



THE MARSTON GROUP, PLC

# ArtsMemphis®

**FINANCIAL STATEMENTS**

**JUNE 30, 2019 and 2018**

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

1661 INTERNATIONAL DRIVE, SUITE 250 • MEMPHIS, TENNESSEE 38120

TEL: 901.761.3003 • FAX: 901.683.7901 • [WWW.THEMARSTONGROUP.COM](http://WWW.THEMARSTONGROUP.COM)

# ARTSMEMPHIS

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*June 30, 2019 and 2018*

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
ArtsMemphis  
Memphis, Tennessee

We have audited the accompanying financial statements of ArtsMemphis (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ArtsMemphis as of June 30, 2019 and 2018, 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.

A handwritten signature in blue ink that reads "The Crispin Group, PLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee  
December 2, 2019

## ARTSMEMPHIS

### Statements of Financial Position June 30, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash	\$ 57,607	\$ 113
Restricted cash	175,000	175,000
Contributions receivable, net	591,584	440,819
Other receivables	6,866	6,551
Prepaid expenses	15,128	7,138
Investments	18,719,968	19,504,261
Property and equipment, net	<u>9,271</u>	<u>26,558</u>
Total assets	<u><u>\$ 19,575,424</u></u>	<u><u>\$ 20,160,440</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Line of credit	\$ 250,976	\$ 278,301
Accounts payable	41,166	168,245
Assets held for other organizations	5,006,130	5,225,856
Deferred revenue	10,300	107,375
Grants and allocations payable	193,500	102,652
Capital lease obligation	<u>-</u>	<u>12,442</u>
Total liabilities	5,502,072	5,894,871
Net assets		
Without donor restrictions	2,184,800	1,999,263
With donor restrictions	<u>11,888,552</u>	<u>12,266,306</u>
Total net assets	<u>14,073,352</u>	<u>14,265,569</u>
Total liabilities and net assets	<u><u>\$ 19,575,424</u></u>	<u><u>\$ 20,160,440</u></u>

## ARTSMEMPHIS

*Statements of Activities and Changes in Net Assets*  
*Year Ended June 30, 2019*

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	<u>Net Assets without Donor Restrictions</u>	<u>Net Assets with Donor Restrictions</u>	<u>Total</u>
Revenues and other support			
Total amounts raised	\$ 2,002,315	\$ 309,780	\$ 2,312,095
Less: amounts designated by donors for specific organizations	<u>728,027</u>	<u>-</u>	<u>728,027</u>
Total contributions	1,274,288	309,780	1,584,068
Interest and dividends	51,372	13,766	65,138
Other revenue	132,645	-	132,645
Events	637,761	-	637,761
Net realized and unrealized gain on investments	51,541	13,950	65,491
Net assets released from restrictions	<u>715,250</u>	<u>(715,250)</u>	<u>-</u>
Total revenues and other support	2,862,857	(377,754)	2,485,103
Functional expenses			
Program services	1,841,621	-	1,841,621
Management and general	266,822	-	266,822
Fundraising	<u>568,877</u>	<u>-</u>	<u>568,877</u>
Total expenses	<u>2,677,320</u>	<u>-</u>	<u>2,677,320</u>
Change in net assets	185,537	(377,754)	(192,217)
Net assets at beginning of year	<u>1,999,263</u>	<u>12,266,306</u>	<u>14,265,569</u>
Net assets at end of year	<u>\$ 2,184,800</u>	<u>\$11,888,552</u>	<u>\$ 14,073,352</u>

Continued

## ARTSMEMPHIS

*Statements of Activities and Changes in Net Assets  
Year Ended June 30, 2018*

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Revenues and other support			
Total amounts raised	\$ 2,023,391	\$ 25,480	\$ 2,048,871
Less: amounts designated by donors for specific organizations	742,240	-	742,240
Total contributions	1,281,151	25,480	1,306,631
Interest and dividends	43,557	12,134	55,691
Other revenue	90,039	-	90,039
Events	195,305	-	195,305
Net realized and unrealized gain on investments	889,843	247,888	1,137,731
Net assets released from restrictions	166,656	(166,656)	-
Total revenues and other support	2,666,551	118,846	2,785,397
Functional expenses			
Program services	1,629,020	-	1,629,020
Management and general	359,326	-	359,326
Fundraising	419,138	-	419,138
Total expenses	2,407,484	-	2,407,484
Change in net assets	259,067	118,846	377,913
Net assets at beginning of year	1,740,196	12,147,460	13,887,656
Net assets at end of year	\$ 1,999,263	\$12,266,306	\$ 14,265,569

