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June 30, 2009

Board of Directors
VSA Arts of Indiana
1505 N. Delaware, Ste. 100
Indianapolis, IN 46202

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the VSA Arts of Indiana, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. Pages 19 through 22 contain three current audit findings. The status of one prior audit finding can be found on page 23.

STATE BOARD OF ACCOUNTS

VSA ARTS OF INDIANA, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
VSA Arts of Indiana, Inc.
Indianapolis, Indiana

We have audited the accompanying statements of financial position of VSA Arts of Indiana, Inc. as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of VSA Arts of Indiana Inc.'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Indiana, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008 on our consideration of VSA Arts of Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

REPORT OF INDEPENDENT AUDITORS
(Continued)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2008 is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Blue & Co., LLC

September 19, 2008

VSA ARTS OF INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2008 AND 2007

	ASSETS	
	<u>2008</u>	<u>2007</u>
Cash	\$ 104,778	\$ 80,331
Investments	90,182	87,117
Contributions receivable	100,000	8,000
Grants receivable	-0-	20,000
Other receivables	15,330	2,369
Prepaid expenses	9,496	2,717
Property and equipment, net	17,140	15,678
Funds held for others	<u>2,758</u>	<u>3,403</u>
	<u>\$ 339,684</u>	<u>\$ 219,615</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 17,935	\$ 27,159
Accrued expenses	29,466	26,597
Refundable advances	28,415	19,957
Funds held for others	<u>2,758</u>	<u>3,403</u>
Total liabilities	78,574	77,116
Net assets		
Unrestricted	154,418	132,676
Temporarily restricted	<u>106,692</u>	<u>9,823</u>
Total net assets	<u>261,110</u>	<u>142,499</u>
	<u>\$ 339,684</u>	<u>\$ 219,615</u>

See accompanying notes to financial statements.

VSA ARTS OF INDIANA, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2008 (With Comparative Total for the Year Ended June 30, 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Indiana Department of Education	\$ 897,374	\$ -0-	\$ 897,374	\$ 869,497
Indiana Arts Commission	-0-	80,000	80,000	17,300
National VSA	-0-	80,000	80,000	80,000
Arts Council of Indianapolis	-0-	103,000	103,000	50,000
Educational advisory revenue	33,702	-0-	33,702	37,974
Other support	13,172	53,500	66,672	47,188
Donated materials and services	14,366	-0-	14,366	24,966
Interest	3,068	-0-	3,068	3,191
Class fees	13,367	-0-	13,367	8,974
Urban Artisans	7,480	12,000	19,480	27,806
Net assets released from restrictions	231,631	(231,631)	-0-	-0-
Total support and revenue	1,214,160	96,869	1,311,029	1,166,896
Expenses				
Studio and administrative salaries	391,226	-0-	391,226	385,897
Artists and consultants fees	303,527	-0-	303,527	294,812
Supplies	55,019	-0-	55,019	47,013
Donated materials and services	14,366	-0-	14,366	24,966
Facility rental	78,176	-0-	78,176	75,160
Payroll taxes	49,112	-0-	49,112	55,439
Employee benefits	102,019	-0-	102,019	84,700
Printing	2,210	-0-	2,210	6,921
Travel	17,308	-0-	17,308	8,255
Legal and accounting	10,107	-0-	10,107	9,793
Professional consulting fees	11,500	-0-	11,500	-0-
Marketing and development	26,428	-0-	26,428	22,700
Telephone	24,723	-0-	24,723	23,468
Depreciation	9,716	-0-	9,716	12,697
Postage	4,480	-0-	4,480	7,808
Equipment rental and maintenance	3,782	-0-	3,782	7,202
Meetings and conferences	13,195	-0-	13,195	7,879
Client transportation	8,082	-0-	8,082	5,675
Studio organization	10,908	-0-	10,908	10,605
Intern expenses	41,703	-0-	41,703	35,193
Subscriptions and dues	5,831	-0-	5,831	5,849
Insurance	7,476	-0-	7,476	7,550
Board meeting expenses	1,127	-0-	1,127	3,156
Miscellaneous	397	-0-	397	254
Total expenses	1,192,418	-0-	1,192,418	1,142,992
Change in net assets	21,742	96,869	118,611	23,904
Net assets, beginning of year	132,676	9,823	142,499	118,595
Net assets, end of year	\$ 154,418	\$ 106,692	\$ 261,110	\$ 142,499

See accompanying notes to financial statements.

