THE MARSTON GROUP, PLC

ArtsMemphis®

Powering Authentic Assets.

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

1661 INTERNATIONAL DRIVE, SUITE 250 • MEMPHIS, TENNESSEE 38120

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ARTSMEMPHIS

Contents
June 30, 2017 and 2016

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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.

Memphis, Tennessee
December 19, 2017

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Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
ASSETS		
Cash	$ 97,313	$ 354,388
Restricted cash	175,000	175,000
Unconditional promises to give, net	333,555	856,630
Other receivables	1,849	2,017
Prepaid expenses	15,940	4,898
Investments	18,856,801	17,778,724
Property and equipment, net	51,334	100,860
Total assets	$ 19,531,792	$ 19,272,517
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	$ 163,706	$ 689,356
Accounts payable	66,915	235,756
Accrued expenses	-	15
Assets held for other organizations	5,056,555	4,947,464
Deferred revenue	-	123,500
Grants and allocations payable	326,760	116,196
Capital lease obligation	30,200	48,430
Total liabilities	5,644,136	6,160,717
Net assets		
Unrestricted	1,740,196	1,060,058
Temporarily restricted	2,976,316	2,880,598
Permanently restricted	9,171,144	9,171,144
Total net assets	13,887,656	13,111,800
Total liabilities and net assets	$ 19,531,792	$ 19,272,517

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Statements of Activities and Changes in Net Assets
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Total amounts raised	$ 3,927,960	$ 307,000	$ -	$ 4,234,960
Less: amounts designated by by donors for specific organizations	2,754,319	-	-	2,754,319
Total contributions	1,173,641	307,000	-	1,480,641
Interest and dividends	37,924	10,550	-	48,474
Other revenue	71,976	-	-	71,976
Special events	551,153	-	-	551,153
Net realized and unrealized gain on investments	1,162,756	323,451	-	1,486,207
Net assets released from restrictions	545,283	(545,283)	-	-
Total revenues and other support	3,542,733	95,718	-	3,638,451
Functional expenses				
Program services	2,006,238	-	-	2,006,238
Management and general	382,632	-	-	382,632
Fundraising	473,725	-	-	473,725
Total expenses	2,862,595	-	-	2,862,595
Change in net assets	680,138	95,718	-	775,856
Net assets at beginning of year	1,060,058	2,880,598	9,171,144	13,111,800
Net assets at end of year	$ 1,740,196	$ 2,976,316	$ 9,171,144	$ 13,887,656

Continued

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Statements of Activities and Changes in Net Assets
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
Total amounts raised	$ 5,545,301	$ 83,250	$ -	$ 5,628,551
Less: amounts designated by by donors for specific organizations	3,584,796	-	-	3,584,796
Total contributions	1,960,505	83,250	-	2,043,755
Interest and dividends	50,097	13,518	-	63,615
Other revenue	114,437	-	-	114,437
Special events	96,893	-	-	96,893
Net realized and unrealized loss on investments	(625,907)	(168,888)	-	(794,795)
Net assets released from restrictions	424,979	(424,979)	-	-
Total revenues and other support	2,021,004	(497,099)	-	1,523,905
Functional expenses				
Program services	2,349,874	-	-	2,349,874
Management and general	405,255	-	-	405,255
Fundraising	528,226	-	-	528,226
Total expenses	3,283,355	-	-	3,283,355
Change in net assets	(1,262,351)	(497,099)	-	(1,759,450)
Net assets at beginning of year	2,322,409	3,377,697	9,171,144	14,871,250
Net assets at end of year	$ 1,060,058	$ 2,880,598	$ 9,171,144	$ 13,111,800

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Statements of Functional Expenses
Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Grants and allocations	$ 4,316,133	$ -	$ -	$ 4,316,133
Less: amounts designated by donors for specific organizations	2,754,319	-	-	2,754,319
Total grants and allocations	1,561,814	-	-	1,561,814
Salaries	177,661	201,075	169,600	548,336
Development support	-	-	179,044	179,044
Arts engagement	131,479	-	-	131,479
Rent	30,705	34,752	29,312	94,769
Group insurance	3,350	3,792	3,197	10,339
Equipment maintenance	5,109	5,782	4,878	15,769
Bad debts	-	-	13,395	13,395
Depreciation and amortization	16,135	18,261	15,403	49,799
Payroll taxes	12,985	14,697	12,396	40,078
Book expense	-	-	4,444	4,444
Marketing	-	-	5,339	5,339
Professional fees	-	26,192	-	26,192
Retirement plan	5,350	6,055	5,106	16,511
Office expense	3,756	4,251	3,586	11,593
Printing and copying	-	916	12,796	13,712
Telephone	4,040	4,572	3,857	12,469
Interest	-	11,753	-	11,753
Bank fees	-	12,602	-	12,602
Utilities	2,033	2,301	1,941	6,275
Other insurance	4,377	4,954	4,179	13,510
Postage	-	2,774	1,578	4,352
Dues and subscriptions	1,401	1,586	1,338	4,325
Travel and entertainment	-	2,278	-	2,278
Copier expense	976	1,105	932	3,013
Consulting	-	3,072	-	3,072
Payroll processing	-	11,730	-	11,730
Miscellaneous	15,722	1,053	232	17,007
Conferences and meetings	7,517	7,079	1,172	15,768
Advocacy for art groups	21,828	-	-	21,828
Total functional expenses	$ 2,006,238	$ 382,632	$ 473,725	$ 2,862,595