## ARTSMEMPHIS

*Statements of Functional Expenses  
Year Ended June 30, 2019*

	Program Services	Management and General	Fundraising	Total
Grants and allocations	\$ 2,293,278	\$ -	\$ -	\$ 2,293,278
Less: amounts designated by donors for specific organizations	728,027	-	-	728,027
Total grants and allocations	1,565,251	-	-	1,565,251
Salaries	169,341	146,183	186,822	502,346
Development support	-	-	267,743	267,743
Arts engagement	3,349	-	-	3,349
Rent	25,375	21,905	27,994	75,274
Group insurance	3,697	3,191	4,079	10,967
Equipment maintenance	2,585	2,232	2,852	7,669
Bad debts	-	-	9,137	9,137
Depreciation and amortization	6,343	5,475	6,998	18,816
Payroll taxes	12,641	10,912	13,946	37,499
Book expense	-	-	2,840	2,840
Marketing	-	-	8,104	8,104
Professional fees	-	19,533	-	19,533
Retirement plan	5,053	4,362	5,574	14,989
Office expense	7,212	6,226	7,957	21,395
Printing and copying	-	132	7,105	7,237
Telephone	2,958	2,554	3,264	8,776
Interest	-	7,157	-	7,157
Bank fees	-	10,429	-	10,429
Utilities	1,798	1,552	1,984	5,334
Other insurance	2,929	2,529	3,232	8,690
Postage	-	2,759	3,039	5,798
Dues and subscriptions	4,271	3,687	4,712	12,670
Travel and entertainment	-	3,081	-	3,081
Copier expense	1,324	1,143	1,460	3,927
Consulting	-	7,790	-	7,790
Payroll processing	-	3,058	-	3,058
Miscellaneous	7,244	715	-	7,959
Conferences and meetings	-	217	35	252
Advocacy for art groups	20,250	-	-	20,250
Total functional expenses	<u>\$ 1,841,621</u>	<u>\$ 266,822</u>	<u>\$ 568,877</u>	<u>\$ 2,677,320</u>

Continued

## ARTSMEMPHIS

### Statements of Functional Expenses Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Grants and allocations	\$ 2,138,050	\$ -	\$ -	\$ 2,138,050
Less: amounts designated by donors for specific organizations	742,240	-	-	742,240
Total grants and allocations	1,395,810	-	-	1,395,810
Salaries	123,072	205,655	189,035	517,762
Development support	-	-	113,235	113,235
Arts engagement	3,455	-	-	3,455
Rent	19,782	33,056	30,385	83,223
Group insurance	2,819	4,711	4,330	11,860
Equipment maintenance	1,849	3,089	2,840	7,778
Bad debts	-	-	3,020	3,020
Depreciation and amortization	9,853	16,465	15,134	41,452
Payroll taxes	9,274	15,498	14,245	39,017
Book expense	-	-	2,928	2,928
Marketing	-	-	6,949	6,949
Professional fees	-	18,057	-	18,057
Retirement plan	4,333	7,241	6,656	18,230
Office expense	1,712	2,861	2,630	7,203
Printing and copying	-	281	12,075	12,356
Telephone	2,214	3,700	3,401	9,315
Interest	-	6,413	-	6,413
Bank fees	-	10,317	-	10,317
Utilities	1,448	2,419	2,223	6,090
Other insurance	2,547	4,256	3,912	10,715
Postage	-	1,919	1,016	2,935
Dues and subscriptions	2,365	3,951	3,632	9,948
Travel and entertainment	-	6,664	-	6,664
Copier expense	849	1,419	1,305	3,573
Consulting	-	3,377	-	3,377
Payroll processing	-	2,973	-	2,973
Miscellaneous	3,838	671	-	4,509
Conferences and meetings	-	4,333	187	4,520
Advocacy for art groups	43,800	-	-	43,800
Total functional expenses	\$ 1,629,020	\$ 359,326	\$ 419,138	\$ 2,407,484

See notes to financial statements.

