 52,849</u> | <u>\$ 647,649</u> |

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

VSA MASSACHUSETTS, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Increase (Decrease) in Net Assets | \$ 48,230 | \$ (85,694) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities | | |
| Depreciation | 7,630 | 7,620 |
| Realized loss on investments | 125 | 8,425 |
| Unrealized (gain) loss on investments | (12,084) | (24,884) |
| Changes in assets and liabilities effecting operating activities: | | |
| (Increase) Decrease in: | | |
| Accounts receivable | (16,239) | 2,226 |
| Prepaid expenses | 582 | 840 |
| Restricted cash | (12,442) | - |
| Increase (Decrease) in: | | |
| Accounts payable | (3,189) | 784 |
| Accrued expenses | (10,593) | (3,073) |
| Due to fiscal agencies | 12,515 | - |
| Net Cash Provided by (Used in) Operating Activities | <u>14,535</u> | <u>(93,756)</u> |
| Cash Flows from Investing Activities | | |
| Purchase of fixed asset | (1,739) | - |
| Proceeds from sale of investments | - | 13,704 |
| Purchase of investments | - | (15,025) |
| Net Cash Provided by (Used in) Investing Activities | <u>(1,739)</u> | <u>(1,321)</u> |
| Net Increase (Decrease) in Cash | 12,796 | (95,077) |
| Cash, Beginning | <u>164,637</u> | <u>259,714</u> |
| Cash, Ending | <u>\$ 177,433</u> | <u>\$ 164,637</u> |
| Supplemental Disclosures of Cash Flows Information: | | |
| Cash paid during the year for | | |
| Interest | <u>\$ -</u> | <u>\$ -</u> |
| Income taxes | <u>\$ -</u> | <u>\$ -</u> |

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

VSA MASSACHUSETTS, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013 AND 2012

Note 1 - Description of Organization

VSA Massachusetts, Inc. (formerly VSA arts of Massachusetts, Inc.) is a non-profit organization located in Boston, Massachusetts. The Organization was formed in 1980 and promotes the involvement of people of all abilities in the cultural life of our communities. The Organization develops multi-sensory, arts-integrated teaching strategies in schools, and sponsors exhibitions and performances by artists of all abilities.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period as received are shown as unrestricted contributions.

Property and Equipment

Property and equipment purchases with an acquisition cost of \$1,000 or more, with a useful life of more than one year, are capitalized and recorded at cost. Donated property and equipment are recorded at fair value. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 7 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation equaled \$7,630 and \$7,620 for the years ended September 30, 2013 and 2012, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(C)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in these financial statements.

VSA MASSACHUSETTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

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

The Organization follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U. S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The Organization values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Accounts Receivable

Accounts receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

Investments

Under accounting standards for non-profit organizations, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. The unrealized gain or loss on these investments are reflected in the statement of activities.

VSA MASSACHUSETTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Contributed Facilities and Services

Contributed facilities represent the estimated fair rental value of office space provided. Contributed services are reflected in the financial statements at fair value of the services received. The contributions of services are recognized if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Functional Allocation of Expenses

The costs of providing the Organization's programs and supporting services have been summarized on a functional basis in the statement of activities. Expenses related directly to a program are distributed to that program, while other expenses are allocated to programs based upon management's estimate of the percentage attributable to each function. Accordingly, certain costs have been allocated among the program services, management and general, and fundraising categories.

Advertising

The Organization expenses advertising costs as they are incurred.

Subsequent Events

The Organization has evaluated subsequent events through June 6, 2014 which is the date the financial statements were available to be issued.

Promises to Give

Unconditional promises to give are recognized as revenues or gains 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 only when the conditions on which they depend are substantially met and the promises become unconditional.

Note 3 - Concentrations of Risk - Cash Balances

The Organization maintains its cash balances in various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2013, the Organization's bank balances were fully insured.

