ArtsBuild

Report on Financial Statements

For the years ended June 30, 2022 and 2021

Independent Auditor's Report

Board of Directors
ArtsBuild
Chattanooga, Tennessee

Opinion

We have audited the accompanying financial statements of ArtsBuild (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

Elliott Davis, LLC

Chattanooga, Tennessee
January 5, 2023

ArtsBuild

Statements of Financial Position

As of June 30, 2022 and 2021

	2022	2021
Assets		
Cash	$ 644,530	$ 567,545
Pledges and other receivables:		
Sustaining fund campaign pledges	433,136	835,688
Other grants receivable	114,833	74,112
Investment receivable	723,857	-
Allowance for doubtful accounts	(5,000)	(5,000)
Total receivables, net	1,266,826	904,800
Prepaid expenses	17,222	18,007
Investments, at fair value	14,099,699	17,866,137
Property and equipment, net	1,408,383	1,462,918
Total assets	$ 17,436,660	$ 20,819,407
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 89,060	$ 95,254
Accrued expenses	325	545
Notes payable	-	1,308,410
Total liabilities	89,385	1,404,209
Net assets		
Without donor restrictions	5,427,226	4,267,883
With donor restrictions	11,920,049	15,147,315
Total net assets	17,347,275	19,415,198
Total liabilities and net assets	$ 17,436,660	$ 20,819,407

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions - cash	$ 518,309	$ 83,136	$ 601,445
Contributions - gifts in kind	25,900	-	25,900
Grants	431,804	73,072	504,876
Rental income	76,752	-	76,752
Other program income	31,387	-	31,387
Net assets released from restrictions	2,541,342	(2,541,342)	-
Total revenue and support	3,625,494	(2,385,134)	1,240,360
Expenses			
Program services	1,607,033	-	1,607,033
Supporting services:			
Management and general	319,385	-	319,385
Fundraising	323,645	-	323,645
Total expenses	2,250,063	-	2,250,063
Change in net assets from operations	1,375,431	(2,385,134)	(1,009,703)
Non-operating activities			
Interest and dividend income	407	1,584	1,991
Net realized and unrealized loss on investments	(216,495)	(843,716)	(1,060,211)
Total non-operating activities	(216,088)	(842,132)	(1,058,220)
Change in net assets	1,159,343	(3,227,266)	(2,067,923)
Net assets, beginning of year	4,267,883	15,147,315	19,415,198
Net assets, end of year	$ 5,427,226	$ 11,920,049	$ 17,347,275

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 - cash	$ 438,164	$ 329,960	$ 768,124
Contributions - gifts in kind	25,900	-	25,900
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 Functional Expenses
For the year ended June 30, 2022

	Program services	Management and general	Fundraising	Total
Grants and programming	$ 1,311,270	$ -	$ -	$ 1,311,270
Salaries and benefits	230,876	161,943	168,694	561,513
Depreciation	15,003	23,406	21,605	60,014
Occupancy	22,459	21,779	23,820	68,058
Advertising and promotion	-	-	75,036	75,036
Interest	7,168	7,169	11,265	25,602
Office expense	9,230	5,988	9,730	24,948
Accounting	-	22,371	-	22,371
Insurance	1,588	3,176	3,176	7,940
Travel and conferences	389	4,773	-	5,162
Information technology	7,235	7,672	3,272	18,179
Uncollectible pledge expense	-	-	4,020	4,020
Postage	1,815	1,261	1,967	5,043
Miscellaneous	-	59,847	1,060	60,907
	$ 1,607,033	$ 319,385	$ 323,645	$ 2,250,063

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 and programming	$ 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

