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October 12, 2011

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, 2008 to June 30, 2009. 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, 2009, 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 20 and 21 contain one current audit finding. Pages 22 and 23 contain the status of three prior audit findings.

STATE BOARD OF ACCOUNTS



**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

**AND**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2009**

*CPAs / ADVISORS*



# 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, 2009 and 2008, 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, 2009 and 2008, 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 December 8, 2009 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, 2009. 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 2009 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, 2009 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*

December 8, 2009

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# VSA ARTS OF INDIANA, INC.

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2009 AND 2008

	<b>ASSETS</b>	
	<u>2009</u>	<u>2008</u>
Cash	\$ 62,031	\$ 104,778
Investments	86,616	90,182
Contributions receivable	13,650	100,000
Grants receivable	5,897	-0-
Other receivables	14,286	15,330
Prepaid expenses	5,361	9,496
Property and equipment, net	20,109	17,140
Funds held for others	<u>9,183</u>	<u>2,758</u>
	<u>\$ 217,133</u>	<u>\$ 339,684</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 28,288	\$ 17,935
Accrued expenses	31,636	29,466
Refundable advances	-0-	28,415
Funds held for others	<u>9,183</u>	<u>2,758</u>
Total liabilities	69,107	78,574
Net assets		
Unrestricted	145,476	154,418
Temporarily restricted	<u>2,550</u>	<u>106,692</u>
Total net assets	<u>148,026</u>	<u>261,110</u>
	<u>\$ 217,133</u>	<u>\$ 339,684</u>

See accompanying notes to financial statements.

# VSA ARTS OF INDIANA, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2009

(With Comparative Total for the Year Ended June 30, 2008)

	2009			2008
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and revenue</b>				
Indiana Department of Education	\$ 915,037	\$ -0-	\$ 915,037	\$ 897,374
Indiana Arts Commission	-0-	(1,320)	(1,320)	80,000
National VSA	-0-	80,000	80,000	80,000
Arts Council of Indianapolis	-0-	-0-	-0-	103,000
Educational advisory revenue	38,808	-0-	38,808	33,702
Other support	15,995	51,175	67,170	66,672
Donated materials and services	28,809	-0-	28,809	14,366
Interest	3,436	-0-	3,436	3,068
Class fees	10,593	-0-	10,593	13,367
Urban Artisans	5,712	11,000	16,712	19,480
Net assets released from restrictions	244,997	(244,997)	-0-	-0-
Total support and revenue	1,263,387	(104,142)	1,159,245	1,311,029
<b>Expenses</b>				
Studio and administrative salaries	377,181	-0-	377,181	391,226
Artists and consultants fees	356,334	-0-	356,334	303,527
Supplies	36,536	-0-	36,536	55,019
Donated materials and services	28,809	-0-	28,809	14,366
Facility rental	81,157	-0-	81,157	78,176
Payroll taxes	56,747	-0-	56,747	49,112
Employee benefits	119,032	-0-	119,032	102,019
Printing	4,273	-0-	4,273	2,210
Travel	12,596	-0-	12,596	17,308
Legal and accounting	12,065	-0-	12,065	10,107
Professional consulting fees	2,255	-0-	2,255	11,500
Promotion and outreach	10,905	-0-	10,905	11,771
Artist training/Staff development	24,640	-0-	24,640	14,657
Telephone	21,550	-0-	21,550	24,723
Depreciation	11,741	-0-	11,741	9,716
Postage	6,750	-0-	6,750	4,480
Equipment rental and maintenance	5,820	-0-	5,820	3,782
Meetings and conferences	19,535	-0-	19,535	13,195
Client transportation	7,342	-0-	7,342	8,082
Studio organization	10,862	-0-	10,862	10,908
Intern expenses	51,778	-0-	51,778	41,703
Subscriptions and dues	5,453	-0-	5,453	5,831
Insurance	7,518	-0-	7,518	7,476
Board meeting expenses	603	-0-	603	1,127
Miscellaneous	847	-0-	847	397
Total expenses	1,272,329	-0-	1,272,329	1,192,418
Change in net assets	(8,942)	(104,142)	(113,084)	118,611
<b>Net assets, beginning of year</b>	154,418	106,692	261,110	142,499
<b>Net assets, end of year</b>	\$ 145,476	\$ 2,550	\$ 148,026	\$ 261,110

See accompanying notes to financial statements.

