

TENNESSEE ART LEAGUE, INC.
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT

DECEMBER 31, 2010

TENNESSEE ART LEAGUE, INC.
Financial Statements
DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To Board of Directors
of Tennessee Art League, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of the Tennessee Art League, Inc. as of December 31, 2010, and the related statements of activities, cash flows and functional expenses for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 the Tennessee Art League, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read 'Thomas Financial Resources', is written over a horizontal line.

April 8, 2011

TENNESSEE ART LEAGUE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010

ASSETS

Current Assets

Cash	\$ 136,758
Pledges receivable	2,990
Grants receivable	15,030
Total current assets	<u>154,778</u>

Property and Equipment

Land	225,000
Building	650,000
Building improvements	206,918
Office furniture and equipment	23,663
	<u>1,105,581</u>
Less: accumulated depreciation	<u>(137,969)</u>
Total property and equipment	967,612
Total assets	<u>\$ 1,122,390</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued liabilities	\$ 12,155
Current portion of notes payable	21,099
Total current liabilities	<u>33,254</u>

Long Term Debt

Notes payable	687,718
Total long term debt	<u>687,718</u>

Total liabilities	720,972
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Net Assets

Unrestricted	239,429
Temporarily restricted	161,989
Total net assets	401,418
Total liabilities and net assets	<u>\$ 1,122,390</u>

The accompanying notes are an integral part of these financial statements

TENNESSEE ART LEAGUE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support:			
Grant income	\$ 24,630	\$ -	\$ 24,630
Contributions	6,454	-	6,454
Special event revenue:			
Revenue	30,015	-	30,015
Less direct costs	(26,066)	-	(26,066)
Net revenue from special events	3,949	-	3,949
Total public support	35,033	-	35,033
Revenue:			
Sale of artwork and merchandise	16,224	-	16,224
Less: cost of sales	(12,330)	-	(12,330)
Classes and workshop fees	13,106	-	13,106
Exhibit entry & gallery fees	13,033	-	13,033
Membership dues	18,110	-	18,110
Studio rental fees	23,906	-	23,906
Interest income	7	-	7
Other income	1,170	-	1,170
Total revenue	73,226	-	73,226
Net assets released from restrictions	112,244	(112,244)	-
Total public support and revenue	220,503	(112,244)	108,259
Expenses			
Program services:			
Education	65,418	-	65,418
Gallery Activities	140,539	-	140,539
Total program services	205,957	-	205,957
Supporting services:			
Management and general	18,817	-	18,817
Fundraising	20,500	-	20,500
Total supporting services	39,317	-	39,317
Total expenses	245,274	-	245,274
Change in net assets	(24,771)	(112,244)	(137,015)
Net assets at beginning of year	264,200	274,233	538,433
Net assets at end of year	<u>\$ 239,429</u>	<u>\$ 161,989</u>	<u>\$ 401,418</u>

The accompanying notes are an integral part of these financial statements

TENNESSEE ART LEAGUE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Flows From Operating Activities

Change in net assets	\$ (137,015)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	25,577
Changes in operating assets and liabilities:	
Pledges receivable	100,800
Grants receivable	6,870
Accrued liabilities	5
Net cash used in operating activities	<u>(3,763)</u>

Cash flows From Investing Activities

Purchases of property and equipment	<u>(2,900)</u>
Net cash used in investing activities	<u>(2,900)</u>

Cash flows From Financing Activities

Payments on notes payable	<u>(19,868)</u>
Net cash used in financing activities	<u>(19,868)</u>
Net change in cash and cash equivalents	(26,531)
Cash at beginning of year	163,289
Cash at end of year	<u>\$ 136,758</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u>\$ 43,765</u>
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The accompanying notes are an integral part of these financial statements

