

**ARTSBUILD**

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**



**CERTIFIED PUBLIC ACCOUNTANTS**

# ARTSBUILD

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JUNE 30, 2018 AND 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
CHATTANOOGA | MEMPHIS

## INDEPENDENT AUDITOR'S REPORT

Board of Directors of ArtsBuild  
Chattanooga, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of ArtsBuild, a Tennessee nonprofit corporation, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and net assets and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ArtsBuild as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee  
October 9, 2018

*Henderson Hutcherson*

# ARTSBUILD

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

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	<b>ASSETS</b>	
	<b>2018</b>	<b>2017</b>
Cash	\$ 226,257	\$ 206,147
Restricted cash	80,544	106,005
Investments, at fair value	14,706,199	14,264,408
Receivables:		
Current sustaining fund campaign pledges	147,875	137,044
Government grants receivable	1,242	2,338
Other grants receivable	15,714	17,220
Allowance for uncollectible pledges and other receivables	<u>(15,000)</u>	<u>(25,000)</u>
Total receivables, net	149,831	131,602
Prepaid and other assets	42,204	25,362
Property and equipment, net	<u>1,643,428</u>	<u>1,641,450</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 16,848,463</u></b>	<b><u>\$ 16,374,974</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 74,268	\$ 19,921
Accrued expenses	8,129	18,422
Note payable	<u>1,471,205</u>	<u>1,530,773</u>
Total liabilities	<u>1,553,602</u>	<u>1,569,116</u>
<b>NET ASSETS</b>		
Unrestricted and board-designated	2,864,607	2,565,922
Temporarily restricted	4,182,836	3,992,518
Permanently restricted	<u>8,247,418</u>	<u>8,247,418</u>
Total net assets	<u>15,294,861</u>	<u>14,805,858</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,848,463</u></b>	<b><u>\$ 16,374,974</u></b>

The accompanying notes are an integral part of the financial statements.

# ARTSBUILD

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 300,812	\$ 296,696	\$ -	\$ 597,508
Grants - foundation and government	463,569	-	-	463,569
County fair revenues	104,302	-	-	104,302
Dividend and interest income	8,904	27,252	-	36,156
Donations in-kind	2,250	-	-	2,250
Rental income	41,750	-	-	41,750
Other program income	87,024	-	-	87,024
Net realized and unrealized gains on investments	<u>297,318</u>	<u>916,522</u>	<u>-</u>	<u>1,213,840</u>
Total revenues, gains, and other support	<u>1,305,929</u>	<u>1,240,470</u>	<u>-</u>	<u>2,546,399</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,050,152</u>	<u>(1,050,152)</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>				
Programs:				
Community arts investment	527,800	-	-	527,800
Support for arts projects and activities	91,898	-	-	91,898
Investment income distributed to member agencies	284,420	-	-	284,420
County fair expenses	170,108	-	-	170,108
Art education	134,362	-	-	134,362
Events and special projects	140,642	-	-	140,642
Marketing expense	30,664	-	-	30,664
Salaries expense	<u>130,922</u>	<u>-</u>	<u>-</u>	<u>130,922</u>
Total program expenses	1,510,816	-	-	1,510,816
Administrative:				
Other expenses	13,155	-	-	13,155
Interest expense	41,926	-	-	41,926
Operating expenses	251,122	-	-	251,122
Salaries expense	<u>84,923</u>	<u>-</u>	<u>-</u>	<u>84,923</u>
Total administrative expenses	391,126	-	-	391,126

The accompanying notes are an integral part of the financial statements.

