ArtsBuild

Report on Financial Statements

For the years ended June 30, 2023 and 2022

Contents

elliott davis

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, 2023 and 2022, 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, 2023 and 2022, 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 issued or 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.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

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 2, 2024

ArtsBuild

Statements of Financial Position
As of June 30, 2023 and 2022

	2023	2022
Assets		
Cash	$ 1,148,128	$ 644,530
Pledges and grants receivable:		
Sustaining fund campaign pledges	509,169	433,136
Grants receivable	161,345	114,833
Allowance for doubtful accounts	(5,000)	(5,000)
Total pledges and grants receivable, net	665,514	542,969
Investment receivable	-	723,857
Refundable income taxes	30,000	-
Prepaid expenses	70,462	17,222
Investments, at fair value	15,133,633	14,099,699
Property and equipment, net	1,389,436	1,408,383
Total assets	$ 18,437,173	$ 17,436,660
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 129,107	$ 89,060
Deferred revenue	11,000	-
Accrued expenses	1,399	325
Total liabilities	141,506	89,385
Net assets		
Without donor restrictions	6,008,148	5,424,984
With donor restrictions	12,287,519	11,922,291
Total net assets	18,295,667	17,347,275
Total liabilities and net assets	$ 18,437,173	$ 17,436,660

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets
For the year ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue and support			
Contributions - cash	$ 449,388	$ 27,169	$ 476,557
Contributions - gifts in kind	25,900	-	25,900
Grants	501,400	1,249,298	1,750,698
Rental income	76,842	-	76,842
Other program income	14,441	-	14,441
Net assets released from restrictions	1,712,836	(1,712,836)	-
Total revenue and support	2,780,807	(436,369)	2,344,438
Expenses			
Program services	1,766,234	-	1,766,234
Supporting services:			
Management and general	279,493	-	279,493
Fundraising	342,149	-	342,149
Total expenses	2,387,876	-	2,387,876
Change in net assets from operations	392,931	(436,369)	(43,438)
Non-operating activities			
Interest and dividend income	496	2,090	2,586
Net realized and unrealized gain on investments	189,737	799,507	989,244
Total non-operating activities	190,233	801,597	991,830
Change in net assets	583,164	365,228	948,392
Net assets, beginning of year	5,424,984	11,922,291	17,347,275
Net assets, end of year	$ 6,008,148	$ 12,287,519	$ 18,295,667

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	2,530,365	(2,530,365)	-
Total revenue and support	3,614,517	(2,374,157)	1,240,360
Expenses			
Program services	1,607,033	-	1,607,033
Supporting services:			
Management and general	308,408	-	308,408
Fundraising	323,645	-	323,645
Total expenses	2,239,086	-	2,239,086
Change in net assets from operations	1,375,431	(2,374,157)	(998,726)
Non-operating activities			
Interest and dividend income	407	1,584	1,991
Net realized and unrealized loss on investments	(218,737)	(852,451)	(1,071,188)
Total non-operating activities	(218,330)	(850,867)	(1,069,197)
Change in net assets	1,157,101	(3,225,024)	(2,067,923)
Net assets, beginning of year	4,267,883	15,147,315	19,415,198
Net assets, end of year	$ 5,424,984	$ 11,922,291	$ 17,347,275

See Notes to Financial Statements

ArtsBuild

Statement of Functional Expenses

For the year ended June 30, 2023

	Program services	Management and general	Fundraising	Total
Grants and programming	$ 1,409,578	$ -	$ -	$ 1,409,578
Salaries and benefits	269,196	184,934	177,823	631,953
Depreciation	26,674	10,545	24,813	62,032
Occupancy	31,545	30,589	33,457	95,591
Advertising and promotion	-	-	85,696	85,696
Office expense	6,071	3,937	6,398	16,406
Accounting	-	24,205	-	24,205
Insurance	3,625	1,813	3,625	9,063
Travel and conferences	1,071	8,954	534	10,559
Information technology	8,870	9,314	3,992	22,176
Uncollectible pledge expense	-	-	3,495	3,495
Postage	1,515	1,052	1,641	4,208
Miscellaneous	8,089	4,150	675	12,914
	$ 1,766,234	$ 279,493	$ 342,149	$ 2,387,876