TENNESSEE ART LEAGUE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Program Services</u>			<u>Supporting Services</u>			
	<u>Total</u>			<u>Total</u>			
	<u>Education</u>	<u>Gallery Activities</u>	<u>Program Services</u>	<u>Mgmt. & General</u>	<u>Fund Raising</u>	<u>Supporting Services</u>	<u>Total Expenses</u>
Salaries & Wages	\$25,074	\$24,286	\$49,360	\$8,282	\$9,151	\$17,433	\$66,793
Payroll Taxes	1,856	1,812	3,668	615	680	1,295	4,963
Total Compensation	26,930	26,098	53,028	8,897	9,831	18,728	71,756
Classes & Workshops	8,721		8,721			-	8,721
Exhibits		13,123	13,123			-	13,123
Artwork Cost of Sales		12,330	12,330			-	12,330
Annual Fundraiser Direct Costs			0		26,066	26,066	26,066
Consulting Expense	1,598	4,249	5,847	2,106	1,125	3,231	9,078
Repairs & Maintenance	1,344	4,705	6,049	336	336	672	6,721
Occupancy	6,300	22,049	28,349	1,575	1,575	3,150	31,499
Interest	8,753	30,636	39,389	2,188	2,188	4,376	43,765
Depreciation	5,115	17,904	23,019	1,279	1,279	2,558	25,577
Insurance	1,068	3,739	4,807	267	267	534	5,341
Marketing		3,509	3,509			-	3,509
Professional Fees	2,686	2,647	5,333	1,443	3,174	4,617	9,950
Taxes	2,190	7,665	9,855	548	547	1,095	10,950
Other Expenses	713	4,215	4,928	178	178	356	5,284
Total Expenses	65,418	152,869	218,287	18,817	46,566	65,383	283,670

Less expenses netted with revenue on Statement of Activities:

Artwork Cost of Sales	-	(12,330)	(12,330)	-	-	-	(12,330)
Annual Fundraiser Direct Costs	-	-	-		(26,066)	(26,066)	(26,066)
Total Expenses by Function	\$65,418	\$140,539	\$205,957	\$18,817	\$20,500	\$39,317	\$245,274

Current Year's Percentages	26.67%	57.30%	83.97%	7.67%	8.36%	16.03%	100.00%
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The accompanying notes are in integral part of these financial statements

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Tennessee Art League, Inc. (the “Organization”), a Tennessee not-for-profit organization, enriches the lives of artists and the community as a cultural center, educational facility and art gallery, and encourages and promotes the visual arts through changing exhibitions, workshops, classes and community outreach programs.

Basis of Presentation

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

Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. There were no permanently restricted net assets as of December 31, 2010.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments, with an original maturity when purchased of three months or less, to be cash and cash equivalents.

Expense Allocation

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services based on actual or estimated time spent on each function.

Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Pledges Receivable

Pledges receivable are recorded at their estimated fair value with pledges collectible over more than a year recognized at their expected discounted cash flow. Pledges receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received. There were no conditional promises to give as of December 31, 2010.

The Organization considers pledges receivable to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment

Property and equipment are recorded at cost to the Organization, or if donated, at the estimated fair market value at the date of donation. The Organization follows the policy of presenting gifts of land, buildings and equipment placed in service within the reporting period as unrestricted contributions in the statement of activities. All depreciation is computed using the straight-line method based on the estimated useful life of the asset as follows:

Buildings	39 years
Building Improvements	27 – 30 years
Office furniture and equipment	5 – 7 years

When property and equipment are sold or otherwise disposed, the asset and related accumulated depreciation are relieved, and any gain or loss is included in operations. Expenditures for repairs and maintenance are charged to operations when incurred.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. The more significant areas include the recovery period for buildings and building improvements. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Instruments

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Organization's financial instruments consist of pledges receivable, grants receivable, accrued liabilities and notes payable. The recorded values of all the Organization's financial instruments approximate their fair values based on their short-term nature. While the Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable recorded for the Organization are unconditional promises to give and consist of the following at December 31, 2010:

Capital Campaign – Due from various members	<u>\$ 2,990</u>
Receivable in less than one year	<u>\$ 2,990</u>

NOTE 3 – NOTE PAYABLE

2010

Note payable to Wilson Bank & Trust bearing interest at 6% for the purchase of land and a building. The note requires monthly payments of principal and interest in the amount of \$5,303 with a balloon payment due at the end of the 6 year term in the amount of \$600,738. The note matures August 14, 2015.

\$708,817

Less current maturities

(21,099)
\$687,718

Maturities of debt are as follows:

2011	\$ 21,099
2012	22,299
2013	23,813
2014	25,303
Thereafter	<u>616,303</u>
	<u>\$708,817</u>

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2010

NOTE 4 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose at December 31, 2010:

Contributions received for capital campaign	<u>\$161,989</u>
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors during the year ended December 31, 2010 as follows:

Building mortgage payments-principal	\$ 19,868
Building mortgage payments – interest	43,765
Parking lot space	12,000
Property taxes	10,297
Utilities	9,525
Repairs and maintenance & various other costs	<u>16,789</u>
	<u>\$112,244</u>

The Organization started a capital campaign in 2005 to raise funds for paying off the purchase and remodeling their current building that houses its operations.

NOTE 5 – SUBSEQUENT EVENTS

The Organization evaluated subsequent events through April 8, 2011, the issuance of the Organization's financial statements.