# VSA ARTS OF INDIANA, INC.

## STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue</b>			
Indiana Department of Education	\$ 897,374	\$ -0-	\$ 897,374
Indiana Arts Commission	-0-	80,000	80,000
National VSA	-0-	80,000	80,000
Arts Council of Indianapolis	-0-	103,000	103,000
Educational advisory revenue	33,702	-0-	33,702
Other support	13,172	53,500	66,672
Donated materials and services	14,366	-0-	14,366
Interest	3,068	-0-	3,068
Class fees	13,367	-0-	13,367
Urban Artisans	7,480	12,000	19,480
Net assets released from restrictions	231,631	(231,631)	-0-
Total support and revenue	1,214,160	96,869	1,311,029
<b>Expenses</b>			
Studio and administrative salaries	391,226	-0-	391,226
Artists and consultants fees	303,527	-0-	303,527
Supplies	55,019	-0-	55,019
Donated materials and services	14,366	-0-	14,366
Facility rental	78,176	-0-	78,176
Payroll taxes	49,112	-0-	49,112
Employee benefits	102,019	-0-	102,019
Printing	2,210	-0-	2,210
Travel	17,308	-0-	17,308
Legal and accounting	10,107	-0-	10,107
Professional consulting fees	11,500	-0-	11,500
Promotion and outreach	11,771	-0-	11,771
Artist training/Staff development	14,657	-0-	14,657
Telephone	24,723	-0-	24,723
Depreciation	9,716	-0-	9,716
Postage	4,480	-0-	4,480
Equipment rental and maintenance	3,782	-0-	3,782
Meetings and conferences	13,195	-0-	13,195
Client transportation	8,082	-0-	8,082
Studio organization	10,908	-0-	10,908
Intern expenses	41,703	-0-	41,703
Subscription and dues	5,831	-0-	5,831
Insurance	7,476	-0-	7,476
Board meeting expenses	1,127	-0-	1,127
Miscellaneous	397	-0-	397
Total expenses	1,192,418	-0-	1,192,418
Change in net assets	21,742	96,869	118,611
<b>Net assets, beginning of year</b>	132,676	9,823	142,499
<b>Net assets, end of year</b>	\$ 154,418	\$ 106,692	\$ 261,110

*See accompanying notes to financial statements.*

# VSA ARTS OF INDIANA, INC.

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>Operating activities</b>		
Change in net assets	\$ (113,084)	\$ 118,611
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	11,741	9,716
Changes in assets and liabilities:		
Contributions receivable	86,350	(92,000)
Grants receivable	(5,897)	20,000
Other receivables	1,044	(12,961)
Prepaid expenses	4,135	(6,779)
Accounts payable	10,353	(9,224)
Accrued expenses	2,170	2,869
Refundable advances	<u>(28,415)</u>	<u>8,458</u>
Net cash flows from operating activities	(31,603)	38,690
<b>Investing activities</b>		
Capital expenditures	(14,710)	(11,178)
Proceeds from the sale of investments	90,182	87,117
Purchase of investments	<u>(86,616)</u>	<u>(90,182)</u>
Net cash flows from investing activities	<u>(11,144)</u>	<u>(14,243)</u>
Net change in cash	(42,747)	24,447
<b>Cash, beginning of year</b>	<u>104,778</u>	<u>80,331</u>
<b>Cash, end of year</b>	<u>\$ 62,031</u>	<u>\$ 104,778</u>

See accompanying notes to financial statements.

# VSA ARTS OF INDIANA, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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### 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 Indiana. VSA is governed by a statewide Board of Directors and is 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 and VSA National. 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, 2009 AND 2008

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### 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.

#### Investments

At June 30, 2009 and 2008, investments consist of one certificate of deposit with an original maturity of three months or more. Certificates of Deposit are carried at cost, which approximates market value.

Effective July 1, 2008, VSA adopted the Fair Value Measurements Topic of the FASB Accounting Standards Codification, which provides a comprehensive framework for measuring fair value and expands required disclosures concerning fair value measurements. Specifically, this standard sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. The adoption of this standard did not have a material impact on the VSA's financial statements.

This standard defines levels within the hierarchy of inputs as follows:

- Level 1 – Unadjusted quoted prices for identical assets and liabilities in active markets
- Level 2 – Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for

# VSA ARTS OF INDIANA, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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the asset or liability, either directly or indirectly

- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

VSA's certificate of deposit is classified as Level 1 under the fair value hierarchy as of June 30, 2009.

### 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.

### Funds Held for Others

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

### Support and Revenue Recognition

Contributions, including contributions receivable 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.

All other revenue is recorded when earned.

# VSA ARTS OF INDIANA, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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### 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.

The Financial Accounting Standards Board ("FASB") has issued a new pronouncement which clarifies accounting principles generally accepted in the United States of America for recognition, measurement, presentation and disclosure relating to uncertain tax positions and it applies to business enterprises, including not-for-profit entities. As permitted, VSA has elected to defer the application of this pronouncement until issuance of its June 30, 2010 financial statements. For financial statements covering periods prior to fiscal year 2010, VSA evaluates uncertain tax positions in accordance with existing accounting principles generally accepted in the United States of America and makes such accruals and disclosures as might be required thereunder. The adoption of this pronouncement is not expected to have a significant impact on VSA's financial statements.

### Subsequent Events

VSA evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 8, 2009, which is the date the financial statements were available to be issued.

