TENNESSEE ART LEAGUE, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2006

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2006

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.

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.

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 and reflect discounts for payment terms greater than one year. 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.

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.

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December 31, 2006

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 – PLEDGES RECEIVABLE

Pledges receivable recorded for the Organization are unconditional promises to give and consist of the following at December 31, 2006:

Capital Campaign- Due from Turner Foundation	$400,000
Capital Campaign – Due from various members	25,365
	425,365
Less discount to net present value	(44,669)
Net pledges receivable	$380,696
Receivable in less than one year, net	$111,550
Receivable in one to five years, net	269,146
	$380,696

Uncollectible amounts for unconditional promises to give are expected to be insignificant. Accordingly, no provision is made for uncollectible amounts.

NOTE 3 – NOTE PAYABLE

	2006
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.	754,516
Less current maturities	(8,529)
	$745,987

Maturities of debt are as follows:

2007	8,529
2008	9,145
2009	9,806
2010	727,036
	$754,516

NOTE 4 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose at December 31, 2006:

Unconditional promises to give for capital campaign	$380,696
Contributions received for capital campaign	165,241
	$545,937

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, 2006 as follows:

Building mortgage payments-principal	$ 7,954
Building mortgage payments – interest	53,121
Parking lot space	12,000
Property taxes	12,410
Building improvements	58,097
	$143,582

NOTE 4 – RESTRICTIONS ON NET ASSETS – (continued)

The Organization started a capital campaign in 2006 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 financial institutions in excess of the amount insured by the Federal Depository Insurance Corporation in the amount of $51,707 at December 31, 2006.