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**CRAFT ALLIANCE**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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**CRAFT ALLIANCE**  
**JUNE 30, 2011 AND 2010**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors of  
**Craft Alliance**  
St. Louis, Missouri

We have audited the accompanying statements of financial position of **Craft Alliance (the Organization)** as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 **Craft Alliance** as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Kiefer Bonfanti & Co. LLP*

September 21, 2011

**CRAFT ALLIANCE**

**STATEMENTS OF FINANCIAL POSITION**

|  | <b>Assets</b>     |                     |
|--|-------------------|---------------------|
|  | <b>June 30,</b>   |                     |
|  | <b>2011</b>       | <b>2010</b>         |
| <b>Current Assets</b>                  |                   |                     |
| Cash and cash equivalents              | \$ 15,705         | \$ 40,298           |
| Accounts receivable                    | 17,520            | 19,927              |
| Promises to give                       | 169,012           | 184,054             |
| Inventory                              | 88,077            | 80,092              |
| Prepaid expenses                       | 42,224            | 21,587              |
| <b>Total Current Assets</b>            | <b>332,538</b>    | <b>345,958</b>      |
| <b>Property and Equipment, Net</b>     | <b>609,731</b>    | <b>616,826</b>      |
| <b>Promises to Give - Long-term</b>    | <b>23,484</b>     | <b>41,645</b>       |
| <b>Assets Restricted for Endowment</b> | <b>22,125</b>     | <b>22,125</b>       |
| <b>Total Assets</b>                    | <b>\$ 987,878</b> | <b>\$ 1,026,554</b> |

| <b>Liabilities and Net Assets</b>       |                   |                     |
|---|-------------------|---------------------|
| <b>Current Liabilities</b>              |                   |                     |
| Current portion of long-term debt       | \$ 142,200        | \$ 267,623          |
| Accounts payable                        | 29,487            | 22,509              |
| Sales taxes payable                     | 2,648             | -                   |
| Deferred revenue                        | 151,919           | 129,598             |
| <b>Total Current Liabilities</b>        | <b>326,254</b>    | <b>419,730</b>      |
| <b>Other Liabilities</b>                |                   |                     |
| Long-term debt                          | 654,442           | 640,945             |
| <b>Total Liabilities</b>                | <b>980,696</b>    | <b>1,060,675</b>    |
| <b>Net Assets</b>                       |                   |                     |
| Unrestricted                            | (219,084)         | (286,124)           |
| Temporarily restricted                  | 204,141           | 229,878             |
| Permanently restricted                  | 22,125            | 22,125              |
| <b>Total Net Assets</b>                 | <b>7,182</b>      | <b>(34,121)</b>     |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 987,878</b> | <b>\$ 1,026,554</b> |