# VSA ARTS OF INDIANA, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Computer equipment and software	\$ 25,246	\$ 20,674
Office and other equipment	63,960	62,174
Leasehold improvements	<u>61,632</u>	<u>53,280</u>
	150,838	136,128
Accumulated depreciation	<u>(130,729)</u>	<u>(118,988)</u>
	<u>\$ 20,109</u>	<u>\$ 17,140</u>

### 4. TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2009</u>	<u>2008</u>
Operations in future periods	\$ -0-	\$ 92,000
Capital expenditures	-0-	9,783
Urban Artisans program	-0-	3,520
Community-based classes	131	1,389
Special event	1,819	-0-
Artist outreach	<u>600</u>	<u>-0-</u>
	<u>\$ 2,550</u>	<u>\$ 106,692</u>

## VSA ARTS OF INDIANA, INC.

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

#### 5. NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2009</u>	<u>2008</u>
Purpose restriction accomplished		
Programming	\$ 80,000	\$ 80,000
Urban Artisans program	14,520	13,703
Community-based classes	26,493	30,611
Festivals	10,400	7,500
Capital expenditures	9,783	8,817
Special event	9,221	-0-
Artist outreach	3,900	-0-
Time restriction expired	90,680	91,000
	<u>\$ 244,997</u>	<u>\$ 231,631</u>

#### 6. FUNCTIONAL EXPENSES

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

	<u>2009</u>	<u>2008</u>
Programs		
Festivals and events	\$ 176,599	\$ 171,827
Residencies	187,541	175,047
District partners	168,456	147,621
Community and outreach	489,338	468,263
Fundraising	50,893	49,247
Management and general	199,502	180,413
	<u>\$ 1,272,329</u>	<u>\$ 1,192,418</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, 2009 AND 2008

Future minimum lease payments as of June 30, 2009, under all operating leases are as follows:

Year Ending June 30,	
2010	\$ 83,935
2011	13,995
	<u>\$ 97,930</u>

Total rent expense for all operating leases for the years ended June 30, 2009 and 2008 was \$88,157 and \$84,366, 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, 2009 and 2008 of \$12,036 and \$12,871, 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, 2009 and 2008. At June 30, 2009 and 2008, 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. At June 30, 2009 and 2008, the Indiana Department of Education accounted for 80.9% and 69.2%, respectively, of total support and revenues, less donated materials and services (Note 11).

In addition, the majority of the State and Federal 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

# VSA ARTS OF INDIANA, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009 AND 2008

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refund if such funds exceeded the accrued expenditures allowable under the grants and contracts at that date.

### 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.

## 11. MANAGEMENT'S PLANS REGARDING CONTINUED OPERATIONS

VSA's current level of operations has been dependent on annual support received from the Indiana Department of Education's Department of Exceptional Learners (Note 10). VSA has been notified that current funding levels will not continue in future years. The funding level has been cut in half for fiscal year 2010 and no funding will be awarded thereafter. Given VSA's level of dependency on the funding, operations are expected to significantly change in the future in order to continue VSA's services. Management is evaluating various opportunities to control and reduce costs which include evaluating the level of services provided to children and the workspace required to continue operations. Management is also pursuing other grant opportunities in order to supplement the support lost. Although the future of VSA is envisioned as smaller and more concentrated, future operations are expected to continue.

ADDITIONAL REPORTS AND INFORMATION  
REQUIRED UNDER THE SINGLE AUDIT ACT



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REPORT 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, 2009, and have issued our report thereon dated December 8, 2009. 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 deficiency 2009-1, as described in the accompanying schedule of findings and questioned costs, to be a significant deficiency 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, the significant deficiency listed above, 2009-1, is considered to be a material weakness.

**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 December 8, 2009.

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*

December 8, 2009



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## REPORT 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, 2009. 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, 2009.

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

December 8, 2009

VSA ARTS OF INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2009

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Section I - Summary of Auditor's Results

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*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?   yes  X  no

# VSA ARTS OF INDIANA, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2009 (Continued)

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### Section II - Financial Statement Findings

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2009-1

*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:*

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 without significant assistance provided by the auditors.

*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, 2009 (Continued)

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*Management's Response:*

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.

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### **Section III - Federal Award Findings and Questioned Costs**

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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, 2009

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2008-1

*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.

*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.

*Resolution:*

We identified no further instances of the conditions that gave rise to this finding identified during the prior audit. Management's current-year efforts to prepare and maintain complete and accurate financial records were evident throughout the performance of our 2009 audit.

2008-2

*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.

*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.

*Resolution:*

We identified no further instances of the conditions that gave rise to this finding identified during the prior audit. Management's current-year efforts to prepare and maintain complete and accurate financial records were evident throughout the performance of our 2009 audit.

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## VSA ARTS OF INDIANA, INC.

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2009

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2008-3

*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.

*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.

*Resolution:*

As noted in finding 2009-1, the Organization has not put in place adequate controls to ensure proper preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles. As with many non-profit organizations, the auditors are engaged to draft the financial statements and ensure the completeness of related disclosures. 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.

SUPPLEMENTARY INFORMATION

## VSA ARTS OF INDIANA, INC.

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Award Number/Pass- Through Entity Identifying Number	Federal Expenditures
<b>Department of Education</b>			
Federal Assistance for the Education of Students with Disabilities	* 84.027A	14207-035-DY29	\$ 15,504
	* 84.027A	14208-024-DY30	899,533
			915,037
Arts in Education accreditation and funding	** 84.351E	N/A	80,000
Total Expenditures of Federal Awards			\$ 995,037

\* Passed through Indiana Department of Education, Division of Exceptional Learners

\*\* 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.