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	-	48,870	1,060	49,930
	$ 1,607,033	$ 308,408	$ 323,645	$ 2,239,086

See Notes to Financial Statements

ArtsBuild

Statements of Cash Flows

For the years ended June 30, 2023 and 2022

		2023		2022
Operating activities				
Change in net assets	$	948,392	$	(2,067,923)
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Net realized and unrealized loss (gain) on investments		(989,244)		1,071,188
Depreciation		62,032		60,014
Uncollectible pledge expense		3,495		4,020
Changes in operating assets and liabilities:				
Pledges and grants receivable		(126,040)		(366,046)
Refundable income taxes		(30,000)		-
Prepaid expenses		(53,240)		785
Accounts payable		40,047		(6,194)
Deferred revenue		11,000		-
Accrued expenses		1,074		(220)
Net cash flows from operating activities		(132,484)		(1,304,376)
Investing activities				
Proceeds from sale of investments		3,456,192		32,178,067
Reinvested interest and dividend income		(2,586)		(1,991)
Purchase of investments		(2,774,439)		(29,480,826)
Purchase of property and equipment		(43,085)		(5,479)
Net cash flows from investing activities		636,082		2,689,771
Financing activities				
Principal payments on note payable		-		(1,308,410)
Net change in cash		503,598		76,985
Cash, beginning of year		644,530		567,545
Cash, end of year	$	1,148,128	$	644,530
Cash paid for:				
Interest	$	-	$	25,602

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 four major donors which comprised 70% of total contributions and grants revenue during 2023. There were three major donors which comprised 48% of contributions and grants revenue during 2022.

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 $3,618,817 and $3,428,385 as of June 30, 2023 and 2022, respectively.

Pledges and grants receivable:

Pledges and grants receivable 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 grants receivables are due as follows:

	2023	2022
Less than one year	$ 500,514	$ 547,969
One to five years	170,000	-
Pledges and grants receivable	670,514	547,969
Allowance for doubtful accounts	(5,000)	(5,000)
	$ 665,514	$ 542,969

As of June 30, 2023, receivables from three donors comprised 97% of pledges and grants receivable. As of June 30, 2022, receivables from four donors comprised 92% of pledges and grants receivable.

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

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.

Note 2. Summary of Significant Accounting Policies, Continued

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

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 2, 2024, the date the financial statements were available to be issued.

Note 3. Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842), which requires entities to recognize lease assets and lease liabilities on the statement of financial position and disclose key information about leasing arrangements. The organization adopted ASC 842 on July 1, 2022. Management determined that the adoption of the new pronouncement did not have a material impact on the Organization's financial position, results of operations and cash flows.

Note 4. Availability and Liquidity

The following represents the Organization's financial assets as of June 30, 2023 and 2022, reduced by amounts not available for general expenditure within one year:

	2023	2022
Financial assets at year end:		
Cash	$ 1,148,128	$ 644,530
Investments, at fair value	15,133,633	14,099,699
Pledges and grants receivable	495,514	1,266,826
Investment receivable	-	723,857
Total financial assets	16,777,275	16,011,055
Less amounts not available to be used within one year:		
Net assets with donor restrictions, net of endowment appropriations of $709,596 and $681,753 approved for expenditure in 2024 and 2023, respectively	11,577,923	11,240,538
Board-designated funds	3,618,817	3,428,385
Grants receivable due after one year	170,000	-
	15,366,740	14,668,923
Financial assets available to meet general expenditures over the next twelve months	$ 1,410,535	$ 1,342,132

Note 4. Availability and Liquidity, Continued

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 9.

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 5. Related Party Transactions

Some board of director members of the Organization participate on boards of grantee organizations with grant expenditures totaling $506,779 in 2023 and $489,220 in 2022. 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.