**CRAFT ALLIANCE**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total            |
|---|---------------------|---------------------------|---------------------------|------------------|
| <b>Revenue</b>  |                     |                           |                           |                  |
| Tuition, net of discounts of \$40,697   | \$ 387,109          | \$ -                      | \$ -                      | \$ 387,109       |
| Contracts and special programs  | 58,086              | -                         | -                         | 58,086           |
| Gallery shop, net of discounts of \$51,906  | 478,225             | -                         | -                         | 478,225          |
| Exhibition gallery, net of discounts of \$803   | 13,780              | -                         | -                         | 13,780           |
| Interest income   | 53                  | 55                        | -                         | 108              |
| Miscellaneous income  | 5,582               | -                         | -                         | 5,582            |
| <b>Total Revenue</b>  | <b>942,835</b>      | <b>55</b>                 | <b>-</b>                  | <b>942,890</b>   |
| <b>Public Support</b>   |                     |                           |                           |                  |
| Individual  | 261,408             | 1,150                     | -                         | 262,558          |
| Corporate   | 53,576              | 40,000                    | -                         | 93,576           |
| Foundation  | 44,723              | 84,128                    | -                         | 128,851          |
| Grants  | 750                 | 95,624                    | -                         | 96,374           |
| Fundraising events  | 130,765             | 2,150                     | -                         | 132,915          |
| <b>Total Public Support</b>   | <b>491,222</b>      | <b>223,052</b>            | <b>-</b>                  | <b>714,274</b>   |
| <b>Net Assets Released from Restrictions</b>  | <b>248,844</b>      | <b>(248,844)</b>          | <b>-</b>                  | <b>-</b>         |
| <b>Total Revenue and Support</b>  | <b>1,682,901</b>    | <b>(25,737)</b>           | <b>-</b>                  | <b>1,657,164</b> |
| <b>Expenses</b>   |                     |                           |                           |                  |
| Program services  |                     |                           |                           |                  |
| Delmar Education Center   | 329,718             | -                         | -                         | 329,718          |
| Delmar Gallery shop   | 427,637             | -                         | -                         | 427,637          |
| Delmar Exhibition gallery   | 91,764              | -                         | -                         | 91,764           |
| Outreach  | 97,781              | -                         | -                         | 97,781           |
| Grand Center Outreach   | 16,007              | -                         | -                         | 16,007           |
| Grand Center  | 215,855             | -                         | -                         | 215,855          |
| <b>Total Program Services</b>   | <b>1,178,762</b>    | <b>-</b>                  | <b>-</b>                  | <b>1,178,762</b> |
| Support services  |                     |                           |                           |                  |
| Management and general  | 123,180             | -                         | -                         | 123,180          |
| Development   | 135,230             | -                         | -                         | 135,230          |
| Events  | 75,470              | -                         | -                         | 75,470           |
| <b>Total Support Services</b>   | <b>333,880</b>      | <b>-</b>                  | <b>-</b>                  | <b>333,880</b>   |
| <b>Total Expenses Before Depreciation</b>   |                     |                           |                           |                  |
| <b>Uncollectible Promises to Give,<br/>and Loss on Disposal of Assets</b>               | <b>1,512,641</b>    | <b>-</b>                  | <b>-</b>                  | <b>1,512,641</b> |
| <b>Increase (Decrease) in Net Assets Before</b>   |                     |                           |                           |                  |
| <b>Depreciation, Uncollectible Promises to Give,<br/>and Loss on Disposal of Assets</b> | <b>170,260</b>      | <b>(25,737)</b>           | <b>-</b>                  | <b>144,523</b>   |
| <b>Depreciation</b>   | <b>(88,141)</b>     | <b>-</b>                  | <b>-</b>                  | <b>(88,141)</b>  |
| <b>Uncollectible Promises to Give</b>   | <b>(12,000)</b>     | <b>-</b>                  | <b>-</b>                  | <b>(12,000)</b>  |
| <b>Loss on Disposal of Assets</b>   | <b>(3,079)</b>      | <b>-</b>                  | <b>-</b>                  | <b>(3,079)</b>   |
| <b>Total Increase (Decrease) in Net Assets</b>  | <b>67,040</b>       | <b>(25,737)</b>           | <b>-</b>                  | <b>41,303</b>    |
| <b>Net Assets (Deficit), Beginning of Year</b>  | <b>(286,124)</b>    | <b>229,878</b>            | <b>22,125</b>             | <b>(34,121)</b>  |
| <b>Net Assets (Deficit), End of Year</b>  | <b>\$ (219,084)</b> | <b>\$ 204,141</b>         | <b>\$ 22,125</b>          | <b>\$ 7,182</b>  |

**CRAFT ALLIANCE**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total              |
|---|---------------------|---------------------------|---------------------------|--------------------|
| <b>Revenue</b>  |                     |                           |                           |                    |
| Tuition, net of discounts of \$16,451   | \$ 357,250          | \$ -                      | \$ -                      | \$ 357,250         |
| Contracts and special programs  | 46,296              | -                         | -                         | 46,296             |
| Gallery shop, net of discounts of \$57,946  | 475,932             | -                         | -                         | 475,932            |
| Exhibition gallery, net of discounts of \$3,045   | 65,817              | -                         | -                         | 65,817             |
| Interest income   | 663                 | 81                        | -                         | 744                |
| Miscellaneous income  | 4,469               | -                         | -                         | 4,469              |
| <b>Total Revenue</b>  | <b>950,427</b>      | <b>81</b>                 | <b>-</b>                  | <b>950,508</b>     |
| <b>Public Support</b>   |                     |                           |                           |                    |
| Individual  | 137,090             | -                         | -                         | 137,090            |
| Corporate   | 61,384              | 20,000                    | -                         | 81,384             |
| Foundation  | 70,550              | 8,288                     | -                         | 78,838             |
| Grants  | 2,637               | 102,648                   | -                         | 105,285            |
| Fundraising events  | 94,275              | -                         | -                         | 94,275             |
| <b>Total Public Support</b>   | <b>365,936</b>      | <b>130,936</b>            | <b>-</b>                  | <b>496,872</b>     |
| <b>Net Assets Released from Restrictions</b>  | <b>200,521</b>      | <b>(200,521)</b>          | <b>-</b>                  | <b>-</b>           |
| <b>Total Revenue and Support</b>  | <b>1,516,884</b>    | <b>(69,504)</b>           | <b>-</b>                  | <b>1,447,380</b>   |
| <b>Expenses</b>   |                     |                           |                           |                    |
| Program services  |                     |                           |                           |                    |
| Delmar Education Center   | 321,889             | -                         | -                         | 321,889            |
| Delmar Gallery shop   | 433,433             | -                         | -                         | 433,433            |
| Delmar Exhibition gallery   | 130,031             | -                         | -                         | 130,031            |
| Outreach  | 93,787              | -                         | -                         | 93,787             |
| Grand Center  | 186,065             | -                         | -                         | 186,065            |
| <b>Total Program Services</b>   | <b>1,165,205</b>    | <b>-</b>                  | <b>-</b>                  | <b>1,165,205</b>   |
| Support services  |                     |                           |                           |                    |
| Management and general  | 119,752             | -                         | -                         | 119,752            |
| Development   | 132,986             | -                         | -                         | 132,986            |
| Fundraising events  | 40,890              | -                         | -                         | 40,890             |
| <b>Total Support Services</b>   | <b>293,628</b>      | <b>-</b>                  | <b>-</b>                  | <b>293,628</b>     |
| <b>Total Expenses Before Depreciation<br/>and Uncollectible Promises to Give</b>                    | <b>1,458,833</b>    | <b>-</b>                  | <b>-</b>                  | <b>1,458,833</b>   |
| <b>Increase (Decrease) in Net Assets Before<br/>Depreciation and Uncollectible Promises to Give</b> | <b>58,051</b>       | <b>(69,504)</b>           | <b>-</b>                  | <b>(11,453)</b>    |
| <b>Depreciation</b>   | <b>(95,946)</b>     | <b>-</b>                  | <b>-</b>                  | <b>(95,946)</b>    |
| <b>Uncollectible Promises to Give</b>   | <b>(8,944)</b>      | <b>-</b>                  | <b>-</b>                  | <b>(8,944)</b>     |
| <b>Total Decrease in Net Assets</b>   | <b>(46,839)</b>     | <b>(69,504)</b>           | <b>-</b>                  | <b>(116,343)</b>   |
| <b>Net Assets (Deficit), Beginning of Year</b>  | <b>(239,285)</b>    | <b>299,382</b>            | <b>22,125</b>             | <b>82,222</b>      |
| <b>Net Assets (Deficit), End of Year</b>  | <b>\$ (286,124)</b> | <b>\$ 229,878</b>         | <b>\$ 22,125</b>          | <b>\$ (34,121)</b> |