# ARTSBUILD

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2018

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fundraising:				
Marketing expense	17,454	-	-	17,454
Salaries expense	138,000	-	-	138,000
Total fundraising expenses	<u>155,454</u>	<u>-</u>	<u>-</u>	<u>155,454</u>
Total expenses	<u>2,057,396</u>	<u>-</u>	<u>-</u>	<u>2,057,396</u>
<b>NET CHANGE IN NET ASSETS</b>	<b>298,685</b>	<b>190,318</b>	<b>-</b>	<b>489,003</b>
Net assets - beginning of year	<u>2,565,922</u>	<u>3,992,518</u>	<u>8,247,418</u>	<u>14,805,858</u>
Net assets - end of year	<u>\$ 2,864,607</u>	<u>\$ 4,182,836</u>	<u>\$ 8,247,418</u>	<u>\$ 15,294,861</u>

# ARTSBUILD

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions	\$ 411,334	\$ 377,505	\$ -	\$ 788,839
Grants - foundation and government	431,647	-	-	431,647
County fair revenues	113,675	-	-	113,675
Dividend and interest income	2,956	13,100	-	16,056
Donations in-kind	2,603	-	-	2,603
Rental Income	41,250	-	-	41,250
Other program income	48,680	-	-	48,680
Net realized and unrealized losses on investments	286,087	1,289,939	-	1,576,026
Total revenues, gains, and other support	<u>1,338,232</u>	<u>1,680,544</u>	<u>-</u>	<u>3,018,776</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>809,037</u>	<u>(809,037)</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>				
Programs:				
Community arts investment	789,067	-	-	789,067
Support for arts projects and activities	89,141	-	-	89,141
Investment income distributed to member agencies	280,860	-	-	280,860
County fair expenses	126,944	-	-	126,944
Art education	114,329	-	-	114,329
Events and special projects	159,217	-	-	159,217
Marketing expense	66,008	-	-	66,008
Salaries expense	142,410	-	-	142,410
Total program expenses	<u>1,767,976</u>	<u>-</u>	<u>-</u>	<u>1,767,976</u>
Administrative:				
Other expenses	34,459	-	-	34,459
Interest expenses	49,271	-	-	49,271
Operating expenses	244,039	-	-	244,039
Salaries expense	150,108	-	-	150,108
Total administrative expenses	<u>477,877</u>	<u>-</u>	<u>-</u>	<u>477,877</u>

The accompanying notes are an integral part of the financial statements.



# ARTSBUILD

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2017

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Fundraising:				
Marketing expense	15,745	-	-	15,745
Salaries expense	92,374	-	-	92,374
Total fundraising expenses	108,119	-	-	108,119
Total expenses	2,353,972	-	-	2,353,972
<b>NET CHANGE IN NET ASSETS</b>	(206,703)	871,507	-	664,804
Net assets - beginning of year	2,772,625	3,121,011	8,247,418	14,141,054
Net assets - end of year	<u>\$ 2,565,922</u>	<u>\$ 3,992,518</u>	<u>\$ 8,247,418</u>	<u>\$ 14,805,858</u>

The accompanying notes are an integral part of the financial statements.

# ARTSBUILD

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 489,003	\$ 664,804
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Realized and unrealized losses (gains) on investments	(1,213,840)	(1,576,026)
Depreciation	60,100	57,675
Changes in assets and liabilities:		
Change in receivables	(18,229)	64,979
Change in prepaid and other assets	(16,842)	6,535
Change in accounts payable and accrued expenses	44,054	(47,767)
Net cash from operating activities	<u>(655,754)</u>	<u>(829,800)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	1,729,313	1,764,230
Reinvested dividends and interest from investments	(36,092)	(16,006)
Purchase of investments	(921,172)	(1,003,098)
Purchase of property and equipment	(62,078)	(126,531)
Net cash from investing activities	<u>709,971</u>	<u>618,595</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(59,568)	(29,227)
Proceeds from note payable	-	281,600
Net cash from financing activities	<u>(59,568)</u>	<u>252,373</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(5,351)	41,168
Cash - beginning of year	<u>312,152</u>	<u>270,984</u>
Cash - end of year	<u>\$ 306,801</u>	<u>\$ 312,152</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 41,926</u>	<u>\$ 49,271</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES</b>		
Refinancing of note payable	<u>\$ -</u>	<u>\$ 1,278,400</u>

The accompanying notes are an integral part of the financial statements.

