

ArtsBuild

Report on Financial Statements

For the years ended June 30, 2024 and 2023

ArtsBuild

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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, 2024 and 2023, 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, 2024 and 2023, 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 31, 2025

ArtsBuild

Statements of Financial Position

As of June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash	\$ 1,022,323	\$ 1,148,128
Pledges and grants receivable:		
Sustaining fund campaign pledges	241,128	509,169
Grants receivable	84,176	161,345
Allowance for doubtful accounts	(5,000)	(5,000)
Total pledges and grants receivable, net	<u>320,304</u>	<u>665,514</u>
Refundable income taxes	32,800	30,000
Prepaid expenses	37,393	70,462
Investments, at fair value	15,990,971	15,133,633
Property and equipment, net	1,319,709	1,389,436
Total assets	<u>\$ 18,723,500</u>	<u>\$ 18,437,173</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 91,134	\$ 129,107
Deferred revenue	8,000	11,000
Accrued expenses	1,382	1,399
Total liabilities	<u>100,516</u>	<u>141,506</u>
Net assets		
Without donor restrictions	6,164,753	6,008,148
With donor restrictions	12,458,231	12,287,519
Total net assets	<u>18,622,984</u>	<u>18,295,667</u>
Total liabilities and net assets	<u>\$ 18,723,500</u>	<u>\$ 18,437,173</u>

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2024

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenue and support			
Contributions - cash	\$ 390,037	\$ 124,128	\$ 514,165
Contributions - gifts in kind	1,942	-	1,942
Grants	515,738	232,200	747,938
Rental income	76,812	-	76,812
Other program income	49,093	-	49,093
Net assets released from restrictions	1,377,943	(1,377,943)	-
Total revenue and support	<u>2,411,565</u>	<u>(1,021,615)</u>	<u>1,389,950</u>
Expenses			
Program services	2,058,376	-	2,058,376
Supporting services:			
Management and general	270,592	-	270,592
Fundraising	300,661	-	300,661
Total expenses	<u>2,629,629</u>	<u>-</u>	<u>2,629,629</u>
Change in net assets from operations	<u>(218,064)</u>	<u>(1,021,615)</u>	<u>(1,239,679)</u>
Non-operating activities			
Interest and dividend income	340	1,083	1,423
Net realized and unrealized gain on investments	374,329	1,191,244	1,565,573
Total non-operating activities	<u>374,669</u>	<u>1,192,327</u>	<u>1,566,996</u>
Change in net assets	156,605	170,712	327,317
Net assets, beginning of year	<u>6,008,148</u>	<u>12,287,519</u>	<u>18,295,667</u>
Net assets, end of year	<u>\$ 6,164,753</u>	<u>\$ 12,458,231</u>	<u>\$ 18,622,984</u>

See Notes to Financial Statements

ArtsBuild

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2023

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>2,780,807</u>	<u>(436,369)</u>	<u>2,344,438</u>
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	<u>2,387,876</u>	<u>-</u>	<u>2,387,876</u>
Change in net assets from operations	<u>392,931</u>	<u>(436,369)</u>	<u>(43,438)</u>
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	<u>190,233</u>	<u>801,597</u>	<u>991,830</u>
Change in net assets	<u>583,164</u>	<u>365,228</u>	<u>948,392</u>
Net assets, beginning of year	<u>5,424,984</u>	<u>11,922,291</u>	<u>17,347,275</u>
Net assets, end of year	<u>\$ 6,008,148</u>	<u>\$ 12,287,519</u>	<u>\$ 18,295,667</u>

See Notes to Financial Statements

ArtsBuild

Statement of Functional Expenses

For the year ended June 30, 2024

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Grants and programming	\$ 1,679,238	\$ -	\$ -	\$ 1,679,238
Salaries and benefits	299,980	186,972	173,307	660,259
Depreciation	29,982	11,854	27,891	69,727
Occupancy	24,146	23,414	25,610	73,170
Advertising and promotion	-	-	52,880	52,880
Office expense	7,083	4,594	7,465	19,142
Accounting	-	26,594	-	26,594
Insurance	3,905	1,952	3,905	9,762
Travel and conferences	855	3,043	427	4,325
Information technology	10,019	10,520	4,508	25,047
Uncollectible pledge expense	-	-	2,490	2,490
Postage	1,427	1,060	1,591	4,078
Miscellaneous	1,741	589	587	2,917
	<u>\$ 2,058,376</u>	<u>\$ 270,592</u>	<u>\$ 300,661</u>	<u>\$ 2,629,629</u>