**CRAFT ALLIANCE**

**STATEMENTS OF CASH FLOWS**

|   | Years Ended June 30, |                  |
|---|----------------------|------------------|
|   | 2011                 | 2010             |
| <b>Cash Flows from Operating Activities</b>                 |                      |                  |
| Increase (decrease) in net assets                           | \$ 41,303            | \$ (116,343)     |
| Adjustments:  |                      |                  |
| Depreciation and amortization                               | 88,141               | 95,946           |
| Uncollectible promises to give                              | 12,000               | 8,944            |
| Loss on sale of fixed assets                                | 3,079                | -                |
| Change in assets and liabilities                            |                      |                  |
| (Increase) decrease in operating assets                     |                      |                  |
| Accounts receivable   | 2,407                | (13,329)         |
| Promises to give  | 21,203               | 27,013           |
| Inventory   | (7,985)              | 7,837            |
| Prepaid expenses  | (20,637)             | 1,433            |
| Increase (decrease) in operating liabilities                |                      |                  |
| Accounts payable and accrued expenses                       | 6,978                | (12,816)         |
| Sales tax payable   | 2,648                | -                |
| Deferred revenue  | 22,321               | (4,071)          |
| <b>Net Cash Provided (Used) by Operating Activities</b>     | <b>171,458</b>       | <b>(5,386)</b>   |
| <b>Cash Flows from Investing Activities</b>                 |                      |                  |
| Purchase of property and equipment                          | (84,125)             | (2,494)          |
| <b>Net Cash Used by Investing Activities</b>                | <b>(84,125)</b>      | <b>(2,494)</b>   |
| <b>Cash Flows from Financing Activities</b>                 |                      |                  |
| Payments on notes payable                                   | (10,771)             | (9,643)          |
| Net proceeds (payments) on lines of credit                  | (101,155)            | (25,000)         |
| <b>Net Cash Used by Financing Activities</b>                | <b>(111,926)</b>     | <b>(34,643)</b>  |
| <b>Net Decrease in Cash and Cash Equivalents</b>            | <b>(24,593)</b>      | <b>(42,523)</b>  |
| Cash and cash equivalents, beginning of year                | 40,298               | 82,821           |
| <b>Cash and Cash Equivalents, End of Year</b>               | <b>\$ 15,705</b>     | <b>\$ 40,298</b> |
| <br><b>Supplemental Disclosure of Cash Flow Information</b> |                      |                  |
| Interest paid   | <b>\$ 30,646</b>     | <b>\$ 31,675</b> |

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

***Business Description***

The brainchild of six local craftspeople, **Craft Alliance** (the Organization) began as a cooperative gallery in the Central West End in 1964. Now the Organization has two facilities - one in the Delmar Loop and one in Grand Center which opened two years ago. The Delmar Loop facility is home to two galleries, a gallery shop, and an education center. The galleries in the Delmar location exhibit functional and sculptural contemporary craft in clay, glass, metal, fiber, and wood by international, national and regional, established and emerging artists. The Organization offers year round classes in craft techniques to more than 2,500 people of all ages and abilities. The organization's community outreach programs offer in-depth art experiences free of charge to 1,000 students and adults from underserved populations. Each year, close to 65,000 people come through the Organization's doors to look at the art in the exhibitions, buy art in the gallery shop, take classes in contemporary craft or participate in its community outreach and free family programs.

