

NAPLES ART ASSOCIATION, INC.

FINANCIAL STATEMENTS

**YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION
JUNE 30, 2006)**

NAPLES ART ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2006)

ASSETS	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents	\$ 678,870	\$ 374,282
Prepaid Expenses	15,683	4,711
Inventory	8,164	9,258
Unconditional Promises to Give, Net	7,130	3,600
Certificates of Deposit	243,902	233,103
Cash - Designated for Endowment	-	330
Cash, Permanently Restricted for Endowment	-	9,580
Investments	728,820	1,220,893
Property and Equipment, Net	3,093,544	3,101,771
Collections	859,609	832,909
	<u>5,635,722</u>	<u>5,790,437</u>
Total Assets	<u>\$ 5,635,722</u>	<u>\$ 5,790,437</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 30,385	\$ 33,223
Capital Lease Payable	-	11,086
Deferred Revenue	65,980	55,259
	<u>96,365</u>	<u>99,568</u>
Total Liabilities	96,365	99,568
NET ASSETS		
Unrestricted		
Unrestricted	1,089,060	1,186,691
Investment in Property and Equipment	2,129,446	2,137,673
Unrestricted - Board Designated	363,542	363,542
	<u>3,582,048</u>	<u>3,687,906</u>
Total Unrestricted	3,582,048	3,687,906
Temporarily Restricted	1,128,362	1,174,916
Permanently Restricted	828,947	828,047
	<u>1,957,309</u>	<u>1,957,309</u>
Total Net Assets	<u>5,539,357</u>	<u>5,690,869</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,635,722</u>	<u>\$ 5,790,437</u>

See accompanying Notes to Financial Statements.

NAPLES ART ASSOCIATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2006)

	Unrestricted	Temporarily	Permanently	Totals	
		Restricted	Restricted	2007	2006
SUPPORT AND REVENUES					
Contributions	\$ 256,938	\$ 44,036	\$ 900	\$ 301,874	\$ 279,771
In-kind Contributions	26,700	-	-	26,700	29,833
Special Events Revenue	\$391,357				
Special Events Expense	<u>(131,532)</u>				
Special Events, Net	259,825	-	-	259,825	305,100
Studio and Gallery Income	242,496	-	-	242,496	186,067
Other Revenues	6,356	-	-	6,356	26,253
Commissions and Fees	152,981	-	-	152,981	65,645
Membership Dues	97,837	-	-	97,837	91,213
Investment Return	173,065	-	-	173,065	82,284
Total Support and Revenues	<u>1,216,198</u>	<u>44,036</u>	<u>900</u>	<u>1,261,134</u>	<u>1,066,166</u>
Net Assets Released from Restrictions	<u>90,590</u>	<u>(90,590)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	1,306,788	(46,554)	900	1,261,134	1,066,166
EXPENSES					
Program Services	1,165,989	-	-	1,165,989	896,657
Management and General	177,783	-	-	177,783	117,170
Fund-raising	68,874	-	-	68,874	42,607
Total Expenses	<u>1,412,646</u>	<u>-</u>	<u>-</u>	<u>1,412,646</u>	<u>1,056,434</u>
CHANGE IN NET ASSETS	(105,858)	(46,554)	900	(151,512)	9,732
NET ASSETS - BEGINNING OF YEAR	<u>3,687,906</u>	<u>1,174,916</u>	<u>828,047</u>	<u>5,690,869</u>	<u>5,681,137</u>
NET ASSETS - END OF YEAR	<u>\$ 3,582,048</u>	<u>\$ 1,128,362</u>	<u>\$ 828,947</u>	<u>\$ 5,539,357</u>	<u>\$ 5,690,869</u>

See accompanying Notes to Financial Statements.

NAPLES ART ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (151,512)	\$ 9,732
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by (Used in) Operating Activities:		
Depreciation	130,104	121,848
In-Kind Contributions	(26,700)	(7,275)
Realized (Gains) on Investments	(7,078)	(3,649)
Unrealized (Gains) on Investments	(105,220)	(31,279)
(Increase) Decrease in:		
Prepaid Expenses	(10,972)	5,769
Inventory	1,094	984
Unconditional Promises to Give, Net	(3,530)	39,924
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(2,838)	3,244
Deferred Revenue	10,721	2,909
Contributions Restricted for Endowment:		
Cash Contributions	<u>(900)</u>	<u>(128,527)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(166,831)</u>	<u>13,680</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(114,392)	(1,026)
(Purchase) Redemptions of Certificates of Deposit, Net	(10,799)	22,110
Sale of Investments	646,741	41,603
Purchase of Investments	<u>(39,945)</u>	<u>(32,318)</u>
Net Cash Provided by (Used in) Investing Activities	<u>481,605</u>	<u>30,369</u>
Subtotal	<u>\$ 314,774</u>	<u>\$ 44,049</u>

