ArtsBuild

Report on Financial Statements

For the years ended June 30, 2021 and 2020

elliott davis

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Independent Auditor's Report

Board of Directors
ArtsBuild
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of ArtsBuild (the "Organization"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses 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 these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 risk 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, 2021 and 2020, 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.

Elliott Davis, LLC

Chattanooga, Tennessee
February 16, 2022

ArtsBuild

Statements of Financial Position
As of June 30, 2021 and 2020

	2021	2020
Assets		
Cash	$ 567,545	$ 250,163
Receivables:		
Sustaining fund campaign pledges	835,688	84,124
Other grants receivable	74,112	7,752
Allowance for doubtful accounts	(5,000)	(8,047)
Total receivables, net	904,800	83,829
Prepaid expenses	18,007	27,247
Investments, at fair value	17,866,137	13,973,972
Property and equipment, net	1,462,918	1,522,567
Total assets	$ 20,819,407	$ 15,857,778
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 95,254	$ 22,770
Accrued expenses	545	952
Notes payable	1,308,410	1,450,780
Total liabilities	1,404,209	1,474,502
Net assets		
Without donor restrictions	4,267,883	3,037,213
With donor restrictions	15,147,315	11,346,063
Total net assets	19,415,198	14,383,276
Total liabilities and net assets	$ 20,819,407	$ 15,857,778

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets
For the year ended June 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions	$ 464,064	$ 329,960	$ 794,024
Grants	793,061	800,000	1,593,061
Rental income	69,200	-	69,200
Other program income	9,415	-	9,415
Net assets released from restrictions	1,030,427	(1,030,427)	-
Total revenue and support	2,366,167	99,533	2,465,700
Expenses			
Program services	1,570,002	-	1,570,002
Supporting services:			
Management and general	282,792	-	282,792
Fundraising	274,698	-	274,698
Total expenses	2,127,492	-	2,127,492
Change in net assets from operations	238,675	99,533	338,208
Non-operating activities			
Interest and dividend income	2,407	9,855	12,262
Net realized and unrealized gain on investments	901,721	3,691,864	4,593,585
Paycheck Protection Program income	87,867	-	87,867
Total non-operating activities	991,995	3,701,719	4,693,714
Change in net assets	1,230,670	3,801,252	5,031,922
Net assets, beginning of year	3,037,213	11,346,063	14,383,276
Net assets, end of year	$ 4,267,883	$ 15,147,315	$ 19,415,198

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets
For the year ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions	$ 468,602	$ 163,382	$ 631,984
Grants	382,760	-	382,760
Rental income	60,675	-	60,675
Other program income	18,137	-	18,137
Net assets released from restrictions	1,121,733	(1,121,733)	-
Total revenue and support	2,051,907	(958,351)	1,093,556
Expenses			
Program services	1,392,153	-	1,392,153
Supporting services:			
Management and general	256,507	-	256,507
Fundraising	283,535	-	283,535
Total expenses	1,932,195	-	1,932,195
Change in net assets from operations	119,712	(958,351)	(838,639)
Non-operating activities			
Interest and dividend income	4,630	20,168	24,798
Net realized and unrealized gain on investments	37,644	163,986	201,630
Loss on disposal of property and equipment	(8,587)	-	(8,587)
Total non-operating activities	33,687	184,154	217,841
Change in net assets	153,399	(774,197)	(620,798)
Net assets, beginning of year	2,883,814	12,120,260	15,004,074
Net assets, end of year	$ 3,037,213	$ 11,346,063	$ 14,383,276

See Notes to Financial Statements

ArtsBuild

Statement of Functional Expenses

For the year ended June 30, 2021

	Program services	Management and general	Fundraising	Total
Grants	$ 1,278,507	$ -	$ -	$ 1,278,507
Salaries and benefits	197,301	190,722	133,542	521,565
Depreciation	21,474	14,912	23,263	59,649
Occupancy	20,068	19,618	21,152	60,838
Advertising and promotion	-	-	53,473	53,473
Interest	28,382	7,269	11,340	46,991
Office expense	7,196	4,668	7,586	19,450
Accounting	-	23,113	-	23,113
Insurance	3,095	1,548	3,096	7,739
Travel and conferences	3,279	388	-	3,667
Information technology	8,135	7,748	3,486	19,369
Uncollectible pledge expense	-	-	13,958	13,958
Postage	2,176	1,511	2,357	6,044
Miscellaneous	389	11,295	1,445	13,129
	$ 1,570,002	$ 282,792	$ 274,698	$ 2,127,492