## ARTSMEMPHIS

### Statements of Cash Flows Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (192,217)	\$ 377,913
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	18,816	41,452
Net realized and unrealized gain on investments	(65,491)	(1,137,731)
Changes in operating assets and liabilities		
Contributions receivable	(150,765)	(107,264)
Other receivables	(315)	(4,702)
Prepaid expenses	(7,990)	8,802
Accounts payable	(127,079)	101,330
Deferred revenue	(97,075)	107,375
Grants and allocations payable	90,848	(224,108)
Net cash used for operating activities	(531,268)	(836,933)
Cash flows from investing activities		
Purchase of property and equipment	(1,529)	(16,676)
Net change in investments	849,784	490,271
Net cash provided by investing activities	848,255	473,595
Cash flows from financing activities		
Change in assets held for other organizations	(219,726)	169,301
Net change in line of credit	(27,325)	114,595
Payments on capital lease obligation	(12,442)	(17,758)
Net cash provided by (used for) financing activities	(259,493)	266,138
Net change in cash	57,494	(97,200)
Cash at the beginning of year	113	97,313
Cash at the end of year	\$ 57,607	\$ 113
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 7,157	\$ 6,413

See notes to financial statements.

# ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *Nature of Organization*

ArtsMemphis (the Organization) is a not-for-profit corporation whose purpose is to sustain Memphis' world-renowned cultural vitality and strengthen local communities through the arts. The Organization invests in artists and arts organizations by providing funding through grant processes, delivering learning opportunities, and forging connections.

### *Net Assets*

The Organization prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and presents balances and transactions according to the existence or absence of donor-imposed restrictions. This also conforms to the industry accounting guide, *Not-for-Profit Entities Audit and Accounting Guide*, of the American Institute of Certified Public Accountants.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired.

With donor restrictions - Net assets that are subject to donor-imposed restrictions. These include net assets that are subject to time or purpose restrictions and donor restricted endowments. Assets with time or purpose restrictions are satisfied either by the passage of time or actions of the Organization. Donor restricted endowments must be maintained permanently by the Organization and only the income may be used as specified by the donor. Donor restricted endowments consist primarily of the historical dollar value of contributions to donor restricted endowment funds.

Revenue is reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. During the years ended June 30, 2019 and 2018, the Organization released certain restricted net assets primarily for the purpose of program services.

### *Use of Estimates*

U.S. 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. Management believes that its estimates provided in the financial statements are reasonable. However, actual results could differ from those estimates.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

#### *Concentrations of Credit Risks*

Due to the nature of its business and the volume of revenue activity, the Organization can accumulate, from time to time, bank balances in excess of the insurance provided by federal deposit insurance authorities. The Federal Deposit Insurance Corporation (FDIC) has insured balances up to \$250,000 per account. The risk of maintaining deposits in excess of amounts insured by federal deposit authorities is managed by maintaining such deposits in high quality financial institutions.

#### *Donated Materials and Services*

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements only if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In addition to these types of services, a substantial number of volunteers have donated significant amounts of their time in the Organization's program services and its fundraising campaigns. The amount recognized in the accompanying financial statements for donated materials and services totaled \$123,312 and \$82,530 for the years ended June 30, 2019 and 2018, respectively.

#### *Contributions Receivable*

All contributions receivable are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as net assets with donor restrictions that increases those net asset classes. When a temporary restriction expires donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions receivable which are due in the next year are recorded at their net realizable value. Contributions receivable which are due in subsequent years have been discounted to the present value of their net realizable value, using credit adjusted rates applicable to the years in which the contributions are to be received. The contributions receivable consist primarily of receivables due from contributors as a result of fundraising activities.

Contributions receivable are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a valuation allowance based on its assessments of the current status of individual accounts. Balances still outstanding after a reasonable period of time has elapsed and that have been deemed uncollectible are generally written off.

#### *Investments*

The Organization's investments are stated at fair value. Fair value is the price that would be received to sell an asset in an ordinary transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded when earned and dividends are recorded on the ex-dividend date. Net realized and unrealized gains (losses) on investments include the Organization's gains and losses on investments bought and sold as well as held during the year. Net realized and unrealized gains (losses) are reported in the statement of activities as increases or decreases in net assets without donor restrictions, unless restricted by the donor or by law.