Continued

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Statements of Functional Expenses
Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Grants and allocations	$ 5,493,374	$ -	$ -	$ 5,493,374
Less: amounts designated by donors for specific organizations	3,584,796	-	-	3,584,796
Total grants and allocations	1,908,578	-	-	1,908,578
Salaries	225,647	211,487	214,122	651,256
Development support	-	-	134,081	134,081
Arts engagement	34,675	-	-	34,675
Rent	32,507	30,467	30,846	93,820
Group insurance	7,459	6,991	7,078	21,528
Equipment maintenance	5,491	5,146	5,211	15,848
Bad debts	-	-	11,763	11,763
Depreciation and amortization	17,191	16,112	16,313	49,616
Payroll taxes	16,618	15,575	15,769	47,962
Book expense	-	-	47,897	47,897
Marketing	-	-	5,946	5,946
Professional fees	-	24,984	-	24,984
Retirement plan	6,823	6,395	6,475	19,693
Office expense	3,504	3,284	3,325	10,113
Printing and copying	-	601	12,459	13,060
Telephone	4,563	4,277	4,330	13,170
Interest	-	27,411	-	27,411
Bank fees	-	10,822	-	10,822
Utilities	2,115	1,982	2,007	6,104
Other insurance	3,702	3,469	3,513	10,684
Postage	-	3,022	3,736	6,758
Dues and subscriptions	1,030	965	977	2,972
Travel and entertainment	-	3,477	-	3,477
Copier expense	1,491	1,397	1,414	4,302
Consulting	-	11,250	-	11,250
Payroll processing	-	12,506	-	12,506
Miscellaneous	14,638	873	33	15,544
Conferences and meetings	8,537	2,762	931	12,230
Advocacy for art groups	55,305	-	-	55,305
Total functional expenses	$ 2,349,874	$ 405,255	$ 528,226	$ 3,283,355

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Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 775,856	$ (1,759,450)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	49,799	49,616
Net realized and unrealized (gains) losses on investments	(1,486,207)	794,795
Uncollectible promises to give	-	11,763
Changes in operating assets and liabilities		
Unconditional promises to give	523,075	(313,318)
Other receivables	168	(297)
Prepaid expenses	(11,042)	4,508
Book inventory	-	44,434
Accounts payable and accrued expenses	(168,856)	199,120
Deferred revenue	(123,500)	123,500
Grants and allocations payable	210,564	(42,008)
Net cash used for operating activities	(230,143)	(887,337)
Cash flows from investing activities		
Purchase of property and equipment	(273)	(9,455)
Change in restricted cash	-	75,000
Net change in investments	408,130	1,684,569
Net cash provided by investing activities	407,857	1,750,114
Cash flows from financing activities		
Change in assets held for other organizations	109,091	(523,704)
Net change in line of credit	(525,650)	(209,446)
Payments on capital lease obligation	(18,230)	(17,604)
Net cash used for financing activities	(434,789)	(750,754)
Net change in cash	(257,075)	112,023
Cash at the beginning of year	354,388	242,365
Cash at the end of year	$ 97,313	$ 354,388
Supplemental disclosure:		
Cash paid for interest	$ 11,753	$ 27,411

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

ArtsMemphis (the Organization) is a not-for-profit corporation whose purpose is to raise funds to ensure excellence in the arts in Shelby County, Tennessee, and to allocate those funds among participating arts organizations. The Organization also awards capacity building grants to eligible organizations.

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:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets 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, 2017 and 2016, the Organization released certain temporarily 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.

Continued

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 $60,433 and $86,488 for the years ended June 30, 2017 and 2016, respectively.

Unconditional Promises to Give

All unconditional promises to give 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 temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Unconditional promises to give which are due in the next year are recorded at their net realizable value. Unconditional promises to give 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 promises are to be received. The unconditional promises to give consist primarily of receivables due from contributors as a result of fundraising activities.