Statements of Cash Flows

For the years ended June 30, 2022 and 2021

	2022	2021
Operating activities		
Change in net assets	$ (2,067,923)	$ 5,031,922
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized loss (gain) on investments	1,060,211	(4,593,585)
Forgiveness of Paycheck Protection Program loan	-	(87,867)
Depreciation	60,014	59,649
Uncollectible pledge expense	4,020	13,958
Changes in operating assets and liabilities:		
Receivables	(366,046)	(834,929)
Prepaid expenses	785	9,240
Accounts payable	(6,194)	72,484
Accrued expenses	(220)	(407)
Net cash flows from operating activities	(1,315,353)	(329,535)
Investing activities		
Proceeds from sale of investments	32,189,044	3,081,548
Reinvested interest and dividend income	(1,991)	(12,262)
Purchase of investments	(29,480,826)	(2,367,866)
Purchase of property and equipment	(5,479)	-
Net cash flows from investing activities	2,700,748	701,420
Financing activities		
Principal payments on note payable	(1,308,410)	(54,503)
Net change in cash	76,985	317,382
Cash, beginning of year	567,545	250,163
Cash, end of year	$ 644,530	$ 567,545
Cash paid for:		
Interest	$ 25,602	$ 46,991
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. 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 three major donors which comprised 48% of total contributions and grants revenue during 2022. There were four major donors which comprised 67% of contributions and grants revenue during 2021.

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 $3,430,627 and $3,646,715 as of June 30, 2022 and 2021, 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:

	2022	2021
Less than one year	$ 1,271,826	$ 509,800
One to five years	-	400,000
Pledges and other receivables	1,271,826	909,800
Allowance for doubtful accounts	(5,000)	(5,000)
Receivables, net	$ 1,266,826	$ 904,800

As of June 30, 2022, receivables from four donors comprised 92% of sustaining fund campaign pledges and other grants receivable, which totaled $547,969.

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” from the obligation 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 and changes in net assets. 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 conferences	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 September 2020, the Financial Accounting Standards Board (FASB) issued an accounting standard that will provide clearer financial information about noncash contributions to charities and other not-for-profit organizations that receive gifts-in-kind (GIKs). The standard provides new presentation and disclosure requirements about contributed nonfinancial assets for nonprofits, including additional disclosure rules for recognized contributed services. The amendments did not change the recognition and measurements requirements for those assets. The amendments were adopted by Organization on July 1, 2021, and did not have a material impact on the accompanying financial statements.

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.

Reclassifications:

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net assets.

Subsequent events:

The Organization has evaluated subsequent events for potential recognition and disclosure through January 5, 2023, the date the financial statements were available to be issued.

Note 3. Availability and Liquidity

The following represents the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditure within one year:

	2022	**2021**
Financial assets at year end:		
Cash	$ 644,530	$ 567,545
Investments, at fair value	14,099,699	17,866,137
Receivables, net	1,266,826	904,800
Total financial assets	16,011,055	19,338,482

Note 3. Availability and Liquidity, Continued

	2022	2021
Less amounts not available to be used within one year:		
Net assets with donor restrictions, net of endowment appropriations of $681,753 and $706,222 approved for expenditure in 2023 and 2022, respectively	$ 11,238,296	$ 14,441,665
Board-designated funds	3,430,627	3,646,715
	14,668,923	18,088,380
Financial assets available to meet general expenditures over the next twelve months	$ 1,342,132	$ 1,250,102

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 $489,220 in 2022 and $499,692 in 2021. 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; and
- 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, 2022 and 2021:

	Fair value measurements as of June 30, 2022				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments valued using net asset value	Total
Assets:					
Investments:					
Cash and cash equivalents	$ 1,692,671	$ -	$ -	$ -	$ 1,692,671
Mutual fund	3,879,680	-	-	-	3,879,680
Fixed Income	-	247,658	-	-	247,658
U.S. equity	3,966,301	-	-	-	3,966,301
Investment funds [1]	-	-	-	4,313,389	4,313,389
	$ 9,538,652	$ 247,658	$ -	$ 4,313,389	$ 14,099,699