The Organization has significant investments in equities, bond funds, real estate funds, private equity funds and limited partnerships and is, therefore, subject to concentration of credit risk. Investments are made by investment managers engaged by the Organization and the investments are monitored for the Organization by an investment advisor and the Investment Committee. Management believes the investment policy is prudent for the long-term welfare of the Organization and its beneficiaries. Investment management fees were \$23,174 and \$32,751 for the years ended June 30, 2019 and 2018, respectively.

#### *Long-Lived Assets*

Property and equipment are reported at cost at date of acquisition or fair value at date of donation in the case of gifts. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or asset life. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation and amortization are removed from the accounts and any gain or loss is included in the determination of revenue and expenses.

#### *Grants and Allocations Payable*

Grants and allocations payable to selected or designated organizations and the related expense are recorded when the grants are approved by the Board of Directors for payment. Certain grant payment are contingent on the grantee submitting acceptable reporting documentation such as quarterly narratives and financial reports as outlined in the grant agreements by specified dates. Some grants are paid in installments and payments may be withheld if reporting requirements are not met. Grant decisions are made by a dedicated group of board members and volunteer grant panelists who conduct site visits and interview applicants.

#### *Endowment Funds*

The Organization classifies net assets of donor-restricted endowment funds in accordance with U.S. GAAP. U.S. GAAP provides guidance on net asset classification of donor-restricted endowment funds and improves disclosures on both an organization's donor-restricted and board-designated endowment funds. The Uniform Prudent Management of Institutional Funds Act (UPMIFA) established guidelines for prudent management of costs and expenditures of funds in relation to the whole economic situation of the charitable institution and was enacted by the State of Tennessee effective July 1, 2007. An organization, whether or not it is subject to an enacted version of UPMIFA, shall disclose information to enable users of financial statements to understand net asset classification, net asset composition, changes in net asset composition, spending policies, and related investment policies of its endowment funds. See Note 7 for required disclosure of endowment funds.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

#### *Income Taxes*

The Internal Revenue Service has ruled that the Organization qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to federal income tax under present income tax laws.

In accordance with U.S. GAAP, if applicable, the Organization recognizes interest expense and penalties related to uncertain tax positions in operating expense. No amounts have been recognized in expenses for the years ended June 30, 2019 and 2018. Informational tax returns for 2015 and subsequent years are subject to examinations by tax authorities.

#### *Advertising*

Advertising costs are expensed as incurred.

#### *Functional Allocation of Expenses*

The cost of providing various program services has been summarized on the functional basis in the statement of activities. Accordingly, certain costs have been allocated based upon management's estimates, principally on an indirect basis, among the program, management, and fundraising categories. Indirect costs are allocated primarily on salary expense allocated to each functional area.

#### *Deferred Revenue*

Deferred revenue consists of tickets sold in advance for various events. The services that will be performed in a future period are recognized as revenue in the period earned.

#### *Statement of Cash Flows*

For purposes of the statement of cash flows, the Organization considers unrestricted cash on hand and cash on deposit as cash. Money markets related to the investment accounts are not included in cash.

#### *Recent Accounting Pronouncements*

During 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14 reduces the number of net assets from three to two: net asset without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, a main provision of this guidance includes recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also expands the quantitative and qualitative disclosures regarding liquidity and availability of resources and requires expenses to be reported by both their natural and functional classification in one location. The organization applied the changes retrospectively.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

On June 21, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which applies to all entities that received or make contributions, including business entities. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a “barrier or hurdle” that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required.

For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements.

For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2018 (the Organization’s fiscal year 2020). For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2019 (the Organization’s fiscal year 2021). Early adoption of the agreements is permitted. Early adoption is permitted and the Organization is evaluating the impact of the standards.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This standard requires all leases that have a term of more than 12 months to be recognized in the combined statements of financial position with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases in the combined statement of activities will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard is effective for annual periods beginning after December 15, 2019, with early adoption permitted. Management is evaluating the impact of adopting this new accounting standard on the combined financial statements.

#### *Subsequent Events*

Management has reviewed events occurring through December 2, 2019 the date the financial statements were available to be issued, and no subsequent events have occurred requiring accrual or disclosure.