**Craft Alliance** opened a state-of-the-art satellite in Grand Center, St. Louis' vibrant arts and entertainment district in August of 2008. This location has three major components: an exhibition gallery, community programming, and educational programming that includes studio classes and an artist residency program. **Craft Alliance's** exhibition space at Grand Center focuses primarily on solo artists and site specific installation art work that creates an environment to be explored and experienced. The exhibitions are designed to challenge the public's perception of craft by presenting large-scale, site-specific installations and work that pushes the boundaries of craft materials and ideas.

The Organization's primary sources of revenue include tuition, Gallery Shop and Exhibition sales, and public support.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Method of Accounting***

The financial statements of the Organization are presented on the accrual basis of accounting.

***Financial Statement Presentation***

The Organization reports its information regarding financial position and activities according to three classes of net assets depending upon the existence or nature of any donor-imposed restrictions. The following is a description of these classes of net assets:

***Unrestricted Net Assets***

Those resources over which the Board of Directors has discretionary control. Designated amounts represent those resources that the Board has set aside for a particular purpose. Unrestricted net assets are available for operations including program services and management expenses.

Notes to Financial Statements (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Temporarily Restricted Net Assets***

Those resources subject to donor-imposed restrictions on contributions that will be satisfied by actions of the Organization or the passage of time.

***Permanently Restricted Net Assets***

Those resources subject to donor-imposed restrictions that will be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation on related investments, for unrestricted or temporarily restricted purposes. As shown on the statement of financial position, assets restricted for endowment are permanently restricted.

***Restricted and Unrestricted Revenues and Public Support***

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Advertising Expenses***

Advertising costs are charged to expense as incurred. Advertising expenses were \$24,347 and \$26,034 for the years ended June 30, 2011 and 2010, respectively.

***Cash and Cash Equivalents***

The Organization considers all temporary cash investments as cash equivalents. These temporary cash investments are securities held for cash management purposes acquired with maturities of three months or less.

***Accounts Receivable***

Management provides for probable uncollected amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. At June 30, 2011 and 2010, all accounts receivable balances are expected to be collectible, and therefore, a valuation allowance is not considered necessary.

Notes to Financial Statements (Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Promises to Give***

Unconditional promises to give in future periods are recognized as support in the period the promises are received. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met. Promises to give are reported at the amount management expects to collect on balances outstanding at year end. All promises to give are expected to be collectible; therefore, management does not consider an allowance for uncollectible promises to be necessary. However, in accordance with generally accepted accounting principles, management discounts pledges that are not expected to be received within the next operating cycle.

***Inventory***

Merchandise inventory is carried at cost using the specific identification method.

***Subsequent Events***

Subsequent events have been evaluated through September 21, 2011, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

***Property and Equipment***

Property and equipment are stated at cost, or fair market value if donated, less accumulated depreciation computed on the straight-line method, over the following periods:

|                                    |               |
|------------------------------------|---------------|
| Building and building improvements | 20 – 39 years |
| Equipment, furniture and fixtures  | 5 – 10 years  |

***Deferred Revenue***

Tuition received in advance is deferred until earned.

***Donated Services***

During the years ended June 30, 2011 and 2010, the value of contributed services meeting the requirements for recognition in the financial statements was insignificant and has not been recorded. The Organization pays for most services requiring specific expertise. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

Notes to Financial Statements (Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Description of Program Services and Supporting Activities***

The following program services and supporting activities are included in the accompanying financial statements:

**Program Services**

Includes those expenditures that enable the Organization to provide the following programs:

**Education Center**

The Organization's two Education Centers provide a curriculum of visual arts classes and workshops for children and adults of all ages. Classes offered throughout the year include clay, metal, fiber, glass, wood turning, graphic design and drawing and painting.

**Exhibition Gallery**

The Organization's three exhibition galleries feature the work of leading regional and national artists working in contemporary craft and present a series of ten exhibitions each year.

**Gallery Shop**

The Gallery Shop supports the artistic community by selling the work of regionally and nationally recognized artists.

**Outreach**

The Organization's community outreach programs offer in-depth art experiences to more than 1,000 school children and high school students each year primarily from urban schools with sharply reduced art curriculums. The Organization also provides classes for adults with disabilities. The Organization has a four-year art mentoring program for talented young artists (Crafting-a-Future), which offers high school students year-round art classes, mentoring and portfolio building and the opportunity to participate over a four year period free of charge.

**Grand Center**

Grand Center has three major components; a new exhibition gallery, expanded outreach programming, and education programming with artist residencies. Through these programs, the Organization reaches new urban audiences, expands its outreach programming, forms new partnerships in the Grand Center area, and provides the St. Louis community with greater access to contemporary studio craft art.

Notes to Financial Statements (Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Support Services**

Includes those expenditures that support the Organization's programs:

**Management and General**

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Organization.

**Development and Fundraising**

Provides the structure necessary to encourage and secure memberships and private financial support from corporations, foundations, organizations, and individuals.