Promises to give are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to 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 are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 unrestricted net assets, unless temporarily or permanently 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 $28,829 and $18,045 for the years ended June 30, 2017 and 2016, 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.

The Organization reviews its long-lived assets, including property and equipment, for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. No impairment has been recognized in the accompanying statement of activities.

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.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 8 for required disclosure of endowment funds.

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, 2017 and 2016. Informational tax returns for 2013 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 an event. The services that will be performed in a future period are recognized as revenue in the period earned. Deferred revenue does not represent the total contribution.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Management has reviewed events occurring through December 19, 2017 the date the financial statements were available to be issued, and subsequent events requiring accrual or disclosure are located in Note 13.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation. These reclassifications have no effect on change in net assets.

NOTE 2 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are summarized as follows as of June 30:

	2017	2016
Within one year	$ 382,946	$ 906,021
One to five years	-	-
Total unconditional promises to give	382,946	906,021
Less allowance for doubtful accounts	(49,391)	(49,391)
Unconditional promises to give, net	$ 333,555	$ 856,630

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2017	2016
Computer equipment	$ 227,430	$ 227,158
Leasehold improvements	207,618	207,618
	435,048	434,776
Less accumulated depreciation and amortization	383,714	333,916
	$ 51,334	$ 100,860

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.

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 product to product and is affected by a variety of factors, including the type of product, whether the product 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.

Mutual funds: Valued at quoted market prices based upon the net asset value of shares held by the Organization at year end for level 1 and at the net asset value of units held by the Organization at year end based upon the fair value of the underlying assets as reported by the fund managers for level 2 and level 3.

Money market fund: Valued at cost, which approximates fair value.

Continued

NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

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.

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

Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	$ 266,889	$ -	$ -	$ 266,889
Core value	1,494,684	-	-	1,494,684
Limited partnerships	685,992	-	-	685,992
Total assets in the fair value hierarchy	2,447,565	-	-	2,447,565
Investments measured at net asset value	-	-	-	16,409,236
	$ 2,447,565	$ -	$ -	$ 18,856,801

Assets at Fair Value as of June 30, 2016

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income	$ 642,588	$ -	$ -	$ 642,588
Core value	1,221,548	-	-	1,221,548
Limited partnerships	645,972	-	-	645,972
Money market fund	313,756	-	-	313,756
Total assets in the fair value hierarchy	2,823,864	-	-	2,823,864
Investments measured at net asset value	-	-	-	14,954,860
	$ 2,823,864	$ -	$ -	$ 17,778,724

Continued

NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

Investments as of June 30, 2017 and 2016 include permanently restricted amounts of $9,171,144.

The following table summarizes investments measured at fair value based on net asset value per share as of June 30, 2017 and 2016, respectively.

June 30, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. Equity	$ 1,335,546	$ -	Daily	N/A
International Equity	2,871,828	-	Quarterly	60 days
Emerging Markets	1,684,344	-	Annually	90 days
Hedged Strategies	7,656,861	-	Annually	90 days
Fixed Income	1,124,375	-	Monthly	15 days
Private Equity	274,112	62,500	Manager's Discretion	N/A
Private Equity	62,858	-	Manager's Discretion	N/A
Private Equity	653,435	57,200	Manager's Discretion	N/A
Private Equity	252,347	770,000	Manager's Discretion	N/A
Real Assets	166,306	850,000	Manager's Discretion	N/A
Opportunistic	327,224	-	Annually	90 days

June 30, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
U.S. Equity	$ 1,184,434	$ -	Daily	N/A
International Equity	2,339,185	-	Quarterly	60 days
Emerging Markets	1,405,227	-	Annually	90 days
Hedged Strategies	7,037,796	-	Annually	90 days
Fixed Income	1,109,131	-	Monthly	15 days
Private Equity	512,856	62,500	Manager's Discretion	N/A
Private Equity	144,861	-	Manager's Discretion	N/A
Private Equity	665,807	65,000	Manager's Discretion	N/A
Private Equity	150,132	850,000	Manager's Discretion	N/A
Real Assets	148,800	850,000	Manager's Discretion	N/A
Opportunistic	256,631	-	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. Interest is payable monthly based on the LIBOR rate plus 2%, but no less than 3.50% (3.5% at June 30, 2017 and 2016). The line of credit is set to mature on December 30, 2017. At June 30, 2017 and 2016, the outstanding balance was $163,706 and $689,356, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for capacity building grants for eligible arts organizations. Net assets in the amount of $545,283 and $424,979 were released from donor restrictions to satisfy the grant cycle or scheduled donor requests during the years ended June 30, 2017 and 2016, respectively.

