

TENNESSEE ASSOCIATION OF CRAFT ARTISTS

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2005 and 2004

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 – 10
Supplementary Information:	
Schedule of Grant Activity	11
Schedule of Chapter Activity	12



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tennessee Association of Craft Artists
Nashville, Tennessee

We have audited the accompanying statements of financial position of Tennessee Association of Craft Artists (a non-profit organization) as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Tennessee Association of Craft Artists as of December 31, 2005 and 2004, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Grant Activity and Schedule of Chapter Activity on pages 11 and 12 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

Frasier, Dean & Howard, PLLC

May 26, 2006

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF FINANCIAL POSITION
December 31, 2005 and 2004

	Assets	<u>2005</u>	<u>2004</u>
Current assets:			
Cash, including chapter accounts of \$14,830 and \$19,571 for 2005 and 2004, respectively		\$ 135,196	\$ 151,750
Grants and other receivables		25,023	2,205
Inventory - shirts and bags		1,427	2,572
Prepaid expenses		1,410	2,841
Deposits		3,592	3,805
Investments		73,502	70,153
Total current assets		<u>240,150</u>	<u>233,326</u>
Property and equipment:			
Computer software		3,735	3,735
Website design in progress		8,500	-
Equipment		7,757	7,757
Furniture and fixtures		6,048	6,048
Less accumulated depreciation		<u>(15,023)</u>	<u>(13,736)</u>
Total property and equipment		<u>11,017</u>	<u>3,804</u>
Total assets		<u><u>\$ 251,167</u></u>	<u><u>\$ 237,130</u></u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses		\$ 35	\$ 3,126
Deferred revenue		460	1,000
Prepaid membership dues		<u>7,150</u>	<u>3,460</u>
Total current liabilities		<u>7,645</u>	<u>7,586</u>
Net assets:			
Unrestricted			
Undesignated		141,181	135,621
Designated - educational funds		15,525	10,000
Designated - reserves		70,000	70,000
Temporarily restricted		16,816	13,923
Permanently restricted		<u>-</u>	<u>-</u>
Total net assets		<u>243,522</u>	<u>229,544</u>
Total liabilities and net assets		<u><u>\$ 251,167</u></u>	<u><u>\$ 237,130</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Changes in unrestricted net assets		
Support and revenue:		
Jury and booth fees	\$ 148,694	\$ 150,392
Donations	86,827	74,694
Grant income	51,320	53,911
Miscellaneous craft fair income	24,970	30,405
Membership dues - TACA	17,570	18,250
Unrealized gain (loss) on investments	2,097	5,592
Special events	2,621	5,506
Membership dues - chapters	4,950	4,398
Shirt and bag revenue	4,284	2,915
Interest income	5,144	2,450
Miscellaneous income	3,398	1,905
Directory advertising and sales	1,827	1,793
Total unrestricted support and revenue	<u>353,702</u>	<u>352,211</u>
Expenses:		
Salary - others	60,319	51,650
Salary - executive director	40,000	40,000
Facility expense	35,452	38,898
Advertising	27,316	27,945
Postage and shipping	21,503	23,553
Printing	24,716	23,020
Artists fees	15,655	21,000
Security	18,960	18,960
Specialized and contract services	23,005	14,008
Other expense	11,596	10,715
Occupancy	11,029	10,463
Awards	7,876	10,153
Supplies	3,405	8,497
Travel, seminars and conferences	6,330	8,464
Payroll taxes	7,968	7,320
Audit fees	4,193	3,992
Craft fair entertainment	2,400	3,650
Shirt expenses	4,806	3,619
Donations	4,525	3,280
Telephone	2,983	2,712
Insurance	2,353	2,355
Screening and jury fees	1,600	1,950
Depreciation and amortization	1,287	1,348
Scholarship grants	1,580	-
Equipment lease	1,155	1,226
Fundraising	605	334
Total unrestricted expenses	<u>342,617</u>	<u>339,112</u>
Change in unrestricted net assets	<u>11,085</u>	<u>13,099</u>
Change in temporarily restricted net assets		
Contributions	<u>2,893</u>	<u>13,923</u>
Change in temporarily restricted net assets	<u>2,893</u>	<u>13,923</u>
Total change in net assets	<u>13,978</u>	<u>27,022</u>
Net assets - beginning of year	<u>229,544</u>	<u>202,522</u>
Net assets - end of year	<u><u>\$ 243,522</u></u>	<u><u>\$ 229,544</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 13,978	\$ 27,022
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,287	1,348
Unrealized (gain) loss on investments	(2,097)	(5,592)
(Increase) decrease in operating assets:		
Grants and other receivables	(22,818)	15,478
Inventory	1,145	814
Prepaid expenses	1,431	9
Deposits	213	(713)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,091)	1,081
Prepaid membership dues	3,690	(1,680)
Deferred revenue	(540)	(6,300)
Net cash (used in) provided by operating activities	<u>(6,802)</u>	<u>31,467</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,500)	-
Purchases of investments	(1,252)	(1,211)
Net cash used by investing activities	<u>(9,752)</u>	<u>(1,211)</u>
(Decrease) increase in cash	(16,554)	30,256
Cash - beginning of year	<u>151,750</u>	<u>121,494</u>
Cash - end of year	<u><u>\$ 135,196</u></u>	<u><u>\$ 151,750</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tennessee Association of Craft Artists (TACA), the Organization, was incorporated in 1972 as a Tennessee non-profit corporation. Its primary purpose is to promote the crafts and the craftspeople of Tennessee. The main programs used by TACA to fulfill its purpose are spring and fall craft fairs which display the crafts of artisans. The following is a summary of the significant accounting policies of TACA.