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 1 – NATURE OF OPERATIONS

Allied Arts of Greater Chattanooga was incorporated in the state of Tennessee in April 1968. The organization changed its name to ArtsBuild in October 2012. ArtsBuild (the "Organization") provides annual operating support to thirteen cultural organizations and funding of various arts and cultural activities through its ArtsBuild Communities and arts education programs. Its mission is to galvanize broad participation in and widespread support of the arts.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Method of Accounting**

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting in accordance with generally accepted accounting principles.

#### **Restricted Cash**

Restricted cash represents board designated funds that must be used for the annual Hamilton County Fair and totaled \$80,544 and \$106,005 as of June 30, 2018 and 2017, respectively. This cash is included in cash at the beginning and end of year balances for the statement of cash flows.

#### **Contingent Risk Regarding Cash Balances**

From time to time the Organization has on deposit, in institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC), funds that total in excess of the insured maximum. The at-risk amount is subject to significant fluctuations on a daily basis throughout the year.

#### **Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Organization, 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 depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in more than one year are discounted to their estimated present value.

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Allowance for Doubtful Accounts**

An allowance for doubtful accounts has been established by management based on historical analysis of campaign pledge collections. Management evaluates each individual pledge based on aging, as well as past collections for individual donors. Management believes the current allowance is adequate based on its analysis.

#### **Revenue Recognition**

The Organization's primary income is derived from grants and contributions received as well as rental income. Revenue is recognized when the grant is awarded or the contribution is pledged for the applicable campaign period. Rental income from operating leases is recognized on a straight-line basis over the lease term.

#### **Investments**

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. ASC Topic 820 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of June 30. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of June 30. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 – Securities that have little to no pricing observability as of June 30. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Investments (Continued)**

Investments in private investment entities are valued based on the Organization's proportional share of the net asset valuations reported by the underlying entities. The investments are classified in Level 2 or 3 of the fair value hierarchy as specified in FASB ASC Topic 820-10-65-8, *Fair Value Measurements and Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

#### **Property and Equipment**

Depreciation of the Organization's property and equipment has been computed by means of straight line method, based on expected lives as follows:

	<b>Useful Life</b>
Computers and equipment	5-7
Furniture and fixtures	5-7
Building	39

#### **Endowment**

The State of Tennessee adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines therein relate to prudent management, investment, and expenditure of donor-restricted endowments held by charitable organizations. Particularly noteworthy is that the legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an organization's endowment funds.

The Organization has adopted FASB ASC 958, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*, which provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organization.

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Board-designated Net Assets**

The board has designated certain cash reserves for the use of future special projects. The designated amounts have been included in unrestricted net assets and total \$2,619,846 and \$2,503,688 at June 30, 2018 and 2017, respectively.

#### **Contributed Services**

A substantial number of volunteers have donated significant amounts of their time to ArtsBuild. As these services do not create or enhance non-financial assets or require specialized skills, the donated services are not reflected in the accompanying financial statements.

#### **Use of Estimates**

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

#### **Reclassification**

Certain balances in the 2017 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2018 financial statements. These reclassifications had no effect on change in net assets.

#### **Income Taxes**

The Organization is a nonprofit Organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. As such, no provision for income taxes has been included in the Organization's financial statements.

### NOTE 3 – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017, the Organization paid a board member for services in the amount of \$850 that management considers a related party based on their relationship. There were no payables due to related parties as of June 30, 2018 and 2017.

### NOTE 4 – UNCERTAIN TAX POSITIONS

The Organization follows the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC Topic 740, *Income Taxes*. Based on its evaluation, the Organization has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. The Organization's evaluation was performed for the tax years ended June 30, 2015 through June 30, 2018, for U.S. federal income tax. These are the years which remain subject to examination by major tax jurisdictions as of the year ended June 30, 2018.