VSA ARTS OF INDIANA, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Indiana Department of Education	\$ 869,497	\$ -0-	\$ 869,497
Indiana Arts Commission	-0-	17,300	17,300
National VSA	-0-	80,000	80,000
Arts Council of Indianapolis	-0-	50,000	50,000
Educational advisory revenue	37,974	-0-	37,974
Other support	13,085	34,103	47,188
Donated materials and services	24,966	-0-	24,966
Interest	3,191	-0-	3,191
Class fees	8,974	-0-	8,974
Urban Artisans	4,425	23,381	27,806
Net assets released from restrictions	194,961	(194,961)	-0-
Total support and revenue	1,157,073	9,823	1,166,896
Expenses			
Studio and administrative salaries	385,897	-0-	385,897
Artists and consultants fees	294,812	-0-	294,812
Supplies	47,013	-0-	47,013
Donated materials and services	24,966	-0-	24,966
Facility rental	75,160	-0-	75,160
Payroll taxes	55,439	-0-	55,439
Employee benefits	84,700	-0-	84,700
Printing	6,921	-0-	6,921
Travel	8,255	-0-	8,255
Legal and accounting	9,793	-0-	9,793
Marketing and development	22,700	-0-	22,700
Telephone	23,468	-0-	23,468
Depreciation	12,697	-0-	12,697
Postage	7,808	-0-	7,808
Equipment rental and maintenance	7,202	-0-	7,202
Meetings and conferences	7,879	-0-	7,879
Client transportation	5,675	-0-	5,675
Studio organization	10,605	-0-	10,605
Intern expenses	35,193	-0-	35,193
Subscription and dues	5,849	-0-	5,849
Insurance	7,550	-0-	7,550
Board meeting expenses	3,156	-0-	3,156
Miscellaneous	254	-0-	254
Total expenses	1,142,992	-0-	1,142,992
Change in net assets	14,081	9,823	23,904
Net assets, beginning of year	118,595	-0-	118,595
Net assets, end of year	\$ 132,676	\$ 9,823	\$ 142,499

See accompanying notes to financial statements.

VSA ARTS OF INDIANA, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Operating activities		
Change in net assets	\$ 118,611	\$ 23,904
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	9,716	12,697
Changes in assets and liabilities:		
Receivables	(84,961)	(20,098)
Prepaid expenses	(6,779)	(2,717)
Accounts payable	(9,224)	15,342
Accrued expenses	2,869	15,267
Refundable advances	8,458	(8,739)
Net cash flows from operating activities	<u>38,690</u>	<u>35,656</u>
Investing activities		
Capital expenditures	(11,178)	(14,242)
Change in investments	<u>(3,065)</u>	<u>(3,115)</u>
Net cash flows from investing activities	<u>(14,243)</u>	<u>(17,357)</u>
Net change in cash	24,447	18,299
Cash, beginning of year	<u>80,331</u>	<u>62,032</u>
Cash, end of year	<u>\$ 104,778</u>	<u>\$ 80,331</u>

See accompanying notes to financial statements.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

1. NATURE OF ACTIVITIES

VSA Arts of Indiana, Inc. ("VSA") was founded as Arts Unlimited in 1980 and became affiliated with Very Special Arts in 1986. VSA is headquartered at the Harrison Centre for the Arts in downtown Indianapolis. In addition to the state office, VSA partners with other service organizations and groups throughout the state. VSA is governed by a statewide Board of Directors and administered by an executive director.

To accomplish its mission, VSA provides arts training and technical assistance to agencies and individuals that provide services to persons with disabilities; develops creative arts programming and expands arts programming to a more inclusive environment; fosters and maintains cooperation between organizations and individuals in the development of arts programs for persons with disabilities; and promotes awareness of the capabilities of persons with disabilities and recognition of the value and benefit of integration activities for all people.

VSA is funded by the Indiana Department of Education's Department of Exceptional Learners, VSA National, the Indiana Arts Commission, and the Arts Council of Indianapolis. Local corporations, organizations and foundations also support VSA programs. VSA offers a variety of programming options which are subject to restrictions based on the availability of funding awarded to VSA each year. The following is a list of VSA programs, which are available throughout the state of Indiana.

- Arts in education residencies
- Contractual services for schools and community organizations
- Special projects
- Festivals
- Community-based classes
- Teacher/Arts educator training
- In-services
- Resource center
- Audio description services

The letters VSA stand for Vision of an inclusive community, Strength in shared resources and Artistic expression that unites us all.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Support, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the residual net assets of VSA 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 action of VSA and/or the passage of time.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 support, revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant areas involving the use of estimates and assumptions include the collectibility of receivables, the depreciation of property and equipment, the fair value of donated materials and services, and the functional allocation of expenses.

