THE MARSTON GROUP, PLC

ArtsMemphis®
Powering Authentic Assets.

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS
1661 INTERNATIONAL DRIVE, SUITE 250 • MEMPHIS, TENNESSEE 38120
TEL: 901.761.3003 • FAX: 901.683.7901 • WWW.THEMARSTONGROUP.COM

ARTSMEMPHIS

Contents
June 30, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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.

The [illegible] Group, PLC

Memphis, Tennessee
December 14, 2018

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Statements of Financial Position
Years Ended June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash	$ 113	$ 97,313
Restricted cash	175,000	175,000
Unconditional promises to give, net	440,819	333,555
Other receivables	6,551	1,849
Prepaid expenses	7,138	15,940
Investments	19,504,261	18,856,801
Property and equipment, net	26,558	51,334
Total assets	$ 20,160,440	$ 19,531,792
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit	$ 278,301	$ 163,706
Accounts payable	168,245	66,915
Assets held for other organizations	5,225,856	5,056,555
Deferred revenue	107,375	-
Grants and allocations payable	102,652	326,760
Capital lease obligation	12,442	30,200
Total liabilities	5,894,871	5,644,136
Net assets		
Unrestricted	1,999,263	1,740,196
Temporarily restricted	3,095,162	2,976,316
Permanently restricted	9,171,144	9,171,144
Total net assets	14,265,569	13,887,656
Total liabilities and net assets	$ 20,160,440	$ 19,531,792

See notes to financial statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	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
Special 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	2,976,316	9,171,144	13,887,656
Net assets at end of year	$ 1,999,263	$ 3,095,162	$ 9,171,144	$ 14,265,569

Continued

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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 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

See notes to financial statements.

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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

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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

See notes to financial statements.

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Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 377,913	$ 775,856
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	41,452	49,799
Net realized and unrealized (gain) loss on investments	(1,137,731)	(1,486,207)
Changes in operating assets and liabilities		
Unconditional promises to give	(107,264)	523,075
Other receivables	(4,702)	168
Prepaid expenses	8,802	(11,042)
Accounts payable	101,330	(168,856)
Deferred revenue	107,375	(123,500)
Grants and allocations payable	(224,108)	210,564
Net cash used for operating activities	(836,933)	(230,143)
Cash flows from investing activities		
Purchase of property and equipment	(16,676)	(273)
Net change in investments	490,271	408,130
Net cash provided by investing activities	473,595	407,857
Cash flows from financing activities		
Change in assets held for other organizations	169,301	109,091
Net change in line of credit	114,595	(525,650)
Payments on capital lease obligation	(17,758)	(18,230)
Net cash provided by (used for) financing activities	266,138	(434,789)
Net change in cash	(97,200)	(257,075)
Cash at the beginning of year	97,313	354,388
Cash at the end of year	$ 113	$ 97,313
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 6,413	$ 11,753

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 arts 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 unless otherwise instructed by the donor.

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, 2018 and 2017, 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 $82,530 and $60,433 for the years ended June 30, 2018 and 2017, 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 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.

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 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 $32,751 and $28,829 for the years ended June 30, 2018 and 2017, 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. Certain grant payments are contingent on the grantee submitting acceptable reporting as outlined in the grant agreements by specified dates.

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, 2018 and 2017. Informational tax returns for 2014 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.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-profit Entities*, effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The most significant changes within the ASU impact the following areas:

Net Asset Classes – Net asset classifications have been reduced from three net asset classes (unrestricted, temporarily restricted and permanently restricted) to two net asset classes (assets with donor restrictions and net assets without donor restrictions).

Investment return – Investment return will be reported net of external and direct internal investment expenses and those netted expenses are no longer required to be disclosed.

Liquidity and Availability of Resources – The ASU requires disclosures that communicate qualitative information of how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date, as well as quantitative information that communicates the availability of a not-for-profit entity's financial assets at the statement of financial position date to meet cash needs for general expenditures with one year of the statement of financial position date.

The above changes only impact the presentation and disclosures within the financial statements. However, within the ASU, there is one change in the accounting requirements for not-for-profit entities. The placed-in-service approach will now be required for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset. The ASU eliminates the current option that, in the absence of explicit donor stipulations, had allowed a not-for-profit entity to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed, i.e. to match the depreciation expense on the asset) rather than when placed in service.