***Expense Allocation***

The costs of the Organization's programs and supporting services have been reported on a functional basis. This requires allocation of certain costs among the various programs and supporting services based on estimates made by management.

***Income Tax Status***

The Organization is exempt from income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

Financial accounting standards for uncertain tax positions prohibit financial statement recognition of the impact of a tax position if the position is not "more likely than not" to be sustained on audit, based on the technical merits of the position. The standards also provide guidance on measurement, recognition, classification, transition, and disclosure requirements for uncertain tax positions. The adoption of these standards had no impact on the financial statements. The Organization's federal Form 990 for tax years 2008 and later remain subject to examination by taxing authorities.

***Reclassifications***

Certain items in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

## CRAFT ALLIANCE

### Notes to Financial Statements (Continued)

#### 2. CONCENTRATIONS OF CREDIT AND MARKET RISK

The Organization maintains several bank accounts at a St. Louis metropolitan area bank. The balances in these accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. There was no uninsured cash balance at June 30, 2011.

#### 3. PROMISES TO GIVE

Unconditional promises to give are included in the financial statements and are recorded after discounting at the rate of 5.00% to the present value of the future cash flows.

Unconditional promises to give at June 30, 2011 and 2010 consist of the following:

|  | June 30,          |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| Promises due in less than one year             | \$ 169,012        | \$ 184,054        |
| Promises due in one to six years               | 30,000            | 48,750            |
|  | <u>199,012</u>    | <u>232,804</u>    |
| Less discount                                  | (6,516)           | (7,105)           |
| <b>Total Promises to Give at Present Value</b> | <b>\$ 192,496</b> | <b>\$ 225,699</b> |

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

|   | June 30,          |                   |
|---|-------------------|-------------------|
|   | 2011              | 2010              |
| Land                                      | \$ 35,462         | \$ 35,462         |
| Delmar building and improvements          | 775,865           | 748,997           |
| Delmar equipment, furniture, and fixtures | 311,489           | 311,489           |
| Grand center lease improvements           | 432,398           | 380,677           |
| Grand center equipment                    | 185,672           | 185,672           |
| Property and equipment at cost            | <u>1,740,886</u>  | <u>1,662,297</u>  |
| Less accumulated depreciation             | (1,131,155)       | (1,045,471)       |
| <b>Property and Equipment, Net</b>        | <b>\$ 609,731</b> | <b>\$ 616,826</b> |

Depreciation expense was \$88,141 and \$95,946 for the years ended June 30, 2011 and 2010, respectively.

## CRAFT ALLIANCE

### Notes to Financial Statements (Continued)

#### 5. LEASES

During 2007, the Organization entered into an operating lease with the Kranzberg Arts Foundation for additional studio and gallery space. The Organization began occupying approximately 6,000 square feet of the building beginning on August 1, 2008. In September of 2010, an additional 600 square feet was added for the newly created Wood Studio.

Rent payments are according to the following formula:

| Period   | Use Fee  |
|--|--|
| Commencement date through end of Operating Year 3: | \$2.00 per usable square foot of the Premises  |
| Operating Year 4 through end of initial term:      | 5.00% of Operator's Gross Receipts, but in no event shall the Use Fee exceed \$6.00 per usable square foot of the Premises |
| Each Extension Term:                               | 5.00% of Operator's Gross Receipts, but in no event shall the Use Fee exceed \$8.00 per usable square foot of the Premises |

The initial term of the lease is for 7 years with 5 additional renewals of two years each.

The maximum estimated lease payments for the next five years and thereafter are as follows:

| <u>Years Ending June 30,</u> | <u>Amount</u>     |
|------------------------------|-------------------|
| 2012                         | \$ 12,324         |
| 2013                         | 34,918            |
| 2014                         | 36,972            |
| 2015                         | 36,972            |
| 2016                         | 40,053            |
|                              | <u>\$ 161,239</u> |

Rental expense for the years ended June 30, 2011 and 2010 was \$20,150 and \$12,324, respectively.

**CRAFT ALLIANCE**

Notes to Financial Statements (Continued)

**5. LEASES (CONTINUED)**

The Organization also leases certain office equipment under operating leases. Minimum lease payments on the equipment for the next five years and thereafter are as follows:

| Years Ending June 30, | Amount    |
|-----------------------|-----------|
| 2012                  | \$ 7,236  |
| 2013                  | 7,236     |
| 2014                  | 4,970     |
| 2015                  | 2,382     |
|                       | \$ 21,824 |