Investments

Investments consist of a certificate of deposit with an original maturity of three months or more carried at cost, which approximates market value.

Property and Equipment

VSA capitalizes all significant purchases of property and equipment at cost, including expenditures that substantially increase the useful lives of existing assets. Costs of ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 3 to 5 years.

Certain granting agencies have a reversionary interest in property and equipment purchased with related grant funds.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Funds Held for Others

Funds held for others is the classification used to report the assets held by VSA in a trustee capacity.

Support and Revenue Recognition

Contributions and support that are not restricted by the donor are reported as an increase in unrestricted net assets in the period received. All donor-restricted contributions and support are reported as an increase in temporarily restricted net assets. When the 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. Contributions receivable represent amounts due within one year.

Grant revenues considered to be exchange transactions are recognized when the related qualifying expense is incurred. Grant money received in advance of being earned is classified as a liability on the Statement of Financial Position as a refundable advance.

Revenue is recorded when earned.

Donated Materials and Services

Donations of materials are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated materials to a specific purpose.

Qualifying contributed services are reflected in the Statement of Activities at the fair value of the services received and are used to benefit both program and supporting activities of VSA, as applicable.

Functional Allocation of Expenses

The costs of providing the programs and services of VSA have been summarized on a functional basis in Note 6. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Federal Income Tax Status

The Internal Revenue Service has ruled VSA to be exempt from the payment of Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain amounts from fiscal 2007 have been reclassified herein in order to conform to the fiscal 2008 presentation.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2008</u>	<u>2007</u>
Computer equipment and software	\$ 20,674	\$ 75,860
Office and other equipment	62,174	63,565
Leasehold improvements	<u>53,280</u>	<u>48,734</u>
	136,128	188,159
Accumulated depreciation	<u>(118,988)</u>	<u>(172,481)</u>
	<u>\$ 17,140</u>	<u>\$ 15,678</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following at June 30:

	<u>2008</u>	<u>2007</u>
Operations in future periods	\$ 92,000	\$ -0-
Capital expenditures	9,783	4,600
Urban Artisans program	3,520	5,223
Community-based classes	<u>1,389</u>	<u>-0-</u>
	<u>\$ 106,692</u>	<u>\$ 9,823</u>

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

5. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor-imposed restrictions as follows during the years ended June 30:

	<u>2008</u>	<u>2007</u>
Purpose restriction accomplished		
Programming	\$ 80,000	\$ 80,000
Urban Artisans program	13,703	-0-
Community-based classes	30,611	40,661
Festivals	7,500	-0-
Capital expenditures	8,817	7,000
Time restriction expired	91,000	67,300
	<u>\$ 231,631</u>	<u>\$ 194,961</u>

6. FUNCTIONAL EXPENSES

Expenses by program and supporting activities for the years ended June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Programs		
Festivals and events	\$ 171,827	\$ 141,617
Residencies	175,047	162,832
District partners	147,621	95,011
Community and outreach	468,263	484,537
Fundraising	49,247	56,545
Management and general	180,413	202,450
	<u>\$ 1,192,418</u>	<u>\$ 1,142,992</u>

7. OPERATING LEASES

VSA leases its office facilities and certain office equipment under the terms of operating leases. These leases call for monthly payments with varying maturity dates through September 2010. VSA will be responsible for certain increases in facility operating costs over a base amount specified in the facility lease.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Future minimum lease payments as of June 30, 2008, under all operating leases are as follows:

Year Ending June 30,	
2009	\$ 83,597
2010	83,935
2011	13,995
	<u>\$ 181,527</u>

Total rent expense for all operating leases for the years ended June 30, 2008 and 2007 was \$84,366 and \$83,925, respectively.

8. TAX SHELTERED ANNUITY PLAN

VSA has a Tax Sheltered Annuity Plan. Eligible employees must meet age and length of service requirements. The plan provides for salary reduction contributions and VSA matching contributions. A participant's contribution may not exceed the maximum allowed as determined by the Internal Revenue Code. VSA made matching contributions to the plan during the years ended June 30, 2008 and 2007 of \$12,871 and \$13,434, respectively.

9. RELATED PARTY TRANSACTIONS

VSA is an affiliate of VSA National, an extension of The John F. Kennedy Center for the Performing Arts. The affiliation allows VSA to coordinate and administer certain arts programs under the mission of VSA National. VSA National awarded grants to VSA of \$80,000 under the Annual Grant Program for Organizations during each of the years ended June 30, 2008 and 2007. At June 30, 2008 and 2007, VSA had a receivable from VSA National of \$8,000.