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 5 – INVESTMENTS

As stated in Note 2, the Organization accounts for its investments in securities according to the provisions of FASB ASC Topic 820. A summary of the inputs used to value the Organization's investments as of June 30, 2018 and 2017, is as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2018	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equities	\$ 311,238	\$ 311,238	\$ -	\$ -
Fixed income	805,772	805,772	-	-
Hedge funds	6,574,646	-	6,574,646	-
Real estate partnerships	151,739	-	-	151,739
Private equity	3,700,785	-	2,077,595	1,623,190
International equities	1,975,000	-	1,975,000	-
Emerging markets	1,187,019	-	1,187,019	-
Total	\$ 14,706,199	\$ 1,117,010	\$ 11,814,260	\$ 1,774,929

		Fair Value Measurements at Reporting Date Using		
June 30, 2017	Total	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Domestic equities	\$ 680,047	\$ 680,047	\$ -	\$ -
Fixed income	829,017	829,017	-	-
Hedge funds	5,840,879	-	5,840,879	-
Real estate partnerships	190,111	-	-	190,111
Private equity	3,569,457	-	2,030,705	1,538,752
International equities	2,061,932	-	2,061,932	-
Emerging markets	1,092,965	-	1,092,965	-
Total	\$ 14,264,408	\$ 1,509,064	\$ 11,026,481	\$ 1,728,863

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 5 – INVESTMENTS (Continued)

The inputs used in the determination of fair value require significant management judgment or estimation. A reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value is as follows:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>	
	2018	2017
Beginning balance	\$ 1,728,863	\$ 2,099,261
Purchases of securities	-	-
Distributions	(54,903)	(514,880)
Total (losses) gains (realized/unrealized) included in changes in net assets	100,969	144,482
Ending balance	\$ 1,774,929	\$ 1,728,863

The amount of total gains or (losses) for the period included in changes in net assets attributable to the change in unrealized gains or (losses) relating to assets still held at the reporting date were \$64,633 and \$135,312 for the years ended June 30, 2018 and 2017, respectively.

The Organization invests in certain entities that calculate net asset value per share (or its equivalent). The following is a summary of such investments for the year ended June 30, 2018 and 2017:

June 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fixed income <sup>a</sup>	\$ 805,772	\$ -	Monthly	N/A
Hedge funds <sup>b</sup>	6,574,646	-	Annually	90 days
Real estate partnerships <sup>c</sup>	151,739	371,000	Quarterly	45 days
Private equity <sup>d</sup>	3,700,785	1,215,050	N/A	N/A
Equities <sup>e</sup>	2,286,238	-	Quarterly	90 days
Emerging markets <sup>f</sup>	1,187,019	-	Annually	90 days
Total	\$ 14,706,199	\$ 1,586,050		

(Continued)



# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 5 – INVESTMENTS (Continued)

June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Fixed income <sup>a</sup>	\$ 829,017	\$ -	Monthly	N/A
Hedge funds <sup>b</sup>	5,840,879	-	Annually	90 days
Real estate partnerships <sup>c</sup>	190,111	371,000	Quarterly	45 days
Private equity <sup>d</sup>	3,569,457	1,060,750	N/A	N/A
Equities <sup>e</sup>	2,741,979	-	Quarterly	90 days
Emerging markets <sup>f</sup>	1,092,965	-	Annually	90 days
Total	<u>\$ 14,264,408</u>	<u>\$ 1,431,750</u>		

<sup>a</sup> – This category includes investments in an investment partnership bond fund whose objective is to maximize returns through investments in closed-end funds that invest primarily in fixed income securities, including corporate bonds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Withdrawals can only be made on the first business day after the monthly valuation of the fund.

<sup>b</sup> – This category includes investments in an investment partnership which is organized as a “fund of funds” and primarily invests in other privately-managed investment vehicles. The general partner of the underlying fund has complete discretion as to investment and reinvestment of the partnership’s assets. The Organization may withdraw only at the end of a calendar year by giving notice no later than September 30 of that year unless otherwise permitted by the general partner.

<sup>c</sup> – This category includes investments in an investment partnership, whose purpose is to pool and invest funds contributed by the members in real property or interests therein, either directly or through investments in other entities that hold interests in real property. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Due to ongoing capital call requirements, 100% of the investments in this category are not currently redeemable.

<sup>d</sup> – This category includes investments in funds of funds which invest in various private equity funds. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Due to ongoing capital call requirements, 32.8% of the investments in this category are not currently redeemable. The remaining 67.2% of the investments in this category do not have redemptions to the extent of capital contributions, with distributions made pursuant to the partnership agreement.

