

**TENNESSEE ART LEAGUE, INC.**  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2009**

**TENNESSEE ART LEAGUE, INC.**  
**Financial Statements**  
**DECEMBER 31, 2009**

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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, 2009, 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, 2009, 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.

April 5, 2010

**TENNESSEE ART LEAGUE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2009**

**ASSETS**

**Current Assets**

Cash	\$ 163,289
Pledges receivable	103,790
Grants receivable	21,900
Total current assets	<u>288,979</u>

**Property and Equipment**

Land	225,000
Building	650,000
Building improvements	204,018
Office furniture and equipment	23,663
	<u>1,102,681</u>
Less: accumulated depreciation	<u>(112,392)</u>
Total property and equipment	990,289
<b>Total assets</b>	<b><u>\$ 1,279,268</u></b>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accrued liabilities	\$ 12,150
Current portion of notes payable	19,856
Total current liabilities	<u>32,006</u>

**Long Term Debt**

Notes payable	<u>708,829</u>
Total long term debt	<u>708,829</u>

Total liabilities	740,835
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**Net Assets**

Unrestricted	264,200
Temporarily restricted	274,233
Total net assets	<u>538,433</u>
Total liabilities and net assets	<b><u>\$ 1,279,268</u></b>

The accompanying notes are an integral part of these financial statements

**TENNESSEE ART LEAGUE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>			
Public Support:			
Grant income	\$ 29,900	\$ -	\$ 29,900
Contributions	14,884	-	14,884
Special event revenue:			
Revenue	11,783	-	11,783
Less direct costs	(15,013)	-	(15,013)
Net revenue from special events	(3,230)	-	(3,230)
Total public support	41,554	-	41,554
Revenue:			
Sale of artwork and merchandise	10,404	-	10,404
Less: cost of sales	(8,079)	-	(8,079)
Classes and workshop fees	6,836	-	6,836
Exhibit entry & gallery fees	12,945	-	12,945
Membership dues	18,465	-	18,465
Studio rental fees	24,366	-	24,366
Interest income	315	-	315
Other income	1,631	-	1,631
Total revenue	66,883	-	66,883
Net assets released from restrictions	116,878	(116,878)	-
Total public support and revenue	225,315	(116,878)	108,437
<b>Expenses</b>			
Program services:			
Education	70,977	-	70,977
Gallery Activities	140,677	-	140,677
Total program services	211,654	-	211,654
Supporting services:			
Management and general	24,664	-	24,664
Fundraising	22,357	-	22,357
Total supporting services	47,021	-	47,021
Total expenses	258,675	-	258,675
<b>Change in net assets</b>	(33,360)	(116,878)	(150,238)
Net assets at beginning of year	297,560	391,111	688,671
<b>Net assets at end of year</b>	<b>\$ 264,200</b>	<b>\$ 274,233</b>	<b>\$ 538,433</b>

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, 2009**

**Cash Flows From Operating Activities**

Change in net assets	\$ (150,238)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	25,394
Loss on disposal of fixed assets	1,926
Changes in operating assets and liabilities:	
Pledges receivable	96,308
Grants receivable	(1,474)
Other receivables	1,969
Accrued liabilities	1,891
Net cash used in operating activities	<u>(24,224)</u>

**Cash flows From Investing Activities**

Purchases of property and equipment	<u>(3,929)</u>
Net cash used in investing activities	<u>(3,929)</u>

**Cash flows From Financing Activities**

Net payments on notes payable	<u>(8,160)</u>
Net cash used in financing activities	<u>(8,160)</u>
 Net change in cash and cash equivalents	 (36,313)
Cash at beginning of year	199,602
Cash at end of year	<u><u>\$ 163,289</u></u>

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the year for interest	<u><u>\$ 49,153</u></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, 2009**