Accounting Method

The financial statements include the accounts of TACA and the activities of TACA's chapter organizations. All significant transactions between TACA and its chapters have been eliminated.

TACA's accounting records are maintained in accordance with requirements as stated in *Not-For-Profit Organizations* as published by the American Institute of Certified Public Accountants. The Organization reports on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. There were no permanently restricted net assets at December 31, 2005 and 2004. Also, the Organization's board may designate certain unrestricted net assets for particular purposes.

Contributions

The Organization has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Organization's policy is to recognize temporarily restricted contributions as unrestricted if such restrictions are met in the year the contribution is received.

Revenue Recognition

Grant income from governmental sources is recognized when related expenses have been incurred. Revenue from craft fairs including jury and booth fees are recognized at the time of the event. Membership dues are recognized in the applicable membership year.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Organization accounts for investments in accordance with SFAS No. 124 "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Inventory

The inventory of merchandise held for sale consists of shirts that are printed and made available for sale primarily at craft fairs. The inventory is recorded at the lower of cost or market using the first-in, first-out (FIFO) method.

Property and Depreciation

Property and equipment consists primarily of office equipment and furniture. Assets are recorded at cost. Depreciation is provided in amounts necessary to allocate the cost of assets over their estimated useful lives using straight-line and accelerated methods. The estimated useful lives of all major classes of assets are as follows:

Computer software	3 - 5 years
Website design	4 years
Equipment	5 - 10 years
Furniture and fixtures	7 - 10 years

Income Taxes

TACA has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation.

Chapter Activity

The Organization's accounts include the activities of seven satellite chapters. Each chapter receives a portion of TACA's membership dues based on members who have joined the Organization from each chapter. Such membership rebates are used to support satellite chapter operations.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributed Services

No contributed services meeting the criteria for recognition were received for the years ended December 31, 2005 and 2004. However, the Organization receives volunteer services in its administrative and fund-raising efforts, particularly in the planning, promotion and staging of its crafts fairs. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 has not been satisfied.

Advertising

Advertising costs are expenses when incurred.

NOTE 2 – CASH

Cash consists of the following at December 31:

	<u>2005</u>	<u>2004</u>
Operating - Bank of America	\$ 4,763	\$ 3,461
- Vanguard	45,603	58,718
Reserves - Vanguard	70,000	70,000
Chapter accounts	<u>14,830</u>	<u>19,571</u>
	<u>\$ 135,196</u>	<u>\$ 151,750</u>

NOTE 3 – GRANTS

Funds received under the Tennessee Arts Commission grants are to be primarily used for the general support of the Organization including general and administrative expenses. The Organization is required to match the funds received.

Funds received under the Metropolitan Nashville Arts Commission grants are to be used as basic operating support and for educational outreach. The Organization is also required to match the funds received under these grants.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005 and 2004

NOTE 3 – GRANTS (continued)

Amounts receivable at December 31 under government grants are as follows:

	<u>2005</u>	<u>2004</u>
Tennessee Arts Commission for General Operating Support	\$ 2,913	\$ -
Metro Nashville Arts Commission Basic Operating Support	<u>21,400</u>	<u>-</u>
	<u>\$ 24,313</u>	<u>\$ -</u>

NOTE 4 – INVESTMENTS

Investments consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Vanguard Index Fund	\$ 73,502	\$ 70,153
	<u>\$ 73,502</u>	<u>\$ 70,153</u>

During 2005 and 2004, realized and unrealized gains on investments totaled \$2,097 and \$5,592, respectively.