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 5 – INVESTMENTS (Continued)

<sup>e</sup> – This category includes investments in an investment partnership that takes primarily long positions in a broad range of international and domestic equity securities to achieve long-term performance over a designated long-only index. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

<sup>f</sup> – This category includes investments in an investment partnership which is organized as a "fund of funds" and invests in limited partnerships, open-end mutual funds, closed-end mutual funds, trust funds and separately managed accounts that invest in equity and debt securities in developed and developing economies on a global basis. The fair values of the investments in this category have been estimated using the net asset value per share of the investments.

As disclosed in Note 8, certain endowment funds have been set up to benefit the Chattanooga Symphony and Opera Association ("CSOA") and the Hunter Museum of Art ("Hunter"). Management estimates investments for the benefit of other agencies to total \$5,958,492 and \$5,776,270 at June 30, 2018 and 2017.

### NOTE 6 – PLEDGES RECEIVABLE

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate equal to the average prime rate. There were no pledges due to be received greater than one year as of June 30, 2018 and 2017, therefore no discount was reflected for the years then ended.

### NOTE 7 – PROPERTY AND EQUIPMENT

Equipment and furnishings consisted of the following at June 30:

	2018	2017
Construction in Progress	\$ 57,160	\$ -
Computer and equipment	17,789	17,789
Furniture and fixtures	97,119	92,200
Land	64,600	64,600
Building	<u>1,577,048</u>	<u>1,577,048</u>
	1,813,716	1,751,637
Less accumulated depreciation	<u>(170,288)</u>	<u>(110,187)</u>
Net property and equipment	<u>\$ 1,643,428</u>	<u>\$ 1,641,450</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$60,100 and \$57,675, respectively.

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 8 – ENDOWMENTS

The Organization's endowment consists of donor-restricted contributions to be held in perpetuity, the income from which is expendable first to provide support to the CSOA and Hunter. Investment income earned on endowment assets in excess of amounts distributed to the CSOA and the Hunter is unrestricted as to purpose.

Total permanently restricted net assets for the benefit of other agencies totaled \$2,500,000 at June 30, 2018 and 2017. Total temporarily restricted net assets for the benefit of other agencies is estimated to be \$3,458,492 and \$3,276,270 at June 30, 2018 and 2017, respectively.

#### Interpretation of Relevant Law

The board of directors of the Organization has interpreted the State of Tennessee's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following facts in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

#### Return Objectives and Risk Parameters

The primary financial objective of the endowment is to provide funds for the current and future support of the operation of the Organization. The fund's performance objective is to maximize total return consistent with a prudent level of risk to ensure long-term growth.

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 8 – ENDOWMENTS (Continued)

#### Strategies Employed for Achieving Objectives

The board of directors believes the most prudent way to minimize volatility of the total portfolio without foregoing significant investment return is through a program of broad diversification. Central to the achievement of this goal is the concept of investing in asset classes that demonstrate relatively low correlation to one another. These correlations and their total impact on the total portfolio will be reviewed on an annual basis by the Board's investment committee to determine the effectiveness of the diversification program.

#### Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Organization has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior 36 months through the fiscal year end preceding the fiscal year in which the distribution is planned, subject to approval of the Board of Directors. Accordingly, over the long term, the Organization expects its endowment to grow at an average rate that is in excess of its 5 percent appropriation. This is consistent with the Organization's objective of long-term growth of the endowment fund.

To satisfy its objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

#### Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There are no such deficiencies for the years ended June 30, 2018 and 2017, respectively.