	<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. &amp; General</u>	<u>Fund Raising</u>	<u>Supporting Services</u>	<u>Total Expenses</u>
Salaries & Wages	\$24,619	\$24,619	\$49,238	\$7,985	\$9,315	\$17,300	\$66,538
Payroll Taxes	1,960	1,960	3,920	636	742	1,378	5,298
Total Compensation	26,579	26,579	53,158	8,621	10,057	18,678	71,836
Classes & Workshops	5,371	-	5,371	-	-	-	5,371
Exhibits	-	13,527	13,527	-	-	-	13,527
Artwork Cost of Sales	-	8,079	8,079	-	-	-	8,079
Annual Fundraiser Direct Costs	-	-	-	-	15,013	15,013	15,013
Consulting Expense	1,491	3,814	5,305	2,984	1,493	4,477	9,782
Repairs & Maintenance	628	2,195	2,823	158	157	315	3,138
Occupancy	15,409	31,103	46,512	2,650	2,650	5,300	51,812
Interest	10,753	37,637	48,390	2,689	2,688	5,377	53,767
Depreciation	5,079	17,776	22,855	1,269	1,270	2,539	25,394
Insurance	241	842	1,083	4,100	60	4,160	5,243
Marketing	-	1,821	1,821	-	-	-	1,821
Professional Fees	3,090	3,091	6,181	1,685	3,693	5,378	11,559
Loss on asset disposal	1,926	-	1,926	-	-	-	1,926
Taxes	207	723	930	53	52	105	1,035
Other Expenses	203	1,569	1,772	455	237	692	2,464
Total Expenses	70,977	148,756	219,733	24,664	37,370	62,034	281,767
Less expenses netted with revenue on Statement of Activities:							
Artwork Cost of Sales	-	(8,079)	(8,079)	-	-	-	(8,079)
Annual Fundraiser Direct Costs	-	-	-		(15,013)	(15,013)	(15,013)
Total Expenses by Function	\$70,977	\$140,677	\$211,654	\$24,664	\$22,357	\$47,021	\$258,675
Current Year's Percentages	24.93%	54.38%	81.82%	9.53%	8.64%	18.18%	100.00%

The accompanying notes are in integral part of these financial statements

**TENNESSEE ART LEAGUE, INC.**  
**Notes to Financial Statements**  
**December 31, 2009**

**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, 2008.



**TENNESSEE ART LEAGUE, INC.**  
**Notes to Financial Statements**  
**December 31, 2009**

**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, 2009.

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, 2009**

**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, 2009**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial Instruments**

Effective January 1, 2009 the Organization adopted SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring the fair value in accordance with GAAP, and expands disclosures about the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on the Organization's financial position or operating results.

Assets recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by SFAS No. 157, are as follows:

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.

**TENNESSEE ART LEAGUE, INC.**  
**Notes to Financial Statements**  
**December 31, 2009**

**NOTE 2 – PLEDGES RECEIVABLE**

Pledges receivable recorded for the Organization are unconditional promises to give and consist of the following at December 31, 2009:

Capital Campaign- Due from Turner Foundation	\$100,000
Capital Campaign – Due from various members	<u>3,790</u>
Receivable in less than one year	<u>\$103,790</u>

**NOTE 3 – NOTE PAYABLE**

**2009**

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.

\$728,685

Less current maturities

( 19,856 )  
\$708,829

Maturities of debt are as follows:

2010	\$ 19,856
2011	21,099
2012	22,299
2013	23,813
2014	25,303
Thereafter	<u>616,315</u>
	<u>\$728,685</u>

**TENNESSEE ART LEAGUE, INC.**  
**Notes to Financial Statements**  
**December 31, 2009**

**NOTE 4 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following purpose at December 31, 2009:

Unconditional promises to give for capital campaign	\$100,000
Contributions received for capital campaign	<u>174,233</u>
	<u>\$274,233</u>

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, 2009 as follows:

Building mortgage payments-principal	\$ 12,775
Building mortgage payments – interest	49,153
Parking lot space	12,000
Property taxes	10,138
Utilities	9,610
Closing costs for refinanced building mortgage	9,145
Repairs and maintenance & various other costs	<u>14,057</u>
	<u>\$116,878</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 – SUBSEQUENT EVENTS**

The Organization evaluated subsequent events through April 5, 2010, the issuance of the Organization's financial statements.