

ARTIST TRUST

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2018 AND 2017



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Artist Trust
Seattle, Washington

We have audited the accompanying financial statements of Artist Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Artist Trust as of December 31, 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.

A handwritten signature in cursive script that reads "Jones & Associates PLLC, CPAs".

Jones & Associates PLLC, CPAs
May 18, 2019

TEL 206.525.5170
1701 NE 104th Street
Seattle, WA 98125-7646
www.judyjonescpa.com

ARTIST TRUST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 210,888	\$ 208,085
Pledges and grants receivable	414,599	409,916
Prepaid expenses	20,509	18,269
Total current assets	645,996	636,270
Cash and cash equivalents held for long-term purposes	311,406	139,552
Pledges and grants receivable, long-term	1,018,215	619,542
Certificate of deposit	-	105,631
Investments held by Vanguard	1,931,755	-
Investments held by The Seattle Foundation	-	1,887,544
Assets held in trust	157,795	178,861
Property and equipment, net	323,706	328,123
	\$ 4,388,873	\$ 3,895,523
 LIABILITIES AND NET ASSETS		
 LIABILITIES		
Accounts payable and accrued liabilities	\$ 25,897	\$ 27,283
Grants payable	-	4,000
Deferred revenue	2,096	2,350
Mortgage note payable	10,985	10,527
Total current liabilities	38,978	44,160
Mortgage note payable, long-term	174,726	185,710
Total liabilities	213,704	229,870
 NET ASSETS		
Without donor restrictions - undesignated	524,910	503,039
Without donor restrictions - Board designated	412,192	296,564
Total net assets without donor restrictions	937,102	799,603
With donor restrictions - purpose and time	1,606,347	1,234,330
With donor restrictions - perpetual in nature	1,631,720	1,631,720
Total net assets with donor restrictions	3,238,067	2,866,050
	\$ 4,388,873	\$ 3,895,523

ARTIST TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Total	Without donor restrictions		With donor restrictions	
		Undesignated	Board Designated	Purpose and time	Perpetual in nature
SUPPORT AND REVENUE					
Contributions	\$1,183,830	\$ 383,514	\$ -	\$ 800,316	\$ -
Benefit events, net	502,288	502,288	-	-	-
Grants from government agencies	48,478	48,478	-	-	-
In-kind contributions	38,942	38,942	-	-	-
Program income	15,440	15,440	-	-	-
Endowment investment income, net of fees	749	-	(63)	812	-
Other interest income	1,272	1,272	-	-	-
	1,790,999	989,934	(63)	801,128	-
Net assets released from restrictions	-	469,978	-	(469,978)	-
Transfers of board designated funds	-	(115,691)	115,691	-	-
Total support and revenue	1,790,999	1,344,221	115,628	331,150	-
EXPENSES					
Program services					
Artist grants	523,735	523,735	-	-	-
Creative Career Center	270,326	270,326	-	-	-
	794,061	794,061	-	-	-
Supporting services					
Management and general	171,137	171,137	-	-	-
Fundraising	197,217	197,217	-	-	-
Auction	169,426	169,426	-	-	-
Total expenses	1,331,841	1,331,841	-	-	-
Change in net assets before gains (losses)	459,158	12,380	115,628	331,150	-
GAINS (LOSSES)					
Loss on uncollectible promises to give	-	-	-	-	-
Transfer of net assets for pledge write off	-	-	-	-	-
Endowment investment gains	50,358	2,161	-	48,197	-
Distribution from assets held in trust	-	7,330	-	(7,330)	-
Total gains (losses)	50,358	9,491	-	40,867	-
CHANGE IN NET ASSETS	509,516	21,871	115,628	372,017	-
NET ASSETS					
Beginning of the year	3,665,653	503,039	296,564	1,234,330	1,631,720
End of the year	\$4,175,169	\$ 524,910	\$ 412,192	\$ 1,606,347	\$ 1,631,720

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Total	Without donor restrictions		With donor restrictions	
		Undesignated	Board Designated	Purpose and time	Perpetual in nature
SUPPORT AND REVENUE					
Contributions	\$1,181,997	\$ 692,848	\$ -	\$ 489,149	\$ -
Benefit events, net	380,998	380,998	-	-	-
Grants from government agencies	67,780	67,780	-	-	-
In-kind contributions	33,488	33,488	-	-	-
Program income	15,135	15,135	-	-	-
Endowment investment income, net of fees	2,729	-	-	2,729	-
Other interest income	434	434	-	-	-
	<u>1,682,561</u>	<u>1,190,683</u>	<u>-</u>	<u>491,878</u>	<u>-</u>
Net assets released from restrictions	-	571,844	-	(571,844)	-
Transfers of board designated funds	-	39,981	(39,981)	-	-
Total support and revenue	<u>1,682,561</u>	<u>1,802,508</u>	<u>(39,981)</u>	<u>(79,966)</u>	<u>-</u>
EXPENSES					
Program services					
Artist grants	531,626	531,626	-	-	-
Creative Career Center	272,035	272,035	-	-	-
	<u>803,661</u>	<u>803,661</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supporting services					
Management and general	160,018	160,018	-	-	-
Fundraising	233,100	233,100	-	-	-
Auction	166,888	166,888	-	-	-
Total expenses	<u>1,363,667</u>	<u>1,363,667</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets before gains (losses)	<u>318,894</u>	<u>438,841</u>	<u>(39,981)</u>	<u>(79,966)</u>	<u>-</u>
GAINS (LOSSES)					
Transfer of net assets for pledge write off	-	4,500	-	(4,500)	-
Endowment investment gains	294,884	10,431	-	284,453	-
Distribution from assets held in trust	-	6,400	-	(6,400)	-
Total gains (losses)	<u>294,884</u>	<u>21,331</u>	<u>-</u>	<u>273,553</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>613,778</u>	<u>460,172</u>	<u>(39,981)</u>	<u>193,587</u>	<u>-</u>
NET ASSETS					
Beginning of the year	<u>3,051,875</u>	<u>42,867</u>	<u>336,545</u>	<u>1,040,743</u>	<u>1,631,720</u>
End of the year	<u>\$3,665,653</u>	<u>\$ 503,039</u>	<u>\$ 296,564</u>	<u>\$ 1,234,330</u>	<u>\$ 1,631,720</u>

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services			Support Services			
	Artist Grants	Creative Career Center	Total	Management and General	Fundraising	Auction	Total
Salaries and wages	\$ 87,831	\$ 152,704	\$ 240,535	\$ 84,510	\$ 130,594	\$ 44,351	\$ 499,990
Employee benefits	10,002	12,194	22,196	6,431	12,987	4,778	46,392
Payroll taxes	10,518	14,676	25,194	9,529	13,593	4,725	53,041
Total payroll and related	108,351	179,574	287,925	100,470	157,174	53,854	599,423
Fellowship awards	117,500	-	117,500	-	-	-