

MEMORANDUM FOR THE BOARD OF DIRECTORS
DATE: 12/22/05
SUBJECT: FINANCIAL STATEMENTS

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TENNESSEE ART LEAGUE, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2005

TENNESSEE ART LEAGUE, INC.
Financial Statements
DECEMBER 31, 2005

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CPA for the Not-For-Profit Sector

1009 Harding Trace Court Nashville, TN 37221
phone 615-673-7307 cell 615-479-4770 kim@thomasonfinancial.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Tennessee Art League, Inc. as of December 31, 2005, and the related statements of activities and cash flows 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 Tennessee Art League, Inc. as of December 31, 2005, 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.

Thomason Financial Resources

August 8, 2006

**TENNESSEE ART LEAGUE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005**

ASSETS

Current Assets

Cash	\$ 100,288
Contributions receivable	3,550
Grants receivable	8,405
Total current assets	<u>112,243</u>

Property and Equipment

Land	225,000
Building	650,000
Building improvements	142,672
Office furniture and equipment	7,684
	<u>1,025,356</u>
Less: accumulated depreciation	(8,587)
Total property and equipment	<u>1,016,769</u>
Total assets	<u><u>\$ 1,129,012</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued liabilities	\$ 6,501
Current portion of notes payable	7,954
Total Current Liabilities	<u>14,455</u>

Long Term Debt

Notes payable	754,516
Total long term debt	<u>754,516</u>

Total liabilities	768,971
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Net Assets

Unrestricted	360,041
Total liabilities and net assets	<u><u>\$ 1,129,012</u></u>

The accompanying notes are an integral part of these financial statements

**TENNESSEE ART LEAGUE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Public Support and Revenue

Public Support:	
Contributions	\$ 60,682
Grant income	23,627
Total public support	<u>84,309</u>

Revenue:

Sale of artwork and merchandise	22,098
Less: cost of sales	(16,180)
Gallery income	1,313
Classes and workshop fees	8,630
Exhibit entry fees	9,115
Membership dues	14,280
Other income	8,587
Total revenue	<u>47,843</u>
Total public support and revenue	<u>132,152</u>

Expenses

Program expenses	
Art education	4,534
Classes and workshops	2,482
Exhibits	11,076
Printing and publications	6,577
Consulting expense	16,498
Repairs and maintenance - classrooms	14,234
Other expenses	959

Total program expenses 56,360

Administrative

Occupancy	39,626
Interest	17,828
Depreciation	8,587
Insurance	2,976
Marketing	1,410
Bank charges	906
Other expenses	771

Total administrative expenses 72,104

Fundraising	17,500
Total expenses	<u>145,964</u>

Gain on sale of building 338,646

Change in net assets	324,834
Net assets at beginning of year	35,207
Net assets at end of year	<u>\$ 360,041</u>

The accompanying notes are an integral part of these financial statements

**TENNESSEE ART LEAGUE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash Flows From Operating Activities	
Change in net assets	\$ 324,834
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,587
Gain on sale of building	(338,646)
Contributions of building and equipment	(28,500)
Changes in operating assets and liabilities:	
Contributions receivable	3,000
Grants receivable	(4,045)
Accrued liabilities	6,500
Net cash used by operating activities	<u>(28,270)</u>
Cash flows From Investing Activities	
Purchases of property and equipment	(996,855)
Proceeds from sale of assets	346,005
Net cash used in investing activities	<u>(650,850)</u>
Cash flows From Financing Activities	
Proceeds from issuance of notes payable	765,000
Payments on notes payable	(2,530)
Net cash provided by financing activities	<u>762,470</u>
Net increase in cash and cash equivalents	83,350
Cash at beginning of year	16,938
Cash at end of year	<u>\$ 100,288</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u>\$ 17,828</u>
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Supplemental schedule of noncash operating activities:

In-kind contributions of repairs and maintenance services	<u>\$ 9,780</u>
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The accompanying notes are an integral part of these financial statements

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Tennessee Art League, Inc. (the "Organization"), a Tennessee not-for-profit organization, assists local artists by providing gallery space, workshops, and education programs. In addition, the Organization endeavors to enrich the community by providing professional artists materials to schools, and teaching art in community centers, senior centers and homeless shelters.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and 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.

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.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Contributions Receivable

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year. Contributions 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.

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.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

NOTE 2 – DONATED LAND, EQUIPMENT AND SERVICES

The Organization received \$38,280 in donated gifts in-kind during fiscal year 2005. Donated land and office equipment are each stated at fair market value at date of respective gift and are reflected as contributions in the statement of activities and as property and equipment in the statement of financial position. Donated services are used in the ongoing operations of the Organization and are reflected as contributions and corresponding operating expenditures in the statement of activities.

The Organization received \$25,000, \$3,500 and \$9,780 in donated land, office equipment and services for physical improvements to the Organization's building, respectively, during fiscal year 2005.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable (in less than one year) consist of the following at December 31, 2005:

	<u>2005</u>
Due from several members of the Organization	\$3,550

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2005

NOTE 4 – NOTE PAYABLE

2005

Note payable to James R. Stallings, Jr. bearing interest at 7% for the purchase of land and a building. The note requires monthly payments of principal and interest in the amount of \$5,090 with a balloon payment due at the end of the 5 year term in the amount of \$725,139. The note matures August 22, 2010.

762,470

Less current maturities

(7,954)

\$754,516

Maturities of debt are as follows:

2006	7,954
2007	8,529
2008	9,145
2009	9,806
2010	<u>727,036</u>
	<u>\$762,470</u>