VSA MASSACHUSETTS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013 AND 2012

Note 4 - Investments

Investments are recorded at fair value. The value assigned to investments received by gift is the market value at the date of donation. Amortized cost and fair value of investments at September 30, 2013 and 2012 are as follows:

| | <u>Amortized</u> <u>Cost</u> | <u>Level 1</u> <u>Fair Value</u> |
|--------------------|---------------------------------|-------------------------------------|
| September 30, 2013 | | |
| Equity securities | <u>\$ 83,318</u> | <u>\$ 99,840</u> |
| September 30, 2012 | | |
| Equity securities | <u>\$ 83,318</u> | <u>\$ 87,756</u> |

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended September 30, 2013 and 2012:

| | <u>Unrestricted</u> | |
|------------------------|---------------------|------------------|
| | <u>2013</u> | <u>2012</u> |
| Investment income | \$ 2,263 | \$ 2,138 |
| Realized loss | (125) | (8,425) |
| Unrealized gain (loss) | 12,084 | 24,884 |
| | <u>\$ 14,222</u> | <u>\$ 18,597</u> |

Note 5 - Net Assets

Temporarily restricted net assets are available for the following purposes:

| | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|
| Support for the "Arts Extension Project" | - | \$ 56,250 |
| Support for education and training services | 3,662 | 3,662 |
| Support for residences | 51,750 | - |
| Support for professional development | 14,700 | - |
| Support for Greater Worcester Community | 6,000 | - |
| | <u>\$ 76,112</u> | <u>\$ 59,912</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|
| Support for the "Arts Extension Project" | \$ 56,250 | \$ 56,250 |
| Support for various cultural events | - | 915 |
| Support for education and training services | - | 288 |
| | <u>\$ 56,250</u> | <u>\$ 57,453</u> |

VSA MASSACHUSETTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

Note 5 - Net Assets (continued)

Unrestricted Board designated net assets consist of the following:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------|-------------|-------------|
| Maida Abrams Memorial Fund: | | |
| Cash | \$ 13,409 | \$ 11,441 |
| Investments | 99,840 | 87,756 |
| | \$ 113,249 | \$ 99,197 |

Note 6 - In-Kind Contributions

The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses as follows:

| | <u>2013</u> | <u>2012</u> |
|--------------------------|-------------|-------------|
| Payroll costs | \$ 11,769 | - |
| Consultants | \$ 10,800 | \$ 7,100 |
| Rent | 2,000 | 2,500 |
| Training and development | 882 | 1,870 |
| Supplies | 2,305 | - |
| Accounting services | - | 2,200 |
| Other | - | 1,279 |
| | \$ 27,756 | \$ 14,949 |

Note 7 - Affiliate Transactions

VSA Massachusetts, Inc. receives grants from The Kennedy Center VSA, a national affiliate, in the normal course of their activities. Grants from The Kennedy Center VSA were \$40,530 and \$36,000 in 2013 and 2012, respectively. Amounts due from The Kennedy Center VSA equaled \$-0- and \$8,585 as of September 30, 2013 and 2012, respectively.

Note 8 - Retirement Plan

The Organization has implemented a 401(k) Profit Sharing Plan for the benefit of its eligible employees. The Organization's contributions to the Plan are discretionary. Accrued contributions to the Plan equal \$5,735 and \$19,662 as of September 30, 2013 and 2012, respectively.

VSA MASSACHUSETTS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013 AND 2012

Note 9 - Uncertainty in Income Taxes

The Organization follows the *Accounting for Uncertainty in Income Taxes* standard which requires the Organization to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of September 30, 2013, the Organization determined that there are no material unrecognized tax benefits to report.

Information returns filed for the years ended September 30, 2012, 2011 and 2010 remain subject to examination by the Internal Revenue Service and the Commonwealth of Massachusetts. The Organization does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Note 10 - Lease Commitment

During 2009, the Organization entered into a lease agreement which expires in February, 2015. The lease provides for minimum rent, plus additional amounts for real estate taxes and operating expenses.

Approximate future minimum rentals under the lease are as follows:

| | | |
|------|----|----------------------|
| 2014 | \$ | 36,335 |
| 2015 | | <u>15,100</u> |
| | \$ | <u><u>51,435</u></u> |