NOTE 7 - 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.

NOTE 8 - 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 as permanently restricted net assets (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 funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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

Continued

NOTE 8 - ENDOWMENT FUNDS – CONTINUED

The Organization's disclosure of its endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Donor-restricted endowment funds	$ -	$ 2,976,317	$ 9,171,144	$ 5,056,356	$ 17,203,817
Board-designated endowment funds	1,652,984	-	-	-	1,652,984
Total funds	$ 1,652,984	$ 2,976,317	$ 9,171,144	$ 5,056,356	$ 18,856,801

The Organization's disclosure of changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Beginning of year	$ 1,051,270	$ 2,797,348	$ 9,171,144	$ 4,758,962	$ 17,778,724
Investment income	1,200,680	334,002	-	564,507	2,099,189
Appropriation of endowment funds for expenditure	(599,165)	(155,033)	-	(266,914)	(1,021,112)
End of year	$ 1,652,785	$ 2,976,317	$ 9,171,144	$ 5,056,555	$ 18,856,801

The Organization's disclosure of its endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Donor-restricted endowment funds	$ -	$ 2,797,348	$ 9,171,144	$ 4,758,962	$ 16,727,454
Board-designated endowment funds	1,051,270	-	-	-	1,051,270
Total funds	$ 1,051,270	$ 2,797,348	$ 9,171,144	$ 4,758,962	$ 17,778,724

NOTE 8 - ENDOWMENT FUNDS – CONTINUED

The Organization's disclosure of changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Beginning of year	$ 2,547,140	$ 3,232,697	$ 9,171,144	$ 5,307,107	$ 20,258,088
Investment loss	(575,810)	(155,370)	-	(264,708)	(995,888)
Appropriation of endowment funds for expenditure	(920,060)	(279,979)	-	(283,437)	(1,483,476)
End of year	$ 1,051,270	$ 2,797,348	$ 9,171,144	$ 4,758,962	$ 17,778,724

All of the permanently restricted endowment funds are required to be retained permanently either by explicit donor stipulation or TUPMIFA. All of the temporarily restricted endowment funds are subject to time and purpose restrictions as of June 30, 2017 and 2016.

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 unrestricted net assets. 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, 2017 and 2016.

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.

NOTE 8 - ENDOWMENT FUNDS – CONTINUED

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 fiscal year 2017 and 2016, this distribution was 5.25% and 5.5%, respectively, 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. The Board of Directors also approved additional endowment distributions of 2.2% in 2016 to pay off debt and supplement some of the Organization's major grant programs. 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 9 - RETIREMENT PLAN

The Organization adopted a 401(k) profit sharing plan effective January 1, 2009. 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. Effective January 1, 2016 the Organization adopted the Adams Keegan Retirement Savings Plan, a multiple employer plan. The Organization's contributions to the plans were $16,511 and $19,693 for the years ended June 30, 2017 and 2016, respectively.

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NOTE 10 - OPERATING LEASES

The Organization has entered into various operating leases for office space and equipment, expiring through 2019. 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, 2017 and 2016 was $94,769 and $93,820, respectively. Future minimum lease payments due under these lease agreements as of June 30, 2017 are as follows:

2018	$	51,332
2019		1,810
	$	53,142

NOTE 11 - RELATED PARTY

At June 30, 2017 and 2016, receivables totaling $148,043 and $102,147, respectively, were due from members of the Board of Directors and employees. For the years ended June 30, 2017 and 2016 approximately $139,000 and $134,000 in contributions were received from members of the Board of Directors and employees.

The Organization utilizes third-party investment management services to assist the Board of Directors in management of the Organization's investments. Services are provided by a firm in which a member of the Organization's Board of Directors is an employee. The Organization is invested in a fund managed by a firm in which a member of the Organization's Board of Directors is an employee. 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.

NOTE 12 - CAPITAL LEASE

The Organization has a lease dated January 28, 2015 for computer equipment under a capital lease expiring January 28, 2019. For each of the years ended June 30, 2017 and 2016, capital lease principal and interest payments totaling $19,635 were paid for computer equipment.

At June 30, 2017, approximate future minimum payments under capital lease agreements are as follows:

2018	$	19,635
2019		11,453
		31,088
Less interest		(888)
	$	30,200

NOTE 13 - SUBSEQUENT EVENT

On November 9, 2017, the Organization extended their operating lease agreement for the Organization's office space through April 30, 2021. The Organization's current operating lease is set to expire on February 28, 2018. The total base rent payable over the extension period covering March 1, 2018 through April 30, 2021 is $191,475.