(Continued)

NAPLES ART ASSOCIATION, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2006)

	2007	2006
Subtotal from Previous Page	\$ 314,774	\$ 44,049
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Endowment	900	128,527
Payments on Capital Lease	(11,086)	(8,748)
Net Cash Provided By (Used In) Financing Activities	(10,186)	119,779
Net Change in Cash and Cash Equivalents	304,588	163,828
Cash and Cash Equivalents - Beginning of Year	374,282	210,454
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 678,870	\$ 374,282

See accompanying Notes to Financial Statements.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Naples Art Association, Inc. (the Association) is a not-for-profit corporation organized in 1954 to promote and advance education, interest and participation in the contemporary visual arts. Programs at the Naples Art Association, Inc.'s von Liebig Art Center include changing exhibitions of American art from 1950 forward offered free and open to the public throughout the year. The Association's diverse education program includes enriching lecture series, workshops, and art classes for youth and adults. The von Liebig Art Center serves Southwest Florida's growing number of residents, visitors and Naples Art Association, Inc.'s members.

Basis of Accounting

The Association's financial statements have been prepared on the accrual basis of accounting, which recognizes revenues when earned and expenses as incurred.

Financial Statement Presentation

Net assets and revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted - Resources over which the board of directors has discretionary control. Designated amounts represent those revenues, which the board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions, which will be satisfied by actions of the Association or passage of time.

Permanently Restricted - Those resources subject to a donor imposed restriction that they be maintained permanently by the Association. The donors of these resources permitted the Association to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all bank and similar deposits and demand accounts with an original maturity of three months or less to be cash equivalents. Money market funds, held as a portion of the Association's endowment portfolio, are classified as short-term investments and are not considered cash equivalents for purposes of the statement of cash flows. Cash equivalents and short-term investments are stated at cost, which approximates market value.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (continued)

The Association maintains bank accounts with balances, which, at times may exceed federally insured limits. The Association has not experienced any losses on such accounts. The Association believes it is not exposed to any significant risk on bank deposit accounts.

Membership Dues

Revenue from membership dues is recognized over the period to which the dues relate. Members are billed in the month of their renewal date of each year for the fiscal year beginning the following month. Deferred membership dues represent the unearned portion at June 30, 2007, and are included in deferred revenue on the statement of financial position.

Contributions

In accordance with SFAS No. 116, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under SFAS No. 116, contributions that are required to be reported as temporarily restricted support are reclassified to unrestricted net assets upon expiration of the time or use restriction. However, contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. 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 and are reclassified to unrestricted net assets upon expiration or satisfaction of the restriction.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of estimated cash flows, using risk-free interest rates applicable to the years in which the promises are to be received. Additionally, the Association uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

Contributed services meeting the requirement for recognition in the financial statements are recorded at the fair market value of the professional services rendered. Contributed services totaling approximately \$2,700 were received during the year and are reflected in the financial statements for the year ended June 30, 2007.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Association in membership services, committee assignments and fund-raising such as marketing, advertising, and computer services. The Association received approximately 7,228 volunteer hours for an approximate value of \$120,000 that has not been reflected in the financial statements for the year ended June 30, 2007, since the services do not meet the criteria for recognition.

Collections

The Association's policy is to capitalize its collections. If purchased, items accessioned into the collection are capitalized at cost, and if donated, they are capitalized at their appraised or fair value on the accession date (the date on which the items are accepted by the Board of Directors). Gains or losses on the de-accession of collection items are classified on the statement of activities as unrestricted, temporarily restricted, or permanently restricted support depending on donor restrictions, if any, placed on the items at the time of accessions.

Property, Equipment and Related Depreciation

The Association records property and equipment at cost when purchased or at fair market value when donated. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the related assets which is as follows:

Furniture and equipment	3 – 7 years
Building	40 years

Repairs and maintenance are charged to operations when incurred. Improvement and renovations are capitalized. The Association's policy is to capitalize amounts over \$500. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are reduced, and any gain or loss is included in the Statement of Activities.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventories are stated at the lower of cost or market determined by the first-in, first-out method.

Investments

Investments are initially recorded at cost, if purchased, or, if donated, at fair market value on the date received. Investment securities are reflected at market value and realized and unrealized gains and losses are recognized as changes in unrestricted net assets, unless there are donor imposed restrictions.

Income Taxes

The Internal Revenue Service has determined that the Association is exempt from income taxes under the provisions of the Internal Revenue Code Section 501(c)(3). In addition, the Association has been determined by the Internal Revenue Service to be other than a private foundation within the meaning of section 509(a) of the code. Accordingly, no provision for income taxes has been made in these financial statements.

Functional Expenses

The costs of providing program and support services have been summarized on a functional basis in the statement of activities. The expenses are charged directly to program or support services based on management's estimate of resources expended.