The Organization intends to adopt the new ASU guidance using the retrospective method for the fiscal year ended June 30, 2019.

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.

Continued

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Subsequent Events

Management has reviewed events occurring through December 14, 2018 the date the financial statements were available to be issued, and no subsequent events have occurred requiring accrual or disclosure.

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:

	2018	2017
Within one year	$ 464,020	$ 382,946
One to five years	-	-
Total unconditional promises to give	464,020	382,946
Less allowance for doubtful accounts	(23,201)	(49,391)
Unconditional promises to give, net	$ 440,819	$ 333,555

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2018	2017
Computer equipment	$ 241,262	$ 227,430
Leasehold improvements	210,462	207,618
	451,724	435,048
Less accumulated depreciation and amortization	425,166	383,714
	$ 26,558	$ 51,334

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.

Continued

NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

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.

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.

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, 2018

	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

NOTE 4 - FAIR VALUE MEASUREMENTS – CONTINUED

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

Investments as of June 30, 2018 and 2017 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, 2018 and 2017, respectively.

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

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	1,124,376	-	Monthly	15 days
Private Equity	1,242,752	889,700	Manager's Discretion	N/A
Real Assets Fund	166,306	850,000	Manager's Discretion	N/A
Opportunistic	327,223	-	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 a member of the Organization’s Board of Directors. Interest is payable monthly based on the LIBOR rate plus 2%, but no less than 3.50% (4.1% at June 30, 2018). The line of credit is set to mature on January 31, 2019. At June 30, 2018 and 2017, the outstanding balance was $278,301 and $163,706, respectively.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include assets which are available for capacity building grants for eligible arts organizations. Net assets in the amount of $166,656 and $545,283 were released from donor restrictions to satisfy the grant cycle or scheduled donor requests during the years ended June 30, 2018 and 2017, 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.

Continued

NOTE 8 - ENDOWMENT FUNDS – CONTINUED

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Donor-restricted endowment funds	$ -	$ 3,095,162	$ 9,171,144	$ 5,225,856	$ 17,492,162
Board-designated endowment funds	2,012,099	-	-	-	2,012,099
Total funds	$ 2,012,099	$ 3,095,162	$ 9,171,144	$ 5,225,856	$ 19,504,261

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Agency Funds	Total
Beginning of year	$ 1,652,786	$ 2,976,316	$ 9,171,144	$ 5,056,555	$ 18,856,801
Investment income	933,922	260,022	-	436,327	1,630,271
Appropriation of endowment funds for expenditure	(574,609)	(141,176)	-	(267,026)	(982,811)
End of year	$ 2,012,099	$ 3,095,162	$ 9,171,144	$ 5,225,856	$ 19,504,261

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	$ -	$ 2,976,316	$ 9,171,144	$ 5,056,555	$ 17,204,015
Board-designated endowment funds	1,652,786	-	-	-	1,652,786
Total funds	$ 1,652,786	$ 2,976,316	$ 9,171,144	$ 5,056,555	$ 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	334,001	-	564,507	2,099,188
Appropriation of endowment funds for expenditure	(599,164)	(155,033)	-	(266,914)	(1,021,111)
End of year	$ 1,652,786	$ 2,976,316	$ 9,171,144	$ 5,056,555	$ 18,856,801

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.

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, 2018 and 2017.

NOTE 8 - 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, 2018 and 2017, 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 9 - 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 $18,230 and $16,511 for the years ended June 30, 2018 and 2017, respectively.

Continued

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, 2018 and 2017 was $83,223 and $94,770, respectively. Future minimum lease payments due under these lease agreements as of June 30, 2018 are as follows:

2019	$ 61,133
2020	60,912
2021	51,642
	$ 173,687

NOTE 11 - RELATED PARTY

At June 30, 2018 and 2017, receivables totaling $138,382 and $148,043, respectively, were due from members of the Board of Directors and employees. For the years ended June 30, 2018 and 2017 approximately $210,000 and $139,000 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 a member 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.

NOTE 12 - CAPITAL LEASE

The Organization has a lease dated January 28, 2015 for computer equipment under a capital lease expiring January 28, 2019. Total capital lease principal and interest payments for the years ended June 30, 2018 and 2017 were $20,168 and $19,635, respectively.

At June 30, 2018, approximate future minimum payments under capital lease agreements are as follows:

2019	$ 12,627
Less interest	(205)
	$ 12,422