10. CONCENTRATIONS

Funding Concentration

VSA is substantially funded by grants and contracts awarded directly and indirectly by the Federal government and the State of Indiana. The majority of the agreements contain provisions that permit the arrangements to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels. Any advances on hand at the termination date would be subject to refund if such funds exceeded the accrued expenditures allowable under the grants and contracts at that date.

VSA ARTS OF INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Concentration of Credit Risk

VSA maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. VSA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contributions Receivable Concentration

At June 30, 2008, amounts due from two organizations individually represent 52% and 40% of total contributions receivable.

ADDITIONAL REPORTS AND INFORMATION
REQUIRED UNDER THE SINGLE AUDIT ACT



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
VSA Arts of Indiana, Inc.
Indianapolis, Indiana

We have audited the financial statements of VSA Arts of Indiana, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered VSA Arts of Indiana, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VSA Arts of Indiana Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of VSA Arts of Indiana Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies 2008-1, 2008-2, and 2008-3, as described in the accompanying schedule of findings and questioned costs, to be significant deficiencies in internal control over financial reporting.

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies listed above, we consider 2008-1, 2008-2, and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VSA Arts of Indiana, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of VSA Arts of Indiana, Inc. in a separate letter dated September 19, 2008.

VSA Arts of Indiana, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit VSA Arts of Indiana, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and the Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

September 19, 2008



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
VSA Arts of Indiana, Inc.
Indianapolis, Indiana

Compliance

We have audited the compliance of VSA Arts of Indiana, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. VSA Arts of Indiana, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of VSA Arts of Indiana, Inc.'s management. Our responsibility is to express an opinion on VSA Arts of Indiana, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about VSA Arts of Indiana, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on VSA Arts of Indiana, Inc.'s compliance with those requirements.

In our opinion, VSA Arts of Indiana, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

(Continued)

Internal Control Over Compliance

The management of VSA Arts of Indiana, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered VSA Arts of Indiana, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of VSA Arts of Indiana, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors, management, other within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

September 19, 2008

VSA ARTS OF INDIANA, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major programs:

CFDA Number
84.027A

Name of Federal Program or Cluster
Federal Assistance for the Education of
Students with Disabilities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

VSA ARTS OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008 (Continued)

Section II - Financial Statement Findings

2008-1

Criteria or specific requirement:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant deficiencies and material weaknesses must be communicated in writing to management and those charged with governance as part of each audit.

Condition:

The Organization basically operates on a cash basis during the year; it only identifies and accrues contributions receivable in connection with its year end closing. During the 2008 audit, we identified two grants awarded to the Organization that had not been properly accrued. We proposed related adjustments, which the Organization reviewed and agreed were necessary in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America. The need to post these adjustments is an indication that a material weakness in internal control exists.

Context:

Factors that were considered when evaluating the material weakness included: likelihood and magnitude. With respect to likelihood, we believe that there was more than a remote likelihood that a misstatement could have occurred because of the missing controls or because of the failure of a control or combination of controls. With respect to magnitude, both qualitative and quantitative factors were assessed in determining whether any potential misstatement would be more than inconsequential. Further, we evaluated the possible mitigating effects of compensating controls.

Effect:

After reviewing the factors listed above, we determined that the condition noted is an indication that the control deficiencies identified should be regarded as a material weakness.

Cause:

Inadequate design of internal control over the preparation of the financial statements under audit.

VSA ARTS OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008 (Continued)

Management's Response:

The two grants in question were both awarded on a two year basis for the first time. This two year cycle of awards did not coincide with the cash paid to the Organization. Going forward, management will work closely with the auditors to identify any significant funding changes and their impact on the financial statements prior to the end of the year. Additionally, management will monitor changes in industry reporting requirements to ensure that revenue and support are recorded in accordance with US GAAP.

2008-2

Criteria or specific requirement:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant deficiencies and material weaknesses must be communicated in writing to management and those charged with governance as part of each audit.

Condition:

The Organization essentially operates under the presumption that all support and revenue earned during the year is unrestricted. It is only as a result of the audit process that restrictions on the use of certain funds are identified, reclassified, and reported appropriately. Although the Organization made greater efforts to segregate restricted contributions during the year, adjustments were still identified. The need to post these adjustments is an indication that a material weakness in internal control exists.