See Notes to Financial Statements

ArtsBuild

Statement of Functional Expenses

For the year ended June 30, 2023

	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
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
	<u>\$ 1,766,234</u>	<u>\$ 279,493</u>	<u>\$ 342,149</u>	<u>\$ 2,387,876</u>

See Notes to Financial Statements

ArtsBuild

Statements of Cash Flows

For the years ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating activities		
Change in net assets	\$ 327,317	\$ 948,392
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net realized and unrealized gain on investments	(1,565,573)	(989,244)
Depreciation	69,727	62,032
Uncollectible pledge expense	2,490	3,495
Changes in operating assets and liabilities:		
Pledges and grants receivable	342,720	(126,040)
Refundable income taxes	(2,800)	(30,000)
Prepaid expenses	33,069	(53,240)
Accounts payable	(37,973)	40,047
Deferred revenue	(3,000)	11,000
Accrued expenses	(17)	1,074
Net cash flows from operating activities	<u>(834,040)</u>	<u>(132,484)</u>
Investing activities		
Proceeds from sale of investments	1,771,349	3,456,192
Reinvested interest and dividend income	(1,423)	(2,586)
Purchase of investments	(1,061,691)	(2,774,439)
Purchase of property and equipment	-	(43,085)
Net cash flows from investing activities	<u>708,235</u>	<u>636,082</u>
Net change in cash	<u>(125,805)</u>	<u>503,598</u>
Cash, beginning of year	<u>1,148,128</u>	<u>644,530</u>
Cash, end of year	<u>\$ 1,022,323</u>	<u>\$ 1,148,128</u>

See Notes to Financial Statements

ArtsBuild

Notes to Financial Statements June 30, 2024 and 2023

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.

ArtsBuild

Notes to Financial Statements June 30, 2024 and 2023

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 two major donors which comprised 41% of total contributions and grants revenue during 2024. There were four major donors which comprised 70% of contributions and grants revenue during 2023.

Board-designated net assets:

The board has designated certain cash reserves for the use of future special projects and to support community arts organizations, arts programs and arts initiatives. The designated amounts have been included in net assets without restrictions and totaled \$3,993,287 and \$3,618,618 as of June 30, 2024 and 2023, 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:

	<u>2024</u>	<u>2023</u>
Less than one year	\$ 325,304	\$ 500,514
One to five years	-	170,000
Pledges and grants receivable	325,304	670,514
Allowance for doubtful accounts	(5,000)	(5,000)
	<u>\$ 320,304</u>	<u>\$ 665,514</u>

As of June 30, 2024, receivables from two donors comprised 74% of pledges and grants receivable. As of June 30, 2023, receivables from three donors comprised 97% of pledges and grants receivable.

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Notes to Financial Statements June 30, 2024 and 2023

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.

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Notes to Financial Statements June 30, 2024 and 2023

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:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and Effort
Depreciation	Square Footage
Occupancy	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.

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Notes to Financial Statements June 30, 2024 and 2023

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 31, 2025, 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, 2024 and 2023, reduced by amounts not available for general expenditure within one year:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash	\$ 1,022,323	\$ 1,148,128
Investments, at fair value	15,990,971	15,133,633
Pledges and grants receivable	<u>320,304</u>	<u>665,514</u>
Total financial assets	<u>17,333,598</u>	<u>16,947,275</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions, net of endowment appropriations of \$726,724 and \$709,658 approved for expenditure in 2025 and 2024, respectively	11,731,507	11,577,923
Board-designated funds	3,993,287	3,618,818
Grants receivable due after one year	<u>-</u>	<u>170,000</u>
	<u>15,724,794</u>	<u>15,366,741</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,608,804</u>	<u>\$ 1,580,534</u>

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.

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Notes to Financial Statements June 30, 2024 and 2023

Note 4. Related Party Transactions

Some board of director members of the Organization participate on boards of grantee organizations. The Organization made grant expenditures totaling \$515,542 in 2024 and \$506,779 in 2023 to these grantee organizations. 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 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.