During 2023, the Organization assumed management of an arts and climate grant whereby two board members had previously been approved by the original grantor to provide services under the grant and receive payments totaling $1,500 each.

Also in 2023, the Organization awarded a racial equity grant for individual artist totaling $10,000 to a third board member that was selected through an independent panel review. As of June 30, 2023, $2,500 was remaining to be paid under this grant award. In 2021, the same board member was awarded a $19,000 artist works grant prior to joining the board. He received final payment of $4,750 in 2023 under this award.

Note 6. 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).

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.

Note 6. Fair Value Measurements, Continued

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, 2023 and 2022:

	Fair value measurements as of June 30, 2023				
	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
Investments:					
Cash and cash equivalents	$ 109,289	$ -	$ -	$ -	$ 109,289
Mutual fund	5,205,675	-	-	-	5,205,675
Fixed income	-	639,926	-	-	639,926
U.S. equity	5,034,238	-	-	-	5,034,238
Investment funds (1)	-	-	-	4,144,505	4,144,505
	$ 10,349,202	$ 639,926	$ -	$ 4,144,505	$ 15,133,633

	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
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

(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 7. Investments

A summary of investments carried at fair value as of June 30, 2023 and 2022 is as follows:

	2023			
	Fair value	**Unfunded commitments**	**Redemption frequency (if currently eligible)**	**Redemption notice period**
Cash and cash equivalents (g)	$ 109,289	$ -	Daily	Daily
Mutual fund (h)	5,205,675	-	Daily	Daily
Fixed income (a)	639,926	-	Daily	Daily
U.S. equity (e)	5,034,238	-	Daily	Daily
Hedge funds (b)	1,587,090	-	90 - 180 Days	95 Days
Real estate partnerships (c)	674,536	103,750	Quarterly	45 Days
Private equity (d)	1,882,879	440,000	N/A	N/A
	$ 15,133,633	$ 543,750		

	2022			
	Fair value	**Unfunded commitments**	**Redemption frequency (if currently eligible)**	**Redemption notice period**
Cash and cash equivalents (g)	$ 1,692,671	$ -	Daily	Daily
Mutual fund (h)	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 (f)	102,471	-	Annually	90 Days
	$ 14,099,699	$ 730,750		

a. This category includes instruments that invest primarily in direct government obligations, such as U.S. 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.

Note 7. Investments, Continued

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.

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 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.

g. 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.

h. 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 7. Investments, Continued

The total return on investments is summarized as follows:

	2023	2022
Net realized and unrealized gain (loss) on investments	$ 989,244	$ (1,071,188)
Interest and dividend income	2,586	1,991
	$ 991,830	$ (1,069,197)

Note 8. Property and Equipment

Property and equipment consist of the following major classifications:

	2023	2022
Computer and equipment	$ 17,724	$ 17,724
Furniture and fixtures	139,648	96,563
Land	64,600	64,600
Building	1,634,208	1,634,208
	1,856,180	1,813,095
Less accumulated depreciation	(466,744)	(404,712)
Property and equipment, net	$ 1,389,436	$ 1,408,383

Depreciation expense for the years ended June 30, 2023 and 2022 were $62,032 and $60,014, respectively.

Note 9. 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 9. 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.

Note 9. Endowment, Continued

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.

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, 2023 and 2022.

Endowment net asset composition by type of fund as of June 30, 2023, is as follows:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 11,515,015	$ 11,515,015
Board-designated endowment funds	3,618,618	-	3,618,618
	$ 3,618,618	$ 11,515,015	$ 15,133,633

Note 9. Endowment, Continued

Changes in endowment net assets for the year ended June 30, 2023, are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 3,428,385	$ 11,395,171	$ 14,823,556
Investment return:			
Dividends and interest	496	2,090	2,586
Net realized and unrealized gain on investments	189,737	799,507	989,244
	190,233	801,597	991,830
Appropriation of endowment assets for expenditure	-	(681,753)	(681,753)
Endowment net assets, end of year	$ 3,618,618	$ 11,515,015	$ 15,133,633