Context:

Factors that were considered when evaluating the material weakness included: likelihood and magnitude. With respect to likelihood, we believe that there was more than a remote likelihood that a misstatement could have occurred because of the missing controls or because of the failure of a control or combination of controls. With respect to magnitude, both qualitative and quantitative factors were assessed in determining whether any potential misstatement would be more than inconsequential. Further, we evaluated the possible mitigating effects of compensating controls.

Effect:

After reviewing the factors listed above, we determined that the condition noted is an indication that the control deficiencies identified should be regarded as a material weakness.

VSA ARTS OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008 (Continued)

Cause:

Inadequate design of internal control over the preparation of the financial statements under audit.

Management's Response:

The Organization currently has in place adequate control safeguards to ensure that all revenue and other support earned during the year is properly designated as either restricted and unrestricted and reported in accordance with US GAAP.

2008-3

Criteria or specific requirement:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Significant deficiencies and material weaknesses must be communicated in writing to management and those charged with governance as part of each audit.

Condition:

We are required to give consideration to the Organization's ability to prepare financial statements and related note disclosures, as well as the oversight of the financial reporting process by those charged with governance. The Organization does not have in place controls that would assure the preparation of internal financial statements and related note disclosures in accordance with generally accepted accounting principles. Such preparation would require the ability to maintain appropriate technical knowledge, including the ability to research current and changing accounting standards, as well as unique industry considerations.

Context:

As with many not-for-profit organizations, the Organization engages the auditors to draft the financial statements and to perform the necessary steps to ensure the disclosures are complete. Once drafted, the financial statements are submitted to the Organization for approval. While this practice is common and practical, we must inform those charged with governance that this must be considered a material weakness in internal control since the full disclosure financial statements with all accompanying notes cannot be prepared in-house.

VSA ARTS OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008 (Continued)

Effect:

After reviewing the factors listed above, we determined that the condition noted is an indication that the control deficiencies identified should be regarded as a material weakness.

Cause:

Inadequate design of internal control over the preparation of the financial statements under audit.

Management's Response:

The addition of a new accounting software system will ensure a clearer, more detailed, presentation of internal financial reporting. As mentioned in connection with management's response to finding 2008-1, the Organization will continue to work closely with the auditors throughout the year to monitor industry reporting requirements and to ensure the proper financial recording of organizational activity per US GAAP. Further, the Board is actively searching for a representative that has financial expertise to sit on the Board and provide additional support throughout the year.

Section III - Federal Award Findings and Questioned Costs

There were no findings or questioned costs that are required to be reported in accordance with OMB Circular A-133.

VSA ARTS OF INDIANA, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2008

2007-1

Condition:

During the audit, we proposed certain adjustments to the Organization, which the Organization reviewed and agreed were necessary to post for the financial statements to be presented in accordance with US GAAP. The need to post these adjustments as a result of the audit process is an indication that a significant deficiency in internal control exists. The adjustments fall into two categories:

1.) The Organization basically operates on the presumption that all support and revenue earned during the year is unrestricted. It is only as a result of the audit process that restrictions on the use of the certain funds are identified and reclassified and reported appropriately.

2.) The Organization records all revenues and expenses collected and remitted on behalf of other organizations as its own during the year. It is only as a result of the audit process that these revenues and expenses are reversed and funds held for others are properly identified and reported.

Additionally, we believe that the controls over the preparation of the financial statements are ineffective in preventing or detecting errors that are more than inconsequential material weakness in the preparation of financial statements including errors related to the footnotes.

Effect:

After reviewing the factors listed above, we determined that the conditions noted are an indication that the control deficiencies identified should be regarded as at least a significant deficiency.

Resolution:

As noted in the current year Schedule of Findings and Questioned Costs, the deficiencies surrounding the reporting of net assets and overall preparation of the financial statements have not been resolved. The Organization ceased its relationship as trustee for other organizations. Although a small balance of custodial funds remains, the Organization recorded no revenues or expenses for transactions committed on behalf of other organizations during the reporting year ended June 30, 2008.

SUPPLEMENTARY INFORMATION

VSA ARTS OF INDIANA, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal Grantor/Pass Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Award Number/Pass- Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Education			
Federal Assistance for the Education of Students with Disabilities	* 84.027A	14207-043-DY29	\$ 884,029
	* 84.027A	14206-043-DY28	<u>13,345</u>
			897,374
Accreditation and funding	** 84.351E	N/A	<u>80,000</u>
			<u>\$ 977,374</u>
Total Expenditures of Federal Awards			<u>\$ 977,374</u>

* Passed through Indiana Department of Education, Division of Special Education

** Passed through the national office of VSA National

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of VSA Arts of Indiana, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.