## ARTSMEMPHIS

Notes to Financial Statements  
June 30, 2019 and 2018

### NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 514,785	\$ 464,020
One to five years	<u>100,000</u>	<u>-</u>
Total contributions receivable	614,785	464,020
Less allowance for doubtful accounts	<u>23,201</u>	<u>23,201</u>
	<u><u>\$ 591,584</u></u>	<u><u>\$ 440,819</u></u>

### NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Computer equipment	\$ 184,645	\$ 241,262
Furniture, fixtures, and equipment	207,618	207,618
Leasehold improvements	<u>2,844</u>	<u>2,844</u>
	395,107	451,724
Less accumulated depreciation and amortization	<u>385,836</u>	<u>425,166</u>
	<u><u>\$ 9,271</u></u>	<u><u>\$ 26,558</u></u>

### NOTE 4 - FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value and establishes a framework for measuring fair value. Fair value measurements apply to financial assets and liabilities, as well as non-financial assets and liabilities which are re-measured at least annually.

U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable market data, when available, and minimizes the use of unobservable inputs when determining fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Organization's assumptions about the data and methods market participants would use in pricing an asset or liability based on the best information available in the circumstances.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED**

The Organization groups its assets and liabilities measured at fair value in three levels based on the reliability of valuation inputs used to determine fair value. The proper level of fair value measurement is determined based on the lowest level of significant input. The levels are as follows:

Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (i.e., markets in which there are few transactions for the assets or liabilities, the prices are not current, or price quotes vary substantially either over time or among market makers), and modeling techniques based on inputs that are observable for the assets or liabilities.

Level 3 valuations are based on modeling techniques using significant assumptions that are not observable in the market. The assumptions reflect the Organization's own assumptions that market participants would use in pricing the assets or liabilities.

The availability of observable inputs varies from investment to investment and is affected by a variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment that would be exercised by the Organization in determining fair value is greatest if any instruments were categorized in Level 3.

Investments measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been categorized within the fair value hierarchy. ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset per Share (or its Equivalent)*, eliminated the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The fair value amounts included in the fair value hierarchy are included to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

*Money market funds:* Valued at \$1 per share.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement as of the reporting date.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

### NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

Information pertaining to investments measured at fair value on a recurring basis aggregated by valuation input level follows:

<b>Assets at Fair Value as of June 30, 2019</b>				
	Level 1	Level 2	Level 3	Total
Money market	\$ 135,879	\$ -	\$ -	\$ 135,879
Mutual funds:				
Fixed income	903,890	-	-	903,890
Core value	1,069,433	-	-	1,069,433
Limited partnerships	493,360	-	-	493,360
Total assets in the fair value hierarchy	2,602,562	-	-	2,602,562
Investments measured at net asset value	-	-	-	16,117,406
	\$ 2,602,562	\$ -	\$ -	\$ 18,719,968
<b>Assets at Fair Value as of June 30, 2018</b>				
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	\$ 488,984	\$ -	\$ -	\$ 488,984
Core value	1,486,268	-	-	1,486,268
Limited partnerships	366,402	-	-	366,402
Total assets in the fair value hierarchy	2,341,654	-	-	2,341,654
Investments measured at net asset value	-	-	-	17,162,607
	\$ 2,341,654	\$ -	\$ -	\$ 19,504,261

*Continued*

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

### NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

The following table summarizes investments measured at fair value based on net asset value per share as of June 30, 2019 and 2018, respectively.

June 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. Equity	\$ 1,261,953	\$ -	Daily	N/A
International Equity	2,355,547	-	Quarterly	60 days
Emerging Markets	1,584,492	-	Annually	90 days
Hedged Strategies	7,600,836	-	Annually	90 days
Fixed Income	725,220	-	Monthly	15 days
Private Equity	1,352,682	1,729,000	Manager's Discretion	N/A
Real Assets Fund	601,493	440,000	Manager's Discretion	N/A
Opportunistic	635,183	-	Annually	90 days
June 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. Equity	\$ 1,319,400	\$ -	Daily	N/A
International Equity	3,200,166	-	Quarterly	60 days
Emerging Markets	1,763,551	-	Annually	90 days
Hedged Strategies	7,893,579	-	Annually	90 days
Fixed Income	678,036	-	Monthly	15 days
Private Equity	1,507,918	1,681,900	Manager's Discretion	N/A
Real Assets Fund	390,494	640,000	Manager's Discretion	N/A
Opportunistic	409,463	-	Annually	90 days

### NOTE 5 - LINE OF CREDIT

The Organization has an agreement for an unsecured line of credit for \$1,500,000 with a bank, which employs two members of the Organization's Board of Directors. Interest is payable monthly based on the LIBOR rate plus 2%, but no less than 3.50% (4.4% at June 30, 2019). The line of credit is set to mature on January 31, 2020. At June 30, 2019 and 2018, the outstanding balance was \$250,976 and \$278,301, respectively. The line of credit is occasionally used to bridge the timing of cash received from donors and funding to organizations. Subsequent to year-end, net repayments are \$110,000.