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	$ -	$ 11,395,171	$ 11,395,171
Board-designated endowment funds	3,428,385	-	3,428,385
	$ 3,428,385	$ 11,395,171	$ 14,823,556

Note 9. Endowment, Continued

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	(218,737)	(852,451)	(1,071,188)
	(218,330)	(850,867)	(1,069,197)
Appropriation of endowment assets for expenditure	-	(1,971,026)	(1,971,026)
Endowment net assets, end of year	3,428,385	11,395,171	14,823,556
Investment receivable	-	(723,857)	(723,857)
Endowment net assets, investment only, end of year	$ 3,428,385	$ 10,671,314	$ 14,099,699

Note 10. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2023 and 2022 consist of the following:

	2023	2022
Subject to permanent restriction of corpus	$ 8,247,418	$ 8,247,418
Endowment earnings subject to a time restriction	3,267,597	3,147,753
Contributions subject to a purpose restriction	230,198	93,984
Contributions subject to a time restriction	542,306	433,136
	$ 12,287,519	$ 11,922,291

Net assets released from restrictions included the following for the years ended June 30, 2023 and 2022:

	2023	2022
Endowment earnings appropriated for expenditure	$ 681,753	$ 1,971,026
Contributions whose purpose restrictions have been satisfied	311,083	123,651
Contributions whose time restrictions have been satisfied	720,000	435,688
	$ 1,712,836	$ 2,530,365

Note 11. 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, 2023 and 2022 were $24,350 and $21,934, respectively.

Note 12. Community Arts Investment

Allocations for general operating and program funding of community arts organizations approved by the Board of Directors for 2023 and 2022 and support for arts projects and activities are as follows:

	2023	2022
Board approved allocations:		
Art120	$ 7,000	$ 8,400
Association for Visual Artists	7,000	5,000
Bessie Smith Cultural Center	-	7,250
Chattanooga Ballet	35,000	35,000
Chattanooga Boys Choir	18,000	22,000
Chattanooga Symphony and Opera Association	93,000	96,000
Chattanooga Theatre Centre	80,000	80,000
CoPac	7,000	10,000
Creative Discovery Museum	86,000	83,000
Dynamo	5,000	7,000
East Lake Expression Engine	12,000	10,000
Houston Museum	5,000	-
Hunter Museum of Art	99,000	98,000
Scenic City Clay Arts	13,000	9,000
SongBirds	10,000	11,000
SoundCorps	8,500	7,100
Southern Lit Alliance	11,000	12,250
SPLASH	12,000	11,000
Stove Works	8,500	6,000
The Pop-up Project	8,000	7,000
Community arts investment	$ 525,000	$ 525,000

Note 12. Community Arts Investment, Continued

	2023	2022
Support for arts projects and activities:		
Community Cultural Connections	$ 74,797	$ 33,000
Racial Equity Grants for Individual Artists	51,022	96,215
TAC ABC Grants	22,520	19,924
Artist Works	90,039	-
Artist Emergency Fund/Recovery Fund	-	11,550
	238,378	160,689
Investment income distributed to member agencies from earnings on net assets with donor restrictions which are not included in the allocations above	306,279	288,120
Total allocation	$ 1,069,657	$ 973,809

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, 2023:

Tenant	Monthly rate	Expiration date
Southern Lit Alliance	$ 625	December 30, 2024
Townsend Atelier, LLC	2,500	May 31, 2026
Scenic City Clay Arts	3,200	Undefined

The lease agreement with SoundCorps terminated on October 31, 2022 and was not renewed.

Future expected rental income is as follows:

Year ending	
June 30, 2024	$ 37,500
June 30, 2025	33,750
June 30, 2026	27,500
Total	$ 98,750

Rental income for the years ended June 30, 2023 and 2022 totaled $76,842 and $76,752, respectively.