Note 5. Fair Value Measurements, Continued

	Fair value measurements as of June 30, 2021				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments valued using net asset value	Total
Assets:					
Investments:					
Cash and cash equivalents	$ 8,478	$ -	$ -	$ -	$ 8,478
Mutual fund	1,055,303	-	-	-	1,055,303
Investment funds [1]	-	-	-	16,802,356	16,802,356
	$ 1,063,781	$ -	$ -	$ 16,802,356	$ 17,866,137

(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, 2022 and 2021, is as follows:

	2022			
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Cash and cash equivalents (h)	$ 1,692,671	$ -	Daily	Daily
Mutual fund (i)	3,879,680	-	Daily	Daily
Fixed income (a)	247,658	-	Daily	Daily
U.S. equity (e)	3,966,301	-	Daily	Daily
Hedge funds (b)	1,517,556	-	90 – 180 Days	95 Days
Real estate partnerships (c)	629,199	163,750	Quarterly	45 Days
Private equity (d)	2,064,163	567,000	N/A	N/A
Emerging markets (g)	102,471	-	Annually	90 Days
	$ 14,099,699	$ 730,750		

Note 6. Investments, Continued

	2021			
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedge funds (j)	$ 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 (k)	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 funds (i)	1,055,303	-	Daily	Daily
	$ 17,866,137	$ 933,750		

a. This category includes instruments that invest primarily in direct government obligations, such as US government securities, treasury obligations and corporate bonds with an investment grade of BAA/BBB or better by a major ratings agency, which are backed by the full faith and credit of the U.S. government. The investments in this category have short term investment horizons, which mature in less than one year. Investments in this category have daily liquidity and trades clear the following day. These investments are listed on a national securities exchange and valued at the last sales price.

b. This category includes investments in two investment funds. Both are organized as a "fund of funds." The first fund is a Master Fund with a Feeder Fund that invests substantially all its assets in the Master Fund. The second fund invests in a variety of financial instruments including equity and debt securities, options and swap contracts. 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 June 30 or December 31 from the first fund by giving notice no later than 95 days in advance unless otherwise permitted by the investment advisor. The Organization may withdraw quarterly from the second fund with a notice no later than 95 days in advance unless otherwise permitted by the investment manager.

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.

Note 6. Investments, Continued

e. This category includes investments in exchange-traded securities that track underlying securities and other financial instruments. The fair values of the investments in this category are determined from quoted prices for identical assets in active markets.

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.

j. 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.

k. 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.

The total return on investments is summarized as follows:

	2022	2021
Net realized and unrealized gain (loss) on investments	$ (1,060,211)	$ 4,593,585
Interest and dividend income	1,991	12,262
	$ (1,058,220)	$ 4,605,847

Note 7. Property and Equipment

Property and equipment consist of the following major classifications:

	2022	2021
Computer and equipment	$ 17,724	$ 17,724
Furniture and fixtures	96,563	91,084
Land	64,600	64,600
Building	1,634,208	1,634,208
	1,813,095	1,807,616
Less accumulated depreciation	(404,712)	(344,698)
Property and equipment, net	$ 1,408,383	$ 1,462,918

Depreciation expense for the years ended June 30, 2022 and 2021, were $60,014 and $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.

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.

Note 8. Endowment, Continued

Interpretation of relevant law, continued:

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 60 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.

During 2022, the board of directors approved a special endowment distribution to pay off a loan amount of $1,264,804.

Note 8. Endowment, Continued

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, 2022 and 2021.