NOTE 5 – OPERATING LEASE COMMITMENT

During 2005, the Organization renewed its lease agreement for office space, which stipulates the Organization make monthly payments ranging from \$605 to \$620 through January 2007. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2005 are as follows:

Year ending <u>December 31</u>	
2006	\$ 7,425
2007	<u>620</u>
	<u>\$ 8,045</u>

NOTE 6 – DESIGNATED NET ASSETS

Unrestricted net assets include \$15,525 and \$10,000 at December 31, 2005 and 2004, respectively, designated by the Organization's board for educational programs as well as \$70,000 at December 31, 2005 and 2004, designated as reserves.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2005 and 2004

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include donations of \$16,816 at December 31, 2005 and \$13,923 at December 31, 2004 restricted for future retail space for the Organization.

SUPPLEMENTARY INFORMATION

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
SCHEDULE OF GRANT ACTIVITY
Year ended December 31, 2005

<u>Grant or Contract Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Total Award</u>	<u>A/R Balance 12/31/04</u>	<u>Cash Receipts</u>	<u>Expenditures (or amounts earned)</u>	<u>Grant Modifications</u>	<u>A/R Balance 12/31/05</u>
Z-06-028303-00	General Operating Support	Tennessee Arts Commission	\$ 31,500	\$ -	\$ 12,600	\$ 31,500	\$ -	\$ 18,900
Z-05-028385-00	Directory	Tennessee Arts Commission	2,500	-	-	2,500	-	2,500
Basic II #249	Basic Operating Support	Metropolitan Nashville Arts Commission	13,764	-	2,753	2,753	-	-
Basic II #08	Basic Operating Support	Metropolitan Nashville Arts Commission	14,567	-	11,654	14,567	-	2,913
			<u>\$ 62,331</u>	<u>\$ -</u>	<u>\$ 27,007</u>	<u>\$ 51,320</u>	<u>\$ -</u>	<u>\$ 24,313</u>

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
SCHEDULE OF CHAPTER ACTIVITY
For the year ended December 31, 2005
(with comparative totals for the year ended December 31, 2004)

	East Tennessee	Cumberland Valley	Memphis	Highland Rim	State of Franklin	TACA West	Craft Artists of Southern Tennessee	Total	
								2005	2004
Revenue:									
Member rebates/dues	\$ -	\$ 1,902	\$ 656	\$ 684	\$ 505	\$ 253	\$ 950	\$ 4,950	\$ 4,398
Donations	-	-	375	-	-	825	150	1,350	950
Interest income	-	-	6	-	-	-	-	6	13
Special exhibition fees	-	-	550	-	-	-	-	550	3,509
Workshop	-	-	60	-	-	-	-	60	-
T-shirts	-	-	-	-	-	-	-	-	-
Chapter booth fees	-	-	-	-	-	-	-	-	-
Jury/booth fees	-	-	-	-	-	-	1,805	1,805	-
Grants	-	-	-	-	-	-	-	-	-
Other special event income	-	(124)	794	431	1,228	264	-	2,593	731
Miscellaneous	-	-	58	-	-	-	-	58	-
Total revenue	-	1,778	2,499	1,115	1,733	1,342	2,905	11,372	9,601
Expenses:									
Supplies	-	25	141	-	3	-	318	487	423
Screening and jury fees	-	-	100	-	-	-	100	200	100
Printing	-	204	134	-	-	599	443	1,380	1,320
Postage and shipping	-	715	222	35	107	-	363	1,442	1,101
Seminars	-	-	-	-	-	-	-	-	-
Books/Journals	-	-	-	-	-	-	-	-	-
Facility expense	-	75	-	-	-	-	300	375	100
Awards	-	-	575	-	-	800	300	1,675	1,402
Bank charges	-	-	-	6	388	-	-	394	-
Miscellaneous expense	-	121	-	-	35	-	150	306	-
Contract labor	-	-	-	-	-	-	-	-	-
Travel	-	-	412	-	63	-	-	475	338
Educational programs	-	-	-	-	-	-	-	-	-
Credit card fees	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Dues	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	60	30	-	-	90	-
Donations/other	-	4,175	150	-	-	-	200	4,525	2,850
Over/short	-	-	-	-	-	-	-	-	-
Artists fees	-	-	-	500	-	-	-	500	-
Hospitality	-	237	-	-	-	-	25	262	48
Gift certificates	-	60	85	-	50	-	-	195	-
Scholarships	-	-	-	270	60	-	-	330	200
Telephone	-	-	-	-	-	-	-	-	-
Special event expense	-	-	60	19	200	-	-	279	-
Meetings	-	149	299	-	144	-	-	592	-
Total expenses	-	5,761	2,178	890	1,080	1,399	2,199	13,507	7,882
Excess (deficit) of revenue over expenses	\$ -	\$ (3,983)	\$ 321	\$ 225	\$ 653	\$ (57)	\$ 706	\$ (2,135)	\$ 1,719