See Notes to Financial Statements

ArtsBuild

Statement of Functional Expenses

For the year ended June 30, 2020

	Program services	Management and general	Fundraising	Total
Grants	$ 1,190,833	$ -	$ -	$ 1,190,833
Salaries and benefits	132,937	178,883	158,013	469,833
Depreciation	21,474	14,912	23,263	59,649
Occupancy	19,104	13,267	20,696	53,067
Advertising and promotion	-	-	45,940	45,940
Interest	10,468	7,269	11,340	29,077
Office expense	8,052	4,793	6,326	19,171
Accounting	-	15,391	-	15,391
Insurance	2,766	1,921	2,997	7,684
Travel and conferences	780	5,747	4,153	10,680
Information technology	4,267	3,263	4,322	11,852
Uncollectible pledge expense	-	-	4,890	4,890
Postage	1,472	1,023	1,595	4,090
Miscellaneous	-	10,038	-	10,038
	$ 1,392,153	$ 256,507	$ 283,535	$ 1,932,195

See Notes to Financial Statements

ArtsBuild

Statements of Cash Flows

For the years ended June 30, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	$ 5,031,922	$ (620,798)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized gain on investments	(4,593,585)	(201,630)
Forgiveness of Paycheck Protection Program loan	(87,867)	-
Depreciation	59,649	59,649
Uncollectible pledge expense	13,958	4,890
Loss on disposal of property and equipment	-	8,587
Changes in operating assets and liabilities:		
Receivables	(834,929)	61,819
Prepaid expenses	9,240	36,153
Accounts payable	72,484	(29,947)
Accrued expenses	(407)	(19,749)
Net cash flows from operating activities	(329,535)	(701,026)
Investing activities		
Proceeds from sale of investments	3,081,548	2,149,895
Reinvested interest and dividend income	(12,262)	(24,798)
Purchase of investments	(2,367,866)	(1,433,496)
Purchase of property and equipment	-	(4,467)
Net cash flows from investing activities	701,420	687,134
Financing activities		
Principal payments on note payable	(54,503)	(47,042)
Proceeds from Paycheck Protection Program loan	-	87,867
Net cash flows from financing activities	(54,503)	40,825
Net change in cash	317,382	26,933
Cash, beginning of year	250,163	223,230
Cash, end of year	$ 567,545	$ 250,163
Cash paid for		
Interest	$ 46,991	$ 29,077
Noncash financing activity		
Forgiveness of Paycheck Protection Program loan	$ 87,867	$ -

See Notes to Financial Statements

Note 1. Nature of Operations

ArtsBuild, formerly known as 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 provides annual operating support to 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

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the not-for-profit industry.

Measure of operations:

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing arts program support. Non-operating activities are limited to resources that generate return from investments and other items considered less predictable due to external influences.

Cash:

From time to time, the Organization has funds held in institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) which exceed the insured maximum and which at times exceed statements of financial position due to outstanding checks. The at-risk amount is subject to significant fluctuations on a daily basis throughout the year.

Revenue recognition and financial statement presentation:

The Organization's primary revenue is derived from grants and contributions received as well as rental income. Rental income from operating leases is recognized on a straight-line basis over the lease term.

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

> *Net assets without donor restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
>
> *Net assets with donor restrictions*: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Note 2. Summary of Significant Accounting Policies, Continued

Revenue recognition and financial statement presentation, continued:

Contributions and grants received are recorded as net assets with or without donor restrictions, depending on the existence and nature of any donor-imposed restrictions. Contributions and grants that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the contributions or grants are recognized. All other donor restricted contributions or grants are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. For contributions restricted to the acquisition of property and equipment, the restrictions are released when the asset is placed in service unless the donor has provided more explicit requirements.