In 2024, the Organization awarded a community culture grant for individual artist totaling \$2,000 to a board member that was selected through an independent panel review.

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).

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.

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Notes to Financial Statements June 30, 2024 and 2023

Note 5. Fair Value Measurements, Continued

The following table presents the Organization's fair value hierarchy for those assets measured at fair value as of June 30, 2024 and 2023:

	Fair value measurements as of June 30, 2024				
	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	\$ 96,562	\$ -	\$ -	\$ -	\$ 96,562
Mutual fund	4,539,433	-	-	-	4,539,433
U.S. equity	7,124,067	-	-	-	7,124,067
Investment funds ⁽¹⁾	-	-	-	4,230,909	4,230,909
	<u>\$ 11,760,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,230,909</u>	<u>\$ 15,990,971</u>

	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
	<u>\$ 10,349,202</u>	<u>\$ 639,926</u>	<u>\$ -</u>	<u>\$ 4,144,505</u>	<u>\$ 15,133,633</u>

- (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.

ArtsBuild

Notes to Financial Statements June 30, 2024 and 2023

Note 6. Investments

A summary of investments carried at fair value as of June 30, 2024 and 2023 is as follows:

	2024			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Cash and cash equivalents (f)	\$ 96,562	\$ -	Daily	Daily
Mutual fund (g)	4,539,433	-	Daily	Daily
U.S. equity (e)	7,124,067	-	Daily	Daily
Hedge funds (b)	1,722,905	-	90 - 180 Days	95 Days
Real estate partnerships (c)	614,030	123,750	Quarterly	45 Days
Private equity (d)	<u>1,893,974</u>	<u>390,000</u>	N/A	N/A
	<u>\$ 15,990,971</u>	<u>\$ 513,750</u>		
	2023			
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Cash and cash equivalents (f)	\$ 109,289	\$ -	Daily	Daily
Mutual fund (g)	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)	<u>1,882,879</u>	<u>440,000</u>	N/A	N/A
	<u>\$ 15,133,633</u>	<u>\$ 543,750</u>		

- 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. 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.

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Notes to Financial Statements June 30, 2024 and 2023

Note 6. Investments, Continued

- 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. 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.
- g. 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.

The total return on investments is summarized as follows:

	<u>2024</u>	<u>2023</u>
Net realized and unrealized gain on investments	\$ 1,565,573	\$ 989,244
Interest and dividend income	<u>1,423</u>	<u>2,586</u>
	<u>\$ 1,566,996</u>	<u>\$ 991,830</u>

Note 7. Property and Equipment

Property and equipment consist of the following major classifications:

	<u>2024</u>	<u>2023</u>
Computer and equipment	\$ 17,724	\$ 17,724
Furniture and fixtures	139,649	139,649
Land	64,600	64,600
Building	<u>1,634,208</u>	<u>1,634,208</u>
	1,856,181	1,856,181
Less accumulated depreciation	<u>(536,472)</u>	<u>(466,745)</u>
Property and equipment, net	<u>\$ 1,319,709</u>	<u>\$ 1,389,436</u>

Depreciation expense for the years ended June 30, 2024 and 2023 were \$69,727 and \$62,032, respectively.

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Notes to Financial Statements June 30, 2024 and 2023

Note 8. Endowment

The Organization's endowment consists of donor-restricted contributions to be held in perpetuity and board restricted reserves functioning as endowments. Earnings from the endowment are used to support community arts organizations, arts programs and arts initiatives in Chattanooga and Hamilton County. When authorized by the board, board restricted reserves may also be used for special projects.

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.

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Notes to Financial Statements June 30, 2024 and 2023

Note 8. 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, 2024 and 2023.

Endowment net asset composition by type of fund as of June 30, 2024, is as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,997,684	\$ 11,997,684
Board-designated endowment funds	<u>3,993,287</u>	<u>-</u>	<u>3,993,287</u>
	<u>\$ 3,993,287</u>	<u>\$ 11,997,684</u>	<u>\$ 15,990,971</u>

Changes in endowment net assets for the year ended June 30, 2024, are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,618,618	\$ 11,515,015	\$ 15,133,633
Investment return:			
Dividends and interest	340	1,083	1,423
Net realized and unrealized gain on investments	<u>374,329</u>	<u>1,191,244</u>	<u>1,565,573</u>
	<u>374,669</u>	<u>1,192,327</u>	<u>1,566,996</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(709,658)</u>	<u>(709,658)</u>
Endowment net assets, end of year	<u>\$ 3,993,287</u>	<u>\$ 11,997,684</u>	<u>\$ 15,990,971</u>