### NOTE 6 - ASSETS HELD FOR OTHER ORGANIZATIONS

Contributions from donors who specify the use of such funds or the earnings thereon to provide support for specific agencies or institutions are recorded as assets held for other organizations in the statement of financial position.

*Continued*

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## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 7 - ENDOWMENT FUNDS**

The Organization's endowment was established for a variety of purposes and is invested in approximately 15 individual funds. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence of donor-imposed restrictions.

#### *Interpretation of relevant law*

The Organization follows the Tennessee Uniform Prudent Management of Institutional Funds Act (TUPMIFA) that requires the preservation of the original gift amount of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies net assets of a perpetual nature with donor restrictions as (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment and (c) accumulations to the donor restricted 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 held in perpetuity 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 TUPMIFA.

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

- The duration and preservation of the fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization
- Funds with deficiencies

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

### NOTE 7 - ENDOWMENT FUNDS – CONTINUED

The Organization's disclosure of its endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Agency Funds</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 11,678,772	\$ 5,006,130	\$ 16,684,902
Board-designated endowment funds	<u>2,035,066</u>	<u>-</u>	<u>-</u>	<u>2,035,066</u>
Total funds	<u>\$ 2,035,066</u>	<u>\$ 11,678,772</u>	<u>\$ 5,006,130</u>	<u>\$ 18,719,968</u>

The Organization's disclosure of changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Agency Funds</u>	<u>Total</u>
Beginning of year	\$ 2,012,099	\$ 12,266,306	\$ 5,225,856	\$ 19,504,261
Investment income	103,427	27,716	45,531	176,674
Transfers to (from) donor restricted endowment funds	480,000	(480,000)	-	-
Appropriation of endowment funds for expenditure	<u>(560,460)</u>	<u>(135,250)</u>	<u>(265,257)</u>	<u>(960,967)</u>
End of year	<u>\$ 2,035,066</u>	<u>\$ 11,678,772</u>	<u>\$ 5,006,130</u>	<u>\$ 18,719,968</u>

*Continued*

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

### NOTE 7 - ENDOWMENT FUNDS – CONTINUED

The Organization's disclosure of its endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Agency Funds</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 12,266,306	\$ 5,225,856	\$ 17,492,162
Board-designated endowment funds	<u>2,012,099</u>	<u>-</u>	<u>-</u>	<u>2,012,099</u>
Total funds	<u>\$ 2,012,099</u>	<u>\$ 12,266,306</u>	<u>\$ 5,225,856</u>	<u>\$ 19,504,261</u>

The Organization's disclosure of changes in endowment net assets for the fiscal year ended June 30, 2018 is as follows:

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Agency Funds</u>	<u>Total</u>
Beginning of year	\$ 1,652,786	\$ 12,147,460	\$ 5,056,555	\$ 18,856,801
Investment income	933,922	260,022	436,327	1,630,271
Appropriation of endowment funds for expenditure	<u>(574,609)</u>	<u>(141,176)</u>	<u>(267,026)</u>	<u>(982,811)</u>
End of year	<u>\$ 2,012,099</u>	<u>\$ 12,266,306</u>	<u>\$ 5,225,856</u>	<u>\$ 19,504,261</u>

#### *Funds with deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and/or continued appropriation for fees and previously approved budgeted expenditures. There were no such deficiencies as of June 30, 2019 and 2018.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### **NOTE 7 - ENDOWMENT FUNDS – CONTINUED**

#### *Return objectives and risk parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce consistent long-term growth of capital without undue exposure to risk. The Organization expects its endowment funds, over time, to provide a return to match funds disbursed under the Organization's spending policy plus the rate of inflation.

#### *Strategies employed for achieving objectives*

To satisfy its long-term rate-of-return 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.