There were four major donors which comprised 67% of total contributions and grants revenue during 2021. There were two major donors which comprised 38% of contributions and grants revenue during 2020.

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 net assets without restrictions and totaled $3,646,715 and $2,742,587 as of June 30, 2021 and 2020, respectively.

Pledges and other receivables:

Pledges and other receivables are recorded at net realizable value. Unconditional pledges are recognized as revenues in the period received. Conditional pledges are recognized only when conditions for which they depend are substantially met and the pledge becomes unconditional.

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. Balances that are still outstanding after management has used reasonable collection efforts are written off to the allowance for doubtful accounts. Management believes the current allowance is adequate based on its analysis.

Pledges and other receivables are due as follows:

	2021	2020
Less than one year	$ 509,800	$ 91,876
One to five years	400,000	-
Pledges and other receivables	909,800	91,876
Allowance for doubtful accounts	(5,000)	(8,047)
Receivables, net	$ 904,800	$ 83,829

As of June 30, 2021, receivables from four donors comprised 88% of pledges and other receivables.

Note 2. Summary of Significant Accounting Policies, Continued

Investments:

Investments are stated at fair value. Investments in private investment funds are valued based on the Organization's proportional share of the net asset valuations reported by the underlying funds under the practical expedient. Investments in entities that calculate net asset value per share or its equivalent are not categorized within the fair value hierarchy. Adjustments, if necessary, are made by the Organization if the net asset valuation is not calculated in a manner consistent with the measurement principles used to determine fair value as prescribed by GAAP.

Interest income is recognized as earned. Dividends are recognized on the ex-dividend date.

Realized gains and losses on sales of securities are recognized on the trade date using the specific identification method. For investments where shares are not involved, realized gains and losses are calculated based upon the weighted average cost of the investments sold. Unrealized gain or loss is the differences between fair value and cost of investments held at the measurement date. The change in unrealized gain or loss consists of the net change in unrealized gain or loss during the year.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the statements of financial position and the statements of activities and changes in net assets.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in the statements of activities and changes in net assets. Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets.

Computers and equipment	5-7 years
Furniture and fixtures	5-7 years
Building	39 years

Paycheck Protection Program income:

Paycheck Protection Program income includes $87,867 in proceeds from the Paycheck Protection Program of the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020. The Organization applied Accounting Standards Codification (ASC) 470, *Debt,* in accounting for the proceeds as a financial liability as of June 30, 2020. The loan was wholly forgiven and the Organization was “legally released” during the year ended June 30, 2021. As such, the extinguishment was recorded as Paycheck Protection Program income for the year ended June 30, 2021.

Note 2. Summary of Significant Accounting Policies, Continued

Contributed services:

A substantial number of volunteers have donated significant amounts of their time to the Organization. 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.

Functional expenses:

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, management and general, and fundraising.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and Effort
Depreciation	Square Footage
Occupancy	Square Footage
Interest	Square Footage
Office expense	Nature of Expense
Insurance	Square Footage
Travel and conference	Nature of Expense
Information technology	Full Time Equivalent
Postage	Nature of Expense
Miscellaneous	Nature of Expense

Income taxes:

The Organization is a nonprofit entity 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.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's 990 tax filings are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Use of estimates:

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies, Continued

Recently adopted accounting pronouncement:

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The amendments became effective for the Organization for the year ended June 30, 2021, and did not have a material effect on the Organization's financial statements because nearly all of the Organization's revenue is outside the scope of Accounting Standards Codification (ASC) 606.

Recently issued accounting pronouncement:

In February 2016, the FASB amended the Leases topic of the ASC to require all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the statement of activities. The amendments will be effective for Organization's fiscal year beginning July 1, 2022. The Organization is currently in the process of evaluating the impact of adoption of this guidance on its financial statements.

Subsequent events:

The Organization has evaluated subsequent events for potential recognition and disclosure through February 16, 2022, the date the financial statements were available to be issued, as disclosed in Note 15 to the financial statements.