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,838,935	\$ 8,247,418	\$ 12,086,353
Board-designated endowment funds	<u>2,619,846</u>	<u>-</u>	<u>-</u>	<u>2,619,846</u>
Total funds	<u>\$ 2,619,846</u>	<u>\$ 3,838,935</u>	<u>\$ 8,247,418</u>	<u>\$ 14,706,199</u>

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**NOTE 8 – ENDOWMENTS (Continued)**

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,503,688	\$ 3,513,302	\$ 8,247,418	\$ 14,264,408
Investment return:				
Dividends and interest	8,840	27,252	-	36,092
Appreciation (realized and unrealized), net of investment expenses	<u>297,318</u>	<u>916,522</u>	<u>-</u>	<u>1,213,840</u>
Total investment return	306,158	943,774	-	1,249,932
Appropriation of endowment assets for expenditure	<u>(190,000)</u>	<u>(618,141)</u>	<u>-</u>	<u>(808,141)</u>
Endowment net assets, end of year	<u>\$ 2,619,846</u>	<u>\$ 3,838,935</u>	<u>\$ 8,247,418</u>	<u>\$ 14,706,199</u>

**Endowment Net Asset Composition by Type of Fund  
as of June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,513,302	\$ 8,247,418	\$ 11,760,720
Board-designated endowment funds	<u>2,503,688</u>	<u>-</u>	<u>-</u>	<u>2,503,688</u>
Total funds	<u>\$ 2,503,688</u>	<u>\$ 3,513,302</u>	<u>\$ 8,247,418</u>	<u>\$ 14,264,408</u>

(Continued)

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**NOTE 8 – ENDOWMENTS (Continued)**

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,337,555	\$ 2,848,535	\$ 8,247,418	\$ 13,433,508
Investment return:				
Dividends and interest	2,906	13,100	-	16,006
Appreciation (realized and unrealized), net of investment expenses	<u>286,094</u>	<u>1,289,932</u>	<u>-</u>	<u>1,576,026</u>
Total investment returns	289,000	1,303,032	-	1,592,032
Appropriation of endowment assets for expenditure	<u>(122,867)</u>	<u>(638,265)</u>	<u>-</u>	<u>(761,132)</u>
Endowment net assets, end of year	<u>\$ 2,503,688</u>	<u>\$ 3,513,302</u>	<u>\$ 8,247,418</u>	<u>\$ 14,264,408</u>

**Description of Amounts Classified as Permanently Restricted  
and Temporarily Restricted Net Assets (Endowment Only)**

	2018	2017
<b>Permanently Restricted Net Assets</b>		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	<u>\$ 8,247,418</u>	<u>\$ 8,247,418</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 8,247,418</u>	<u>\$ 8,247,418</u>
<b>Temporarily Restricted Net Assets</b>		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	\$ 3,838,935	\$ 3,513,302
With purpose restrictions	<u>-</u>	<u>-</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 3,838,935</u>	<u>\$ 3,513,302</u>

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for use in future periods. In addition to endowment earnings which have not been appropriated for expenditure as described in Note 8, the remaining portion of temporarily restricted net assets consisted of pledges due in future periods and contributions received whose purpose restrictions have not been fulfilled.

	2018	2017
Endowment earnings subject to a time restriction	\$ 3,838,935	\$ 3,513,302
Contributions subject to a purpose restriction	196,026	342,172
Contributions subject to a time restriction	<u>147,875</u>	<u>137,044</u>
	<u>\$ 4,182,836</u>	<u>\$ 3,992,518</u>

### NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions included the following for the year ended June 30:

	2018	2017
Endowment earnings appropriated for expenditure	\$ 618,141	\$ 638,265
Contributions whose purpose restrictions have been satisfied	24,808	32,430
Contributions whose time restrictions have been satisfied	<u>407,203</u>	<u>138,342</u>
Total net asset released from restrictions	<u>\$ 1,050,152</u>	<u>\$ 809,037</u>

### NOTE 11 – RETIREMENT BENEFIT PLAN

All employees that work at least 1,000 hours during the year and meet certain age and length of service requirements are eligible to participate in the ArtsBuild 401(k) Plan. ArtsBuild contributes 3% profit sharing and 3% safe harbor to each employee's plan. An employee may contribute into the plan up to Internal Revenue Service maximum limits. Employer and employee contributions are vested immediately. Total retirement benefit plan expenses incurred during the years ended June 30, 2018 and 2017, were \$16,976 and \$21,862, respectively.

