

TENNESSEE ART LEAGUE, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2007

TENNESSEE ART LEAGUE, INC.
Financial Statements
DECEMBER 31, 2007

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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, 2007, 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, 2007, 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.

March 28, 2008

**TENNESSEE ART LEAGUE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007**

ASSETS

Current Assets

Cash	\$ 227,073
Pledges receivable - capital campaign, net	109,362
Grants receivable	<u>23,938</u>
Total current assets	360,373

Property and Equipment

Land	225,000
Building	650,000
Building improvements	203,618
Office furniture and equipment	<u>22,089</u>
	1,100,707
Less: accumulated depreciation	<u>(62,185)</u>
Total property and equipment	1,038,522

Other non-current assets

Pledges receivable - capital campaign	<u>175,469</u>
Total assets	<u><u>\$ 1,574,364</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued liabilities	\$ 25,835
Current portion of notes payable	<u>9,145</u>
Total current liabilities	34,980

Long Term Debt

Notes payable	<u>736,846</u>
Total long term debt	<u>736,846</u>

Total liabilities	771,826
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Net Assets

Unrestricted	337,527
Temporarily restricted	<u>465,011</u>
Total net assets	802,538
Total liabilities and net assets	<u><u>\$ 1,574,364</u></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, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support:			
Grant income	\$ 62,626	\$ -	\$ 62,626
Contributions	3,592	18,965	22,557
Total public support	66,218	18,965	85,183
 Revenue:			
Sale of artwork and merchandise	28,952	-	28,952
Less: cost of sales	(22,517)	-	(22,517)
Classes and workshop fees	26,423	-	26,423
Exhibit entry fees	8,625	-	8,625
Membership dues	22,275	-	22,275
Studio rental fees	21,810	-	21,810
Interest income	6,935	-	6,935
Other income	-	-	-
Total revenue	92,503	-	92,503
Net assets released from restrictions	99,891	(99,891)	-
Total public support and revenue	258,612	(80,926)	177,686
 Expenses			
Program expenses			
Art education	24,690	-	24,690
Exhibits	14,001	-	14,001
Printing and publications	8,281	-	8,281
Salary and wages	57,103	-	57,103
Payroll taxes	3,948	-	3,948
Consulting expense	17,150	-	17,150
Repairs and maintenance	14,014	-	14,014
Other expenses	2,182	-	2,182
Total program expenses	141,369	-	141,369
Administrative			
Occupancy	39,324	-	39,324
Interest	52,550	-	52,550
Depreciation	28,031	-	28,031
Bad debt expense	6,000	-	6,000
Insurance	4,910	-	4,910
Marketing	3,629	-	3,629
Professional fees	11,702	-	11,702
Taxes	2,288	-	2,288
Other expenses	1,629	-	1,629
Total administrative expenses	150,063	-	150,063
Total expenses	291,432	-	291,432
Change in net assets	(32,820)	(80,926)	(113,746)
Net assets at beginning of year	370,347	545,937	916,284
Net assets at end of year	\$ 337,527	\$ 465,011	\$ 802,538

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, 2007**

Cash Flows From Operating Activities

Change in net assets	\$ (113,746)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	28,031
Changes in operating assets and liabilities:	
Pledges receivable	95,865
Grants receivable	(16,714)
Accrued liabilities	990
Net cash used in operating activities	<u>(5,574)</u>

Cash flows From Investing Activities

Purchases of property and equipment	<u>(9,015)</u>
Net cash used in investing activities	<u>(9,015)</u>

Cash flows From Financing Activities

Payments on notes payable	<u>(8,525)</u>
Net cash used in financing activities	<u>(8,525)</u>

Net change in cash and cash equivalents	(23,114)
Cash at beginning of year	250,187
Cash at end of year	<u>\$ 227,073</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u>\$ 52,550</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, 2007

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 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.

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.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2007

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.

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.

The Organization uses the allowance method to estimate uncollectible pledge receivables. The allowance is based on experience and management's analysis of specific pledges made.

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 accelerated 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

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property and Equipment (continued)

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.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable recorded for the Organization are unconditional promises to give and consist of the following at December 31, 2007:

Capital Campaign- Due from Turner Foundation	\$300,000
Capital Campaign – Due from various members	<u>16,710</u>
	316,710
Less discount to net present value and doubtful accounts	<u>(31,879)</u>
Net pledges receivable	<u>\$284,831</u>
Receivable in less than one year, net	\$109,362
Receivable in one to five years, net	<u>175,469</u>
	<u>\$284,831</u>

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2007

NOTE 2 – PLEDGES RECEIVABLE - continued

A discount rate of 4.4% is used to reflect the present value of expected future collections due after one year.

NOTE 3 – NOTE PAYABLE

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.

2007

\$745,991

Less current maturities

(9,145)
\$736,846

Maturities of debt are as follows:

2008	\$ 9,145
2009	9,806
2010	<u>727,040</u>
	<u>\$745,991</u>

NOTE 4 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose at December 31, 2007:

Unconditional promises to give for capital campaign	\$284,831
Contributions received for capital campaign	<u>180,180</u>
	<u>\$465,011</u>

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2007

NOTE 4 – RESTRICTIONS ON NET ASSETS – (continued)

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, 2007 as follows:

Building mortgage payments-principal	\$ 8,525
Building mortgage payments – interest	52,550
Parking lot space	12,000
Property taxes	3,787
Repairs and maintenance	9,015
Building improvements	<u>14,014</u>
	<u>\$ 99,891</u>

The Organization started a capital campaign in 2007 to raise funds for paying off the purchase and remodeling their current building that houses its operations.

NOTE 5 – CONCENTRATION OF CREDIT RISK

Cash is a financial instrument that potentially subjects the Organization to a concentration of credit risk. The Organization has cash deposits in a financial institution in excess of the amount insured by the Federal Depository Insurance Corporation in the amount of \$197,305 at December 31, 2007.