Note 3. Availability and Liquidity

The following represents the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditure within one year:

	2021	2020
Financial assets at year end:		
Cash	$ 567,545	$ 250,163
Investments, at fair value	17,866,137	13,973,972
Receivables, net	904,800	83,829
Total financial assets	19,338,482	14,307,964

Note 3. Availability and Liquidity, Continued

Less amounts not available to be used within one year:		
Net assets with donor restrictions, net of endowment appropriations of $705,650 and $713,492 approved for expenditure in 2022 and 2021, respectively	$ 14,441,665	$ 10,632,571
Board-designated funds	3,646,715	2,742,587
	18,088,380	13,375,158
Financial assets available to meet general expenditures over the next twelve months	$ 1,250,102	$ 932,806

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board of Directors as endowments. A portion of the donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure. The remaining endowment funds are available for general operating expenditures upon approval for appropriations by the Board of Directors as discussed in Note 8.

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Although, the Organization does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowments could be made available if necessary.

Note 4. Related Party Transactions

Some board of director members of the Organization participate on boards of grantee organizations with grant expenditures totaling $499,692 in 2021 and $494,434 in 2020. Board of director members are required to recuse themselves from the direct funding process where they or a member of their immediate family have interests in the grantee organization.

Note 5. Fair Value Measurements

The GAAP framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Note 5. Fair Value Measurements, Continued

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table presents the Organization's fair value hierarchy for those assets measured at fair value as of June 30, 2021 and 2020:

	Fair value measurements at June 30, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 8,478	$ -	$ -	$ 8,478
Mutual fund	1,055,303	-	-	1,055,303
Investment funds (1)	-	-	-	16,802,356
	$ 1,063,781	$ -	$ -	$ 17,866,137

	Fair value measurements at June 30, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 50,300	$ -	$ -	$ 50,300
Mutual fund	143,068	-	-	143,068
Investment funds (1)	-	-	-	13,780,604
	$ 193,368	$ -	$ -	$ 13,973,972

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Note 6. Investments

A summary of investments carried at fair value as of June 30, 2021 and 2020, is as follows:

	2021			
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedge funds (b)	$ 6,244,530	$ -	Annually	90 Days
Real estate partnerships (c)	647,099	223,750	Quarterly	45 Days
Private equity (d)	2,286,084	710,000	N/A	N/A
U.S. equity (e)	3,559,007	-	Quarterly	60 Days
International equity (f)	2,991,387	-	Quarterly	60 Days
Emerging markets (g)	1,074,249	-	Annually	90 Days
Cash and cash equivalents (h)	8,478	-	Daily	Daily
Mutual fund (i)	1,055,303	-	Daily	Daily
	$ 17,866,137	$ 933,750		

	2020			
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Fixed income (a)	$ 868,286	$ -	Monthly	15 Days
Hedge funds (b)	6,000,998	-	Annually	90 Days
Real estate partnerships (c)	583,100	257,500	Quarterly	45 Days
Private equity (d)	1,140,580	1,095,000	N/A	N/A
U.S. equity (e)	2,435,540	-	Quarterly	60 Days
International equity (f)	1,684,133	-	Quarterly	60 Days
Emerging markets (g)	1,067,967	-	Annually	90 Days
Cash and cash equivalents (h)	50,300	-	Daily	Daily
Mutual fund (i)	143,068	-	Daily	Daily
	$ 13,973,972	$ 1,352,500		

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

Note 6. Investments, Continued

b. This category includes investments in two investment funds. One is organized as a "fund of funds" and primarily invests in other privately-managed investment vehicles. The general partner of the underlying funds has complete discretion as to investment and reinvestment of the partnership's assets. The second investment in this category is an offshore feeder fund that invests in other partnerships managed by the same general partner. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. 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.

c. 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.

d. 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. Although distributions are made from these investments from time to time, the investments are not readily redeemable with a defined redemption period.

e. This category includes an investment in an investment partnership that takes primarily long positions in a broad range of domestic equity securities in order 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.

f. This category includes investments in an investment partnership that take primarily long positions in a broad range of international and domestic equity securities to achieve long-term performance. The fair values of the investment in this category have been estimated using the net asset value per share of the investment.

g. 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 investment. 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.

h. The cash held in the investment accounts serves the purpose of funding new investments and capital calls from existing investments. It is the Organization’s intention to maintain a cash balance in the investment account for long-term purposes related to its overall investing strategy.

i. This category includes investments in publicly traded mutual funds. The fair values of these investments have been valued at the closing price reported on the active market in which they are traded.