### NOTE 12 – OPERATING LEASES

ArtsBuild formerly leased certain property and equipment under various lease agreements. There were no rent expense for the year ended June 30, 2018 and the total amount of rent expenses for the year ended June 30, 2017 was \$8,700. In January 2016, ArtsBuild moved into a new operating facility owned by the Organization and their month to month operating lease was terminated.

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 13 – COMMUNITY ARTS INVESTMENT

Allocations for general operating and program funding of community arts organizations approved by the Board of Directors for 2018 and 2017 and support for arts projects and activities are as follows:

	2018	2017
Board approved allocations:		
Association for Visual Artists	\$ 21,750	\$ 36,100
Ballet Tennessee	22,000	28,967
Bessie Smith Cultural Center	9,300	15,000
Bethlehem Community Center	3,500	-
Chattanooga Ballet	26,500	37,050
Chattanooga Boys Choir	18,000	26,600
Chattanooga Girls Choir	-	15,200
Chattanooga Symphony and Opera Association	135,000	200,000
Chattanooga Theatre Centre	63,750	106,400
Creative Discovery Museum	64,000	85,500
East Lake Expression Engine	5,000	-
Friends of Chattanooga/Hamilton County Library	2,500	-
Glass House Collective	3,000	-
Hunter Museum of Art	137,500	200,000
Shaking Ray Levi Society	6,000	5,000
Sculpture Fields	5,000	-
Southern Lit Alliance	-	33,250
Community arts investment	<u>527,800</u>	<u>789,067</u>
Support for arts projects and activities		
Community Cultural Connections	23,230	33,061
Equity in the Arts	55,529	41,503
TAC ABC Grants	<u>13,139</u>	<u>14,577</u>
Support for arts projects and activities	91,898	89,141
Investment income distributed to member agencies from earnings on permanently restricted net assets which are not included in the allocations above	<u>284,420</u>	<u>280,860</u>
 Total allocation	 <u>\$ 904,118</u>	 <u>\$ 1,159,068</u>

### NOTE 14 – LINE OF CREDIT

The Organization has an available line of credit in the amount of \$200,000 with a maturity of January 2020. The interest rate is variable and was set at 4.75% as of June 30, 2018. There were no borrowings outstanding on the line of credit at June 30, 2018 and 2017, respectively.



# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

### NOTE 15 – NOTE PAYABLE

The Organization entered into a \$1,560,000 loan agreement with Regions Bank bearing interest at 2.75% annually. The loan requires monthly payments of principal and interest totaling \$8,458 beginning on January 16, 2017. The loan will mature on December 16, 2021 and is secured by assignment of the endowment. The note payable balance was \$1,471,205 as of June 30, 2018.

Future principal payments are as follows:

June 30, 2019	\$ 61,424
June 30, 2020	63,556
June 30, 2021	65,326
June 30, 2022	<u>1,280,899</u>
	<u>\$ 1,471,205</u>

### NOTE 16 – RENTAL INCOME

The Organization leases out a portion of their building space under an operating lease arrangement to Townsend Atelier, LLC, a non-related entity. The lease calls for monthly rent of \$2,500 and expires on May 31, 2020.

The Organization leases out a portion of their building space under an operating lease arrangement to Southern Lit Alliance, a non-related entity. The lease currently calls for monthly rent of \$1,000 per month. In conjunction with the lease, Artsbuild gifted Southern Lit Alliance with a gift-in-kind of a \$250 rent discount totaling \$3,000 for 2018. The lease expired on June 30, 2018.

The Organization leases out a portion of their building space under an operating lease arrangement to Sound Corps, a non-related entity. The lease calls for monthly rent of \$250 and expires on September 30, 2018.

Future expected rental income is as follows:

June 30, 2019	\$ 30,750
June 30, 2020	<u>27,500</u>
	<u>\$ 58,250</u>

Rental income for years ended June 30, 2018 and 2017 totaled \$41,750 and \$41,250, respectively.

# ARTSBUILD

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### **NOTE 17 – SUBSEQUENT EVENTS**

Management has evaluated events and transactions subsequent to June 30, 2018 through the date of the independent auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.