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Notes to Financial Statements June 30, 2024 and 2023

Note 8. Endowment, Continued

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

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

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

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
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	<u>189,737</u>	<u>799,507</u>	<u>989,244</u>
	<u>190,233</u>	<u>801,597</u>	<u>991,830</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(681,753)</u>	<u>(681,753)</u>
Endowment net assets, end of year	<u>\$ 3,618,618</u>	<u>\$ 11,515,015</u>	<u>\$ 15,133,633</u>

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions as of June 30, 2024 and 2023 consist of the following:

	<u>2024</u>	<u>2023</u>
Subject to permanent restriction of corpus	\$ 8,247,418	\$ 8,247,418
Endowment earnings subject to a time restriction	3,750,266	3,267,597
Contributions subject to a purpose restriction	167,114	230,198
Contributions subject to a time restriction	<u>293,433</u>	<u>542,306</u>
	<u>\$ 12,458,231</u>	<u>\$ 12,287,519</u>

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Notes to Financial Statements June 30, 2024 and 2023

Note 9. Net Assets With Donor Restrictions, Continued

Net assets released from restrictions included the following for the years ended June 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Endowment earnings appropriated for expenditure	\$ 709,658	\$ 681,753
Contributions whose purpose restrictions have been satisfied	348,285	311,083
Contributions whose time restrictions have been satisfied	<u>320,000</u>	<u>720,000</u>
	<u>\$ 1,377,943</u>	<u>\$ 1,712,836</u>

Note 10. Community Arts Investment

Allocations for general operating and program funding of community arts organizations approved by the Board of Directors for 2024 and 2023 and support for arts projects and activities are as follows:

	<u>2024</u>	<u>2023</u>
Board approved allocations:		
Art120	\$ 9,100	\$ 7,000
Association for Visual Artists	12,000	7,000
Bessie Smith Cultural Center	9,000	-
Chattanooga Ballet	40,000	35,000
Chattanooga Boys Choir	19,000	18,000
Chattanooga Symphony and Opera Association	90,000	93,000
Chattanooga Theatre Centre	80,000	80,000
CoPac	5,900	7,000
Creative Discovery Museum	83,000	86,000
Dynamo	-	5,000
East Lake Expression Engine	13,000	12,000
Houston Museum	7,000	5,000
Hunter Museum of Art	94,000	99,000
Girls Choir	5,000	-
Scenic City Clay Arts	14,000	13,000
SongBirds	11,000	10,000
SoundCorps	11,000	8,500
Southern Lit Alliance	9,000	11,000
SPLASH	13,000	12,000
Stove Works	10,000	8,500
The Pop-up Project	<u>10,000</u>	<u>8,000</u>
Community arts investment	<u>\$ 545,000</u>	<u>\$ 525,000</u>

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Notes to Financial Statements June 30, 2024 and 2023

Note 10. Community Arts Investment, Continued

	<u>2024</u>	<u>2023</u>
Support for arts projects and activities:		
Community Cultural Connections	\$ 23,425	\$ 74,797
Racial Equity Grants for Individual Artists	55,000	51,022
TAC ABC Grants	31,575	22,520
Artist Works	50,000	90,039
Special Technical Assistance	<u>49,980</u>	<u>-</u>
	<u>209,980</u>	<u>238,378</u>
Investment income distributed to member agencies from earnings on net assets with donor restrictions which are not included in the allocations above	<u>320,542</u>	<u>306,279</u>
Total allocation	<u>\$ 1,075,522</u>	<u>\$ 1,069,657</u>

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, 2024 and 2023 were \$30,584 and \$24,350, respectively.

Note 12. Rental Income

The Organization leases out a portion of its building space under operating lease arrangements. Monthly rental rates by tenant are as follows for the year ended June 30, 2024:

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

Future expected rental income is as follows:

Year ending	
June 30, 2025	\$ 33,750
June 30, 2026	<u>27,500</u>
Total	<u>\$ 61,250</u>

Rental income for the years ended June 30, 2024 and 2023 totaled \$76,812 and \$76,842, respectively.