Note 6. Investments, Continued

The total return on investments is summarized as follows:

	2021	2020
Net realized and unrealized gain on investments	$ 4,593,585	$ 201,630
Interest and dividends	12,262	24,798
	$ 4,605,847	$ 226,428

Note 7. Property and Equipment

Property and equipment consist of the following major classifications:

	2021	2020
Computer and equipment	$ 17,724	$ 17,724
Furniture and fixtures	91,084	91,084
Land	64,600	64,600
Building	1,634,208	1,634,208
	1,807,616	1,807,616
Less accumulated depreciation	(344,698)	(285,049)
Net property and equipment	$ 1,462,918	$ 1,522,567

Depreciation expense for the years ended June 30, 2021 and 2020, was $59,649.

Note 8. Endowment

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 Chattanooga Symphony and Opera Association ("CSOA") and the Hunter Museum of American Art ("Hunter"). Endowments with restriction for the benefit of these agencies is $2,500,000. The income allocation for the portion of the endowment restricted solely for the benefit of CSOA and Hunter is 47.39% and 52.61%, respectively. Endowment assets also include amounts designated by the Board of Directors for support of community arts organizations. Investment income earned on endowment assets in excess of amounts distributed to the CSOA and Hunter is designated not only for Hunter and CSOA, but for other community arts organizations, as determined by the Organization.

Note 8. Endowment, Continued

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 net assets with donor restrictions (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 net assets with donor restrictions is classified as net assets with donor restrictions 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 factors when 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.

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 of Director'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 donor restricted 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.

Note 8. Endowment, Continued:

Spending policy and how the investment objectives relate to the spending policy, continued:

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 were no such deficiencies for the years ended June 30, 2021 and 2020.

Endowment net asset composition by type of fund as of June 30, 2021, is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 14,217,064	$ 14,217,064
Board-designated endowment funds	3,646,715	-	3,646,715
	$ 3,646,715	$ 14,217,064	$ 17,863,779

Changes in endowment net assets for the year ended June 30, 2021, are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 2,742,587	$ 11,231,385	$ 13,973,972
Investment return:			
Dividends and interest	2,407	9,855	12,262
Net realized and unrealized gain on investments	901,721	3,691,864	4,593,585
	904,128	3,701,719	4,605,847
Appropriation of endowment assets for expenditure	-	(716,040)	(716,040)
Endowment net assets, end of year	$ 3,646,715	$ 14,217,064	$ 17,863,779

Note 8. Endowment, Continued

Endowment net asset composition by type of fund as of June 30, 2020, is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 11,231,385	$ 11,231,385
Board-designated endowment funds	2,742,587	-	2,742,587
	$ 2,742,587	$ 11,231,385	$ 13,973,972

Changes in endowment net assets for the year ended June 30, 2020, are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 2,700,313	$ 11,763,630	$ 14,463,943
Investment return:			
Dividends and interest	4,630	20,168	24,798
Net realized and unrealized gain on investments	37,644	163,986	201,630
	42,274	184,154	226,428
Appropriation of endowment assets for expenditure	-	(716,399)	(716,399)
Endowment net assets, end of year	$ 2,742,587	$ 11,231,385	$ 13,973,972

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2021 and 2020, consist of the following:

	2021	2020
Subject to permanent restriction of corpus	$ 8,247,418	$ 8,247,418
Endowment earnings subject to a time restriction	5,969,646	2,983,967
Contributions subject to a purpose restriction	94,563	30,554
Contributions subject to a time restriction	835,688	84,124
	$ 15,147,315	$ 11,346,063

Net assets released from restrictions included the following for the years ended June 30, 2021 and 2020:

	2021	2020
Endowment earnings appropriated for expenditure	$ 716,040	$ 716,399
Contributions whose purpose restrictions have been satisfied	230,263	252,758
Contributions whose time restrictions have been satisfied	84,124	152,576
	$ 1,030,427	$ 1,121,733

Note 10. 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. The Organization contributes 3% profit sharing and 3% safe harbor to each employee's retirement account. 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, 2021 and 2020, were $16,126 and $18,388, respectively.