**6. DEBT**

|  | June 30,          |            |
|--|-------------------|------------|
|  | 2011              | 2010       |
| Note payable to bank dated July 2008, with fixed interest rate at 6.75%. 35 monthly payments of principal and interest of \$1,894. Balloon payment of \$229,831 originally due July 2011. Refinanced in August 2011. Secured by real estate (Delmar Building) and all other corporate assets.  | <b>\$ 226,642</b> | \$ 233,417 |
| Operating line-of-credit for \$400,000 dated January 2010, with interest at 0.50% plus the bank's index rate (3.25% at June 30, 2011). Required monthly payments equal to the interest accrued on the outstanding balance. Balance and all unpaid accrued interest due on January 2012. Secured solely by a second deed of trust on real estate (Delmar Building). | <b>120,000</b>    | 221,155    |
| Loan payable to Grand Center dated November 2007. Fixed quarterly payments of \$12,500 to begin on October 31, 2011. Secured solely by donor pledges and pledged equipment.  | <b>450,000</b>    | 450,000    |
| Loan payable to Grand Center dated August 2008. Fixed monthly payments of \$291 beginning September 2008.  | -                 | 3,996      |
| <b>Total debt</b>  | <b>796,642</b>    | 908,568    |
| <b>Less current portion</b>  | <b>(142,200)</b>  | (267,623)  |
| <b>Total Debt, Net of Current Portion</b>  | <b>\$ 654,442</b> | \$ 640,945 |

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**CRAFT ALLIANCE**

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Notes to Financial Statements (Continued)

**6. DEBT (CONTINUED)**

The following is a schedule of principal amounts due in future years:

| <u>Year Ending June 30,</u> | <u>Amount</u>     |
|-----------------------------|-------------------|
| 2012                        | \$ 142,200        |
| 2013                        | 72,200            |
| 2014                        | 70,350            |
| 2015                        | 249,392           |
| 2016                        | 50,000            |
| Thereafter                  | 212,500           |
|                             | <u>\$ 796,642</u> |

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes:

|   | <u>June 30,</u>   |                   |
|---|-------------------|-------------------|
|   | <u>2011</u>       | <u>2010</u>       |
| Arts and Education Council - time restriction | \$ 37,000         | \$ 44,250         |
| Missouri Arts Council - time restriction      | 2,010             | 2,821             |
| Grand Center Programs - purpose               | 46,308            | 118,500           |
| Operations - time restriction                 | 66,312            | 21,000            |
| Regional Arts Commission - time restriction   | 35,018            | 35,019            |
| Operations - purpose                          | 9,900             | 3,445             |
| Gala - purpose                                | 2,750             | -                 |
| Scholarships - time and purpose restriction   | 4,843             | 4,843             |
| <b>Total</b>                                  | <u>\$ 204,141</u> | <u>\$ 229,878</u> |

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**CRAFT ALLIANCE**

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Notes to Financial Statements (Continued)

**7. TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)**

Net assets were released from donor-imposed restrictions on contributions as follows:

|   | <u>Years Ended June 30,</u> |                   |
|---|-----------------------------|-------------------|
|   | <u>2011</u>                 | <u>2010</u>       |
| Arts and Education Council - time and purpose restriction | \$ 44,250                   | \$ 33,750         |
| Missouri Arts Council - time restriction                  | 20,834                      | 27,457            |
| Grand Center Programs - purpose                           | 89,166                      | 68,650            |
| Operations - time restriction                             | 5,000                       | 5,000             |
| Regional Arts Commission - time restriction               | 38,521                      | 59,164            |
| Operations - purpose                                      | 34,230                      | -                 |
| Scholarships - time and purpose restriction               | 4,843                       | -                 |
| Uncollectible promises to give                            | 12,000                      | 6,500             |
| <b>Total</b>  | <b>\$ 248,844</b>           | <b>\$ 200,521</b> |



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**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

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To the Board of Directors of  
**Craft Alliance**  
St. Louis, Missouri

We have audited the financial statements of **Craft Alliance** as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 21, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Kiefer Bonfanti & Co. LLP*

