

TENNESSEE ASSOCIATION OF CRAFT ARTISTS

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2004 and 2003

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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, 2004 and 2003, 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, 2004 and 2003, 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 10 and 11 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 13, 2005

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF FINANCIAL POSITION
December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash, including chapter accounts of \$19,571 and \$16,784 for 2004 and 2003, respectively	\$ 151,750	\$ 121,494
Grants and other receivables	2,205	17,684
Inventory - shirts and bags	2,572	3,386
Prepaid expenses	2,841	2,851
Deposits	3,805	3,092
Investments	70,153	63,349
Total current assets	<u>233,326</u>	<u>211,856</u>
Property and equipment:		
Computer software	3,735	3,735
Equipment	7,757	7,757
Furniture and fixtures	6,048	6,048
Less accumulated depreciation	<u>(13,736)</u>	<u>(12,388)</u>
Total property and equipment	<u>3,804</u>	<u>5,152</u>
Total assets	<u><u>\$ 237,130</u></u>	<u><u>\$ 217,008</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,126	\$ 2,046
Deferred revenue	1,000	7,300
Prepaid membership dues	3,460	5,140
Total current liabilities	<u>7,586</u>	<u>14,486</u>
Net assets:		
Unrestricted		
Undesignated	135,621	122,522
Designated - educational funds	10,000	10,000
Designated - reserves	70,000	70,000
Temporarily restricted	13,923	-
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>229,544</u>	<u>202,522</u>
Total liabilities and net assets	<u><u>\$ 237,130</u></u>	<u><u>\$ 217,008</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF ACTIVITIES
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets		
Support and revenue:		
Jury and booth fees	\$ 150,392 <i>ei</i>	\$ 139,077
Donations	74,694 <i>ind</i>	60,729
Grant income	53,911 <i>govt</i>	40,037
Miscellaneous craft fair income	30,405 <i>ei</i>	29,985
Membership dues - TACA	18,250 <i>mem</i>	15,894
Unrealized gain (loss) on investments	5,592 X	13,177
Special events	5,506 X	2,381
Membership dues - chapters	4,398 <i>mem</i>	5,606
Shirt and bag revenue	2,915	3,590
Interest income	2,450 <i>int</i>	1,850
Miscellaneous income	1,905	1,379
Directory advertising and sales	1,793	1,392
Total unrestricted support and revenue	<u>352,211</u>	<u>315,097</u>
Expenses:		
Salary - others	51,650	46,409
Salary - executive director	40,000	39,250
Facility expense	38,898	29,271
Advertising	27,945	23,843
Postage and shipping	23,553	21,496
Printing	23,020	19,082
Artists fees	21,000	13,950
Security	18,960	12,740
Specialized and contract services	14,008	12,247
Other expense	10,715	10,188
Occupancy	10,463	10,382
Awards	10,153	9,354
Supplies	8,497	7,569
Travel, seminars and conferences	8,464	7,891
Payroll taxes	7,320	7,131
Audit fees	3,992	3,900
Craft fair entertainment	3,650	3,600
Shirt expenses	3,619	3,089
Donations	3,280	2,435
Telephone	2,712	3,211
Insurance	2,355	2,559
Screening and jury fees	1,950	2,050
Depreciation and amortization	1,348	1,597
Equipment lease	1,226	1,193
Fundraising	334	2,768
Repair and maintenance	-	100
Total unrestricted expenses	<u>339,112</u>	<u>297,305</u>
Change in unrestricted net assets	<u>13,099</u>	<u>17,792</u>
Change in temporarily restricted net assets		
Contributions	<u>13,923</u>	<u>-</u>
Change in temporarily restricted net assets	<u>13,923</u>	<u>-</u>
Total change in net assets	27,022	17,792
Net assets - beginning of year	<u>202,522</u>	<u>184,730</u>
Net assets - end of year	<u><u>\$ 229,544</u></u>	<u><u>\$ 202,522</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 27,022	\$ 17,792
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	-	285
Depreciation and amortization	1,348	1,597
Unrealized (gain) loss on investments	(5,592)	(13,177)
(Increase) decrease in operating assets:		
Grants and other receivables	15,478	(2,438)
Inventory	814	(2,212)
Prepaid expenses	9	2,293
Deposits	(713)	(1,444)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	1,081	1,871
Prepaid membership dues	(1,680)	(1,875)
Deferred revenue	(6,300)	4,310
Net cash provided by operating activities	<u>31,467</u>	<u>7,002</u>
Cash flows from investing activities:		
Proceeds from insurance settlement	-	2,287
Purchases of property and equipment	-	(2,626)
Purchases of investments	(1,211)	(874)
Net cash used by investing activities	<u>(1,211)</u>	<u>(1,213)</u>
Increase (decrease) in cash	30,256	5,789
Cash - beginning of year	<u>121,494</u>	<u>115,705</u>
Cash - end of year	<u><u>\$ 151,750</u></u>	<u><u>\$ 121,494</u></u>

See accompanying notes.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

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, 2004 and 2003. Also, the Organization 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.

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.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
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.

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.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed Services

No contributed services meeting the criteria for recognition were received for the years ended December 31, 2004 and 2003.

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.

NOTE 2 - CASH

Cash consists of the following at December 31:

	<u>2004</u>	<u>2003</u>
Operating - Bank of America	\$ 3,461	\$ 1,019
- Vanguard	58,718	33,691
Reserves - Vanguard	70,000	70,000
Chapter accounts	<u>19,571</u>	<u>16,784</u>
	<u>\$ 151,750</u>	<u>\$ 121,494</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.