#### *Spending policy and relationship to investment objectives*

The Organization has a policy of annually appropriating a portion of its endowment fund to cover operating costs. In each of the fiscal years ended June 30, 2019 and 2018, this distribution was 5.25% of the rolling average of the unrestricted and permanently restricted funds over the prior three years. The same percentage was appropriated to the organizations whose funds are held in the Organization's endowment. In establishing this spending policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow endowment growth. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return. Additionally, a portion of temporarily restricted endowment funds are appropriated each year based on a schedule provided by the donor to fund capacity building grants for various arts organizations.

### **NOTE 8 - RETIREMENT PLAN**

Effective January 1, 2016 the Organization adopted the Adams Keegan Retirement Savings Plan, a multiple employer plan. Each employee may contribute a percentage of his or her annual compensation to the plan and the Organization will contribute an amount not less than the "safe harbor" matching contribution. The Organization's contributions to the plans were \$14,989 and \$18,230 for the years ended June 30, 2019 and 2018, respectively.

## ARTSMEMPHIS

Notes to Financial Statements  
June 30, 2019 and 2018

### NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes for the years ended June 30, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
Grants	\$ 205,000	\$ -
Ostrander award	1,000	-
Summer intern	3,780	-
Endowment corpus	<u>11,678,772</u>	<u>12,266,306</u>
	<u>\$ 11,888,552</u>	<u>\$ 12,266,306</u>

### NOTE 10 - OPERATING LEASES

The Organization has entered into various operating leases for office space and equipment, expiring through 2021. The office lease allows for stated increases over the term of the lease. In most cases, management expects that in the normal course of business leases will be renewed or replaced by other leases. Total rent expense for the years ended June 30, 2019 and 2018 was \$75,274 and \$83,223, respectively. Future minimum lease payments due under these lease agreements as of June 30, 2019 are as follows:

2020	\$ 60,912
2021	<u>51,642</u>
	<u>\$ 112,554</u>

### NOTE 11 - RELATED PARTY

At June 30, 2019 and 2018, receivables totaling \$58,775 and \$138,382, respectively, were due from members of the Board of Directors and employees. For the years ended June 30, 2019 and 2018 approximately \$137,000 and \$210,000 in contributions were received from members of the Board of Directors and employees. All board members and employees made a financial contribution during these periods.

The Organization utilizes third-party investment management services to assist the Board of Directors in management of the Organization's investments. The Organization is invested in a fund managed by a firm that employs two members of the Organization's Board of Directors. Investment management services were obtained through a competitive award and negotiation process and, in the opinion of management, the services obtained were the most favorable to the organization.

## ARTSMEMPHIS

*Notes to Financial Statements  
June 30, 2019 and 2018*

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### NOTE 12 - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet needs and other financial commitments, while also striving to maximize the investment of its available funds. The Organization maintains a financial resources policy that outlines acceptable investment vehicles for working capital, which includes reserves to be spent in the short-term on current activities, donor restricted funds meant to be spent down over a relatively short period of time to fund programs, and operating cash, which includes gifts without donor restrictions and with restriction or funds for operating needs. Per the policy, the Organization invests available cash needed for its general expenditures, liabilities, and other obligations in short-term investments, specifically interest bearing checking accounts, money market funds, and money market mutual funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to raise funds to ensure excellence in the arts in Shelby County, Tennessee, as well as the conduct of activities to support those service operations to be general expenditures. In addition to the financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient funds to cover general expenditures not covered by donor-restricted resources.

Financial assets for general expenditures available within one year from June 30, 2019 are as follows:

Cash	\$ 57,607
Unconditional promises to give, net	591,584
Other receivables	6,866
Investments	<u>18,719,968</u>
Total financial assets	19,376,025
Less amounts unavailable for programming and general expenditures within one year:	
Endowment funds restricted by donors of a perpetual nature	(16,684,902)
Contributions due beyond one year	<u>(100,000)</u>
Total financial assets available for programming and general expenditures within one year	<u>\$ 2,591,123</u>

### NOTE 13 - CAPITAL LEASE

The Organization has a lease dated January 28, 2015 for computer equipment under a capital lease that expired January 28, 2019. Total capital lease principal and interest payments for the years ended June 30, 2019 and 2018 were \$14,263 and \$20,168, respectively.