September 21, 2011

CRAFT ALLIANCE

SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2011

|                                      | Program Services        |                     |                           |                  |                  |                        | Support Services  |                   |                  |                     | Total |
|--------------------------------------|-------------------------|---------------------|---------------------------|------------------|------------------|------------------------|-------------------|-------------------|------------------|---------------------|-------|
|                                      | Delmar Education Center | Delmar Gallery Shop | Delmar Exhibition Gallery | Grand Center     |                  | Total Program Services | Mgmt and General  | Fundraising       |                  | Total               |       |
|                                      |                         |                     |                           | Outreach         | Outreach         |                        |                   | Development       | Events           |                     |       |
| Salaries and wages                   | \$ 198,865              | \$ 96,007           | \$ 51,052                 | \$ 65,615        | \$ 118,558       | \$ 530,097             | \$ 48,651         | \$ 104,277        | \$ -             | \$ 683,025          |       |
| Payroll taxes and benefits           | 20,704                  | 9,947               | 5,140                     | 4,973            | 8,485            | 49,249                 | 22,010            | 5,504             | -                | 76,763              |       |
| Cost of goods sold                   | -                       | 256,977             | 5,315                     | -                | 2,185            | 264,933                | -                 | -                 | -                | 264,933             |       |
| Professional services                | 439                     | -                   | -                         | 1,528            | 671              | 2,637                  | 12,700            | 3,750             | -                | 19,087              |       |
| Printing                             | 7,730                   | 1,076               | 4,977                     | -                | 3,860            | 19,729                 | -                 | 5,141             | -                | 24,870              |       |
| Utilities                            | 21,025                  | 7,850               | 5,603                     | 1,022            | 14,629           | 50,129                 | 5,664             | 2,572             | -                | 58,365              |       |
| Class expenses                       | -                       | -                   | -                         | -                | -                | -                      | -                 | -                 | -                | -                   |       |
| and supplies                         | 29,761                  | -                   | -                         | -                | 13,186           | 42,947                 | -                 | -                 | -                | 42,947              |       |
| Postage and shipping                 | 2,825                   | 14,320              | 6,813                     | 196              | 3,283            | 28,795                 | 97                | 2,625             | -                | 31,517              |       |
| Interest                             | -                       | 6,432               | -                         | -                | 73               | 6,505                  | 24,141            | -                 | -                | 30,646              |       |
| Advertising and hospitality          | 3,633                   | 11,882              | 1,658                     | 108              | 1,887            | 23,207                 | 109               | 1,031             | -                | 24,347              |       |
| Curator                              | 20,524                  | -                   | 500                       | -                | 6,000            | 33,224                 | -                 | -                 | -                | 33,224              |       |
| Processing fees                      | 7,303                   | 8,088               | 264                       | 413              | 2,069            | 18,213                 | 1,282             | 1,219             | -                | 20,714              |       |
| Scholarships                         | -                       | -                   | -                         | 5,040            | -                | 5,040                  | -                 | -                 | -                | 5,040               |       |
| Programs, shows and special projects | -                       | -                   | 3,831                     | 15,346           | 2,196            | 21,720                 | -                 | -                 | -                | 21,720              |       |
| Repairs and maintenance              | 6,057                   | 1,503               | 1,684                     | 268              | 4,671            | 14,325                 | 986               | 279               | -                | 15,590              |       |
| Equipment rental                     | 3,872                   | 1,955               | 887                       | 1,099            | 6,270            | 14,083                 | 976               | 5,632             | -                | 20,691              |       |
| Insurance                            | 5,232                   | 3,633               | 3,524                     | 1,107            | 5,462            | 18,958                 | 4,023             | 281               | -                | 23,262              |       |
| Travel                               | 984                     | 2,431               | -                         | 785              | -                | 4,200                  | -                 | 1,078             | -                | 5,278               |       |
| Office supplies                      | 678                     | 600                 | 516                       | 281              | 892              | 2,967                  | 1,232             | 1,179             | -                | 5,378               |       |
| Miscellaneous                        | 86                      | 4,936               | -                         | -                | -                | 5,022                  | 1,309             | 662               | -                | 6,993               |       |
| Party rental expenses                | -                       | -                   | -                         | -                | 2,632            | 2,632                  | -                 | -                 | -                | 2,632               |       |
| Rent expense                         | -                       | -                   | -                         | -                | 20,150           | 20,150                 | -                 | -                 | -                | 20,150              |       |
| Fashion Lab                          | -                       | -                   | -                         | -                | -                | -                      | -                 | -                 | 15,844           | 15,844              |       |
| Gala expense                         | -                       | -                   | -                         | -                | -                | -                      | -                 | -                 | 59,626           | 59,626              |       |
| Subtotal                             | 329,718                 | 427,637             | 91,764                    | 97,781           | 16,007           | 1,178,762              | 123,180           | 135,230           | 75,470           | 1,512,642           |       |
| Depreciation                         | 13,985                  | 3,872               | 3,872                     | 1,290            | 61,251           | 84,269                 | 3,872             | -                 | -                | 88,141              |       |
| Loss on sale of assets               | 3,079                   | -                   | -                         | -                | -                | 3,079                  | -                 | -                 | -                | 3,079               |       |
| Uncollectible promises to give       | -                       | -                   | -                         | -                | 3,000            | 3,000                  | -                 | 9,000             | -                | 12,000              |       |
| <b>Total</b>                         | <b>\$ 346,782</b>       | <b>\$ 431,509</b>   | <b>\$ 95,636</b>          | <b>\$ 99,072</b> | <b>\$ 16,007</b> | <b>\$ 1,269,111</b>    | <b>\$ 127,052</b> | <b>\$ 144,230</b> | <b>\$ 75,470</b> | <b>\$ 1,615,862</b> |       |