Endowment net asset composition by type of fund as of June 30, 2022, is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 10,669,072	$ 10,669,072
Board-designated endowment funds	3,430,627	-	3,430,627
	$ 3,430,627	$ 10,669,072	$ 14,099,699

Changes in endowment net assets for the year ended June 30, 2022, are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 3,646,715	$ 14,217,064	$ 17,863,779
Investment return:			
Dividends and interest	407	1,584	1,991
Net realized and unrealized loss on investments	(216,495)	(843,716)	(1,060,211)
	(216,088)	(842,132)	(1,058,220)
Appropriation of endowment assets for expenditure	-	(1,971,026)	(1,971,026)
Expenses	-	(10,977)	(10,977)
	-	(1,982,003)	(1,982,003)
Endowment net assets, end of year	3,430,627	11,392,929	14,823,556
Investment receivable	-	(723,857)	(723,857)
Endowment net assets, investment only, end of year	$ 3,430,627	$ 10,669,072	$ 14,099,699

Note 8. Endowment, Continued

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 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2022 and 2021, consist of the following:

	2022	2021
Subject to permanent restriction of corpus	$ 8,247,418	$ 8,247,418
Endowment earnings subject to a time restriction	3,145,511	5,969,646
Contributions subject to a purpose restriction	93,984	94,563
Contributions subject to a time restriction	433,136	835,688
	$ 11,920,049	$ 15,147,315

Note 9. Net Assets With Donor Restrictions, Continued

Net assets released from restrictions included the following for the years ended June 30, 2022 and 2021:

	2022	2021
Endowment earnings appropriated for expenditure	$ 1,971,026	$ 716,040
Expenses	10,977	-
Contributions whose purpose restrictions have been satisfied	123,651	230,263
Contributions whose time restrictions have been satisfied	435,688	84,124
	$ 2,541,342	$ 1,030,427

Note 10. Retirement Benefit Plan

All employees who 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, 2022 and 2021, were $21,934 and $16,126, respectively.

Note 11. Community Arts Investment

Allocations for general operating and program funding of community arts organizations approved by the Board of Directors for 2022 and 2021 and support for arts projects and activities are as follows:

	2022	2021
Board approved allocations:		
Art120	$ 8,400	$ 6,000
Association for Visual Artists	5,000	5,000
Bessie Smith Cultural Center	7,250	7,250
Chattanooga Ballet	35,000	35,000
Chattanooga Boys Choir	22,000	22,000
Chattanooga Symphony and Opera Association	96,000	96,000
Chattanooga Theatre Centre	80,000	80,000
CoPac	10,000	10,000
Creative Discovery Museum	83,000	83,000
Dynamo	7,000	-
East Lake Expression Engine	10,000	8,000
H*art Gallery	-	10,250
Hunter Museum of Art	98,000	98,000
Scenic City Clay Arts	9,000	8,000
Sculpture Fields at Montague Park	-	2,750
SongBirds	11,000	-
SoundCorps	7,100	6,750
Southern Lit Alliance	12,250	11,250

Note 11. Community Arts Investment, Continued

	2022	2021
Board approved allocations, continued:		
SPLASH	$ 11,000	$ 8,000
Stove Works	6,000	6,000
The Pop-up Project	7,000	-
Unity Performing Arts Foundation	-	5,000
Community arts investment	525,000	508,250
Support for arts projects and activities:		
Community Cultural Connections	33,000	21,250
Racial Equity Grants for Individual Artists	96,215	-
TAC ABC Grants	19,924	15,776
Artist Emergency Fund/Recovery Fund	11,550	4,500
	160,689	41,526
Investment income distributed to member agencies from earnings on net assets with donor restrictions which are not included in the allocations above	288,120	288,692
Total allocation	$ 973,809	$ 838,468

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 required monthly payments of principal and interest totaling $8,458 beginning in January 2017, and was scheduled to mature March 2022. In February 2022, the Organization paid the loan in full, which totaled $1,264,804.

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, 2022:

Tenant	Monthly rate	Expiration date
Southern Lit Alliance	$ 500	June 30, 2023
SoundCorps	375	October 31, 2022
Townsend Atelier, LLC	2,500	May 31, 2023
Scenic City Clay Arts	3,200	Undefined

Note 13. Rental Income, Continued

Future expected rental income is as follows:

Year ending		
June 30, 2023	$	35,000

Rental income for the years ended June 30, 2022 and 2021, totaled $76,752 and $69,200, respectively.

Note 14. COVID-19 Pandemic

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, 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.