Long-Lived Assets

The Association reports gifts of land, building and equipment as unrestricted support unless explicit donor stipulations or grantors specify how the assets are to be used. Additionally, gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support, under temporarily restricted net assets. Absent explicit donor or grantee stipulations, the Association reports expirations of donor restrictions when the donated or long-lived assets are acquired.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Advertising Transactions

Advertising costs are expensed when incurred. Advertising expense for the year ended June 30, 2007, was \$85,388.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Such reclassifications have no effect on reported changes in net assets.

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

NOTE 2 UNCONDITIONAL PROMISES TO GIVE, NET

Unconditional promises to give at June 30, 2007, relate to the building campaign and consist of the following:

Unconditional promises to give	\$ 7,922
Less: discounts to net present value	<u>(792)</u>
	<u>\$ 7,130</u>

Unconditional promises to give are scheduled to be received as follows:

1 year or less	<u>\$ 7,130</u>
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Unconditional promises to give are reflected at present value of estimated cash flows using a discount rate of approximately 10%.

NOTE 3 PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2007, consists of the following:

Building	\$ 3,881,316
Furniture and Equipment	<u>284,564</u>
	4,165,880
Less: Accumulated Depreciation	<u>(1,072,336)</u>
	<u>\$ 3,093,544</u>

Depreciation expense for the year ended June 30, 2007, was \$130,104.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 INVESTMENTS

Investments at June 30, 2007, consist of the following:

	<u>Cost</u>	<u>Market Value</u>
S&P 500 Index mutual fund	<u>\$ 560,292</u>	<u>\$ 728,820</u>

Investment return consists of the following:

Interest and dividends	\$ 60,767
Realized gain on investments	7,078
Change in unrealized gain on investments	<u>105,220</u>
	<u>\$ 173,065</u>

NOTE 5 COLLECTIONS

The Association's collections are comprised of art objects that are held for educational and observational purposes. Each of the items are cataloged, preserved, and cared for. Activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections. The Association capitalized \$26,700 in contributed artwork during the year ended June 30, 2007.

NOTE 6 BOARD DESIGNATED NET ASSETS

As of June 30, 2007, the Association's board of directors has designated \$193,088 for scholarships, building and equipment, restoration of artwork and production of mugs to be sold in the gift shop. In addition, the board has designated \$170,454 for endowment.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2007, are comprised of the following:

Contributions for scholarships	\$ 4,336
Contributions for future projects	152,798
Unconditional promises to give, net	7,130
Property and equipment acquired with grant funds	<u>964,098</u>
	<u>\$1,128,362</u>

The Association partially funded the construction of the Naples Community Art Center with restricted grant funds from the State of Florida Division of Cultural Affairs in the amount of \$964,098. In consideration for the grant funds, the State imposed several restrictive covenants regarding use and disposal for a period of ten years, therefore, the grant funds expended are categorized as temporarily restricted until the term has expired in November, 2008.

As of June 30, 2007, the Association has permanently restricted net assets of \$828,947 received for endowment with only the investment income available for operations. The Association received \$240,000 from the State of Florida, Department of State Cultural Endowment State Matching Grant (the "Grant"), to be included along with the \$360,000 the Association was required to accumulate in order to meet the requirements for the Grant. Additionally, the Association agrees, among other grant covenants, that the fair market value of the endowment fund shall not go below \$600,000.

NOTE 8 COMMITMENTS AND CONTINGENCIES

The Association entered into a Use Agreement with the City of Naples on April 4, 1995. The Association constructed the Naples Community Art Center (the "Center") on property owned by the City of Naples and located in Cambier Park, Naples, Florida. The term of the Agreement is for 50 years, commencing on November 19, 1998, the date the certificate of occupancy was issued for the Center. The term may be extended by mutual consent for successive 25 year increments.

The City may purchase the Center at the end of the initial 50 year-term or any extension period of 25 years. The purchase price shall be an amount equal to the fair market value of the Center as defined by the Use Agreement plus costs of fund-raising for a new location and moving. Operating expenses and maintenance will be the sole responsibility of the Association as long as the Use Agreement is in effect.

NAPLES ART ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 9 NATURAL CLASSIFICATION OF EXPENSES

The Association incurred the following operating expenses for the year ended June 30, 2007:

Advertising	\$ 85,388
Artistic Fees	123,935
Awards	15,000
Cost of Goods Sold	123,208
Depreciation	130,104
Food and Beverage	47,568
Grant Expense	31,044
Insurance	14,745
Maintenance and Repairs	34,408
Office Expense	54,696
Postage	15,464
Printing	56,446
Professional and Other Fees	31,104
Rent	6,467
Salaries and Benefits	530,899
Supplies	42,002
Telephone	8,699
Travel and Lodging	14,157
Utilities	47,312
Total Expenses	<u>\$ 1,412,646</u>