CRAFT ALLIANCE

SCHEDULE OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2010

|                                      | Program Services        |                     |                           |                  |                   |                        | Support Services  |                   |                  |                     | Total |
|--------------------------------------|-------------------------|---------------------|---------------------------|------------------|-------------------|------------------------|-------------------|-------------------|------------------|---------------------|-------|
|                                      | Delmar Education Center | Delmar Gallery Shop | Delmar Exhibition Gallery | Outreach         | Grand Center      | Total Program Services | Mgmt and          |                   | Fundraising      |                     |       |
|                                      |                         |                     |                           |                  |                   |                        | General           | Development       | Events           | Total               |       |
| Salaries and wages                   | \$ 200,128              | \$ 88,864           | \$ 55,869                 | \$ 68,889        | \$ 96,446         | \$ 510,196             | \$ 50,408         | \$ 100,402        | \$ -             | \$ 661,006          |       |
| Payroll taxes and benefits           | 18,863                  | 7,978               | 4,666                     | 4,834            | 8,159             | 44,500                 | 20,169            | 5,143             | -                | 69,812              |       |
| Cost of goods sold                   | -                       | 269,716             | 36,724                    | -                | 2,048             | 308,488                | -                 | -                 | -                | 308,488             |       |
| Professional services                | 302                     | -                   | -                         | 378              | 62                | 742                    | 12,500            | 68                | -                | 13,310              |       |
| Printing                             | 6,721                   | 887                 | 5,418                     | -                | 5,945             | 18,971                 | -                 | 7,270             | -                | 26,241              |       |
| Utilities                            | 18,152                  | 7,559               | 4,589                     | 697              | 10,639            | 41,636                 | 4,791             | 1,776             | -                | 48,203              |       |
| Class expenses and supplies          | 27,713                  | -                   | -                         | -                | 8,420             | 36,133                 | -                 | -                 | -                | 36,133              |       |
| Postage and shipping                 | 2,982                   | 15,143              | 6,418                     | 100              | 4,770             | 29,413                 | 122               | 3,012             | -                | 32,547              |       |
| Interest                             | -                       | 7,295               | -                         | -                | 174               | 7,469                  | 24,206            | -                 | -                | 31,675              |       |
| Advertising and hospitality          | 2,773                   | 12,438              | 1,594                     | 116              | 5,243             | 22,164                 | 116               | 3,754             | -                | 26,034              |       |
| Curator                              | 18,014                  | -                   | 2,300                     | -                | 7,000             | 27,314                 | -                 | -                 | -                | 27,314              |       |
| Processing fees                      | 7,203                   | 8,737               | 859                       | 287              | 1,226             | 18,312                 | 231               | 1,032             | -                | 19,575              |       |
| Scholarships                         | -                       | -                   | -                         | 4,576            | -                 | 4,576                  | -                 | -                 | -                | 4,576               |       |
| Programs, shows and special projects | -                       | -                   | 3,929                     | 10,828           | 1,278             | 16,035                 | -                 | -                 | -                | 16,035              |       |
| Repairs and maintenance              | 7,808                   | 1,801               | 1,861                     | 327              | 4,593             | 16,390                 | 1,168             | 287               | -                | 17,845              |       |
| Equipment rental                     | 2,593                   | 1,815               | 1,179                     | 762              | 6,369             | 12,718                 | 1,032             | 6,730             | -                | 20,480              |       |
| Insurance                            | 5,000                   | 3,427               | 3,297                     | 1,072            | 4,917             | 17,713                 | 3,774             | 333               | -                | 21,820              |       |
| Travel                               | 1,718                   | 2,093               | 682                       | 590              | 92                | 5,175                  | 1                 | 1,690             | -                | 6,866               |       |
| Office supplies                      | 686                     | 637                 | 646                       | 331              | 748               | 3,048                  | 908               | 1,489             | -                | 5,445               |       |
| Miscellaneous                        | 1,233                   | 5,043               | -                         | -                | 1,163             | 7,439                  | 326               | -                 | -                | 7,765               |       |
| Party rental expenses                | -                       | -                   | -                         | -                | 2,056             | 2,056                  | -                 | -                 | -                | 2,056               |       |
| Rent expense                         | -                       | -                   | -                         | -                | 12,324            | 12,324                 | -                 | -                 | -                | 12,324              |       |
| Parking expense                      | -                       | -                   | -                         | -                | 2,393             | 2,393                  | -                 | -                 | -                | 2,393               |       |
| Gala expense                         | -                       | -                   | -                         | -                | -                 | -                      | -                 | -                 | 40,890           | 40,890              |       |
| Subtotal                             | 321,889                 | 433,433             | 130,031                   | 93,787           | 186,065           | 1,165,205              | 119,752           | 132,986           | 40,890           | 1,458,833           |       |
| Depreciation                         | 18,209                  | 5,463               | 5,463                     | 1,821            | 59,527            | 90,483                 | 5,463             | -                 | -                | 95,946              |       |
| Uncollectible promises to give       | -                       | -                   | -                         | -                | -                 | -                      | 8,944             | -                 | -                | 8,944               |       |
| <b>Total</b>                         | <b>\$ 340,098</b>       | <b>\$ 438,896</b>   | <b>\$ 135,494</b>         | <b>\$ 95,608</b> | <b>\$ 245,592</b> | <b>\$ 1,255,688</b>    | <b>\$ 134,159</b> | <b>\$ 132,986</b> | <b>\$ 40,890</b> | <b>\$ 1,563,723</b> |       |

See accompanying independent auditors' report on supplementary information.