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

	<u>2004</u>	<u>2003</u>
Tennessee Arts Commission for General Operating Support	\$ -	\$ 15,000
Metro Nashville Arts Commission Basic Operating Support	<u>-</u>	<u>1,402</u>
	<u>\$ -</u>	<u>\$ 16,402</u>

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2004 and 2003

NOTE 3 – GRANTS (continued)

Amounts received or receivable but not yet expended under grants and reflected as deferred revenue include the following:

	<u>2004</u>	<u>2003</u>
Metro Nashville Arts Commission Educational Outreach	\$ -	\$ 7,200
Other	<u>1,000</u>	<u>100</u>
	<u>\$ 1,000</u>	<u>\$ 7,300</u>

NOTE 4 - INVESTMENTS

Investments consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
Vanguard Index Fund	<u>\$ 70,153</u>	<u>\$ 63,349</u>
	<u>\$ 70,153</u>	<u>\$ 63,349</u>

During 2004 and 2003, realized and unrealized gains and (losses) on investments totaled \$5,592 and \$13,177, respectively.

NOTE 5 - OPERATING LEASE COMMITMENT

During 2002, the Organization renewed its lease agreement for office space, which stipulates the Organization make monthly payments of \$570 through January 2005. Subsequent to December 31, 2004, the Organization entered into a new lease for the same office space. This new lease agreement, extending through January 2007, requires monthly rentals of \$605 in year one, increasing to \$620 in year two of the lease. 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, 2004 are as follows:

Year ending <u>December 31</u>	
2005	\$ 7,225
2006	7,425
2007	<u>620</u>
	<u>\$ 15,270</u>

NOTE 6 - DESIGNATED NET ASSETS

Unrestricted net assets include \$10,000 at December 31, 2004 and 2003, designated by the Organization's board for educational programs as well as \$70,000 at December 31, 2004 and 2003, designated as reserves.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include donations of \$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, 2004

<u>Grant or Contract Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Total Award</u>	<u>A/R Balance 12/31/03</u>	<u>Cash Receipts</u>	<u>Expenditures (or amounts earned)</u>	<u>Grant Modifications</u>	<u>A/R Balance 12/31/04</u>
Z-05-023176-00	General Operating Support	Tennessee Arts Commission	\$ 27,700	\$ -	\$ 27,700	\$ 27,700	\$ -	\$ -
Z-04-017188-00	General Operating Support	Tennessee Arts Commission	25,000	15,000	15,000	-	-	-
Z-05-023309-00	Touring Arts Program	Tennessee Arts Commission	1,200	-	1,200	1,200	-	-
Z-04-017311-00	Directory	Tennessee Arts Commission	5,000	-	5,000	5,000	-	-
Program I #340	Educational Outreach	Metropolitan Nashville Arts Commission	9,000	(7,200)	1,800	9,000	-	-
Basic II #249	Basic Operating Support	Metropolitan Nashville Arts Commission	13,764	-	11,011	11,011	-	-
Basic II #339	Basic Operating Support	Metropolitan Nashville Arts Commission	7,011	1,402	1,402	-	-	-
			<u>\$ 88,675</u>	<u>\$ 9,202</u>	<u>\$ 63,113</u>	<u>\$ 53,911</u>	<u>\$ -</u>	<u>\$ -</u>

TENNESSEE ASSOCIATION OF CRAFT ARTISTS
SCHEDULE OF CHAPTER ACTIVITY
For the year ended December 31, 2004
(with comparative totals for the year ended December 31, 2003)

	<u>East Tennessee</u>	<u>Cumberland Valley</u>	<u>Memphis</u>	<u>Highland Rim</u>	<u>State of Franklin</u>	<u>TACA West</u>	<u>Craft Artists of Southern Tennessee</u>	<u>Total</u>	
								<u>2004</u>	<u>2003</u>
Revenue:									
Membership rebates	\$ -	\$ 2,030	\$ 48	\$ 650	\$ 557	\$ 203	\$ 910	\$ 4,398	\$ 5,606
Donations	-	-	550	-	-	250	150	950	1,384
Interest income	-	7	6	-	-	-	-	13	21
Special exhibition fees	-	1	1,223	189	783	93	1,220	3,509	2,539
Jury/booth fees	-	-	-	-	-	-	-	-	-
Other special event income	-	-	709	-	-	22	-	731	-
Miscellaneous	-	-	-	-	-	-	-	-	-
Total revenue	-	2,038	2,536	839	1,340	568	2,280	9,601	9,550
Expenses:									
Supplies	-	-	86	-	190	142	5	423	1,627
Screening and jury fees	-	-	-	-	-	-	100	100	200
Printing	-	392	50	-	-	425	453	1,320	1,222
Postage and shipping	-	451	51	206	74	-	319	1,101	1,362
Meetings	-	-	-	-	-	-	-	-	-
Facility expense	-	-	-	-	-	-	100	100	150
Awards	-	-	1,102	-	-	-	300	1,402	1,175
Bank charges	-	-	-	-	-	-	-	-	5
Miscellaneous expense	-	-	-	-	-	-	-	-	-
Travel	-	-	338	-	-	-	-	338	478
Dues	-	-	-	-	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	212
Donations	-	200	1,000	950	200	-	500	2,850	2,085
Artists fees	-	-	-	-	-	-	-	-	500
Hospitality	-	-	23	-	25	-	-	48	444
Gift certificates	-	-	-	-	-	-	-	-	135
Telephone	-	-	-	-	-	-	-	-	-
Scholarships	-	200	-	-	-	-	-	200	-
Total expenses	-	1,243	2,650	1,156	489	567	1,777	7,882	9,595
Excess (deficit) of revenue over expenses	<u>\$ -</u>	<u>\$ 795</u>	<u>\$ (114)</u>	<u>\$ (317)</u>	<u>\$ 851</u>	<u>\$ 1</u>	<u>\$ 503</u>	<u>\$ 1,719</u>	<u>\$ (45)</u>