Note 11. Community Arts Investment

Allocations for general operating and program funding of community arts organizations approved by the Board of Directors for 2021 and 2020 and support for arts projects and activities are as follows:

	2021	2020
Board approved allocations:		
Art120	$ 6,000	$ 5,000
Association for Visual Artists	5,000	5,000
Ballet Tennessee	-	26,500
Bessie Smith Cultural Center	7,250	6,500
Chattanooga Ballet	35,000	28,000
Chattanooga Boys Choir	22,000	19,700
Chattanooga Symphony and Opera Association	96,000	95,250
Chattanooga Theatre Centre	80,000	77,750
CoPac	10,000	5,000
Creative Discovery Museum	83,000	78,500
East Lake Expression Engine	8,000	6,375
H*art Gallery	10,250	10,700
Hunter Museum of Art	98,000	95,000
Scenic City Clay Arts	8,000	5,000
Sculpture Fields at Montague Park	2,750	5,000
SoundCorps	6,750	5,750
Southern Lit Alliance	11,250	8,250
SPLASH	8,000	6,725
Stove Works	6,000	5,000
Unity Performing Arts Foundation	5,000	5,000
Special Technical Assistance	-	5,060
Community arts investment	508,250	505,060
Support for arts projects and activities:		
Community Cultural Connections	21,250	38,100
Equity in the Arts	-	5,200
TAC ABC Grants	15,776	15,176
Artist Emergency Fund	4,500	41,562
	41,526	100,038

Note 11. Community Arts Investment, Continued

Investment income distributed to member agencies from earnings on net assets with donor restrictions which are not included in the allocations above	$ 288,692	$ 287,734
Total allocation	$ 838,468	$ 892,832

Note 12. Notes Payable

In December 2016, 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 is subject to various restrictive covenants including liquidity maintenance requirements. As of June 30, 2021, management believes the Organization was in compliance with all covenants. The loan is secured by assignment of board-designated endowment net assets and will mature on March 16, 2022, at which point management intends to pay the outstanding balance in full. The note payable balance was $1,308,410 and $1,362,913 as of June 30, 2021 and 2020, respectively.

In April 2020, the Organization entered into a $87,867 loan agreement under the Payroll Protection Program of the CARES Act, passed into law on March 27, 2020. The balance of the loan was forgivable to the extent qualified expenses are incurred and other conditions were met. The loan was fully forgiven in 2021.

Note 13. Rental Income

The Organization leases out a portion of its building space under an operating lease arrangement to four non-related organizations: Southern Lit Alliance, SoundCorps, Townsend Atelier, LLC, and Scenic City Clay Arts.

Monthly rental rates by tenant are as follows for the year ended June 30, 2021:

Tenant	Monthly rate	Expiration date
Southern Lit Alliance	$ 500	June 30, 2022
SoundCorps	250	October 31, 2022
Townsend Atelier, LLC	2,500	May 31, 2023
Scenic City Clay Arts	3,200	Undefined

Future expected rental income is as follows:

Year ending	
June 30, 2022	$ 36,000
June 30, 2023	27,500

Rental income for the years ended June 30, 2021 and 2020, totaled $69,200 and $60,675, respectively.

Note 14. COVID-19

The World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. During 2020, Congress passed the CARES Act and various other acts extending and supplementing the benefits which amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.

Note 15. Subsequent Event

On July 7, 2021, the Organization executed an agreement to change the management of its endowment fund from Gerber/Taylor Management, Inc. (“GT”) to Edge Capital Group. The investments held by GT will be liquidated as terms of the underlying fund agreements allow.