

TENNESSEE ART LEAGUE, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2008

TENNESSEE ART LEAGUE, INC.
Financial Statements
DECEMBER 31, 2008

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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, 2008, 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 audits.

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, 2008, 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.

March 23, 2009

TENNESSEE ART LEAGUE, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

ASSETS

Current Assets

Cash	\$ 199,602
Pledges receivable - capital campaign, net	105,256
Grants receivable	20,426
Other receivable	1,969
Total current assets	<u>327,253</u>

Property and Equipment

Land	225,000
Building	650,000
Building improvements	203,618
Office furniture and equipment	22,634
	<u>1,101,252</u>
Less: accumulated depreciation	(87,572)
Total property and equipment	<u>1,013,680</u>

Other non-current assets

Pledges receivable - capital campaign	94,842
Total assets	<u><u>\$ 1,435,775</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities

Accrued liabilities	\$ 10,259
Current portion of notes payable	9,806
Total current liabilities	<u>20,065</u>

Long Term Debt

Notes payable	727,039
Total long term debt	<u>727,039</u>

Total liabilities	747,104
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Net Assets

Unrestricted	297,560
Temporarily restricted	391,111
Total net assets	<u>688,671</u>
Total liabilities and net assets	<u><u>\$ 1,435,775</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, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support:			
Grant income	\$ 28,251	\$ -	\$ 28,251
Contributions	3,481	25,657	29,138
Special event revenue:			
Revenue	30,143	-	30,143
Less direct costs	(14,563)	-	(14,563)
Net revenue from special events	15,580	-	15,580
Total public support	47,312	25,657	72,969
Revenue:			
Sale of artwork and merchandise	15,663	-	15,663
Less: cost of sales	(11,943)	-	(11,943)
Classes and workshop fees	11,248	-	11,248
Exhibit entry fees	9,643	-	9,643
Membership dues	19,675	-	19,675
Studio rental fees	23,279	-	23,279
Interest income	3,714	-	3,714
Other income	265	-	265
Total revenue	71,544	-	71,544
Net assets released from restrictions	99,557	(99,557)	-
Total public support and revenue	218,413	(73,900)	144,513
Expenses			
Program services:			
Education	63,685	-	63,685
Gallery Activities	145,739	-	145,739
Total program services	209,424	-	209,424
Supporting services:			
Management and general	22,799	-	22,799
Fundraising	26,157	-	26,157
Total supporting services	48,956	-	48,956
Total expenses	258,380	-	258,380
Change in net assets	(39,967)	(73,900)	(113,867)
Net assets at beginning of year	337,527	465,011	802,538
Net assets at end of year	<u>\$ 297,560</u>	<u>\$ 391,111</u>	<u>\$ 688,671</u>

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, 2008

Cash Flows From Operating Activities

Change in net assets	\$ (113,867)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	25,387
Changes in operating assets and liabilities:	
Pledges receivable	84,732
Grants receivable	3,512
Other receivables	(1,969)
Accrued liabilities	(15,576)
Net cash used in operating activities	<u>(17,781)</u>

Cash flows From Investing Activities

Purchases of property and equipment	<u>(545)</u>
Net cash used in investing activities	<u>(545)</u>

Cash flows From Financing Activities

Payments on notes payable	<u>(9,145)</u>
Net cash used in financing activities	<u>(9,145)</u>

Net change in cash and cash equivalents	(27,471)
Cash at beginning of year	227,073
Cash at end of year	<u><u>\$ 199,602</u></u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u><u>\$ 51,929</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, 2008

	Program Services			Supporting Services			
	Total			Total			
	Education	Gallery Activities	Program Services	Mgmt. & General	Fund Raising	Supporting Services	Total Expenses
Salaries and wages	\$ 23,763	\$ 23,200	\$ 46,963	\$ 7,877	\$ 8,705	\$ 16,582	\$ 63,545
Payroll taxes	1,819	1,773	3,592	603	666	1,269	4,861
Total compensation	25,582	24,973	50,555	8,480	9,371	17,851	68,406
Classes and workshops	5,569	-	5,569	-	-	-	5,569
Exhibits	-	12,950	12,950	-	-	-	12,950
Artwork cost of sales	-	11,943	11,943	-	-	-	11,943
Special event direct costs	-	-	-	-	14,563	14,563	14,563
Printing and publication	405	1,415	1,820	101	101	202	2,022
Consulting expense	2,252	5,993	8,245	2,964	1,592	4,556	12,801
Repairs & maintenance	801	2,806	3,607	200	200	400	4,007
Occupancy	9,443	33,050	42,493	2,360	2,361	4,721	47,214
Interest	10,386	36,350	46,736	2,596	2,597	5,193	51,929
Depreciation	5,078	17,770	22,848	1,270	1,269	2,539	25,387
Unfulfilled pledges	-	-	-	-	5,000	5,000	5,000
Insurance	802	2,806	3,608	1,063	200	1,263	4,871
Marketing	-	3,343	3,343	1,500	-	1,500	4,843
Professional fees	2,911	2,879	5,790	1,572	3,445	5,017	10,807
Taxes	85	300	385	263	21	284	669
Other expenses	371	1,104	1,475	430	-	430	1,905
Total expenses	63,685	157,682	221,367	22,799	40,720	63,519	284,886
Less expenses netted with revenue on statement of activities:							
Artwork cost of sales	-	(11,943)	(11,943)	-	-	-	(11,943)
Direct costs of special events	-	-	-	-	(14,563)	(14,563)	(14,563)
Total expenses by function	\$ 63,685	\$ 145,739	\$ 209,424	\$ 22,799	\$ 26,157	\$ 48,956	\$ 258,380
Current year's percentages	24.65%	56.41%	81.06%	8.82%	10.12%	18.94%	100.00%

The accompanying notes are an integral part of these financial statements

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2008

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, 2008

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, 2008.

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.

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2008

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, 2008

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable recorded for the Organization are unconditional promises to give and consist of the following at December 31, 2008:

Capital Campaign- Due from Turner Foundation	\$200,000
Capital Campaign – Due from various members	<u>9,500</u>
	209,500
Less discount to net present value and doubtful accounts	<u>(9,402)</u>
Net pledges receivable	<u>\$200,098</u>
Receivable in less than one year, net	\$105,256
Receivable in one to five years, net	<u>94,842</u>
	<u>\$200,098</u>

A discount rate of 1.5% is used to reflect the present value of expected future collections due after one year.

NOTE 3 – NOTE PAYABLE

2008

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.

\$736,845

Less current maturities

(9,806)
\$727,039

Maturities of debt are as follows:

2009	\$ 9,806
2010	<u>727,039</u>
	<u>\$736,845</u>

TENNESSEE ART LEAGUE, INC.
Notes to Financial Statements
December 31, 2008

NOTE 4 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purpose at December 31, 2008:

Unconditional promises to give for capital campaign	\$200,098
Contributions received for capital campaign	<u>191,013</u>
	<u>\$391,111</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, 2008 as follows:

Building mortgage payments-principal	\$ 9,145
Building mortgage payments – interest	51,929
Parking lot space	12,000
Property taxes	12,161
Utilities	10,315
Repairs and maintenance	<u>4,007</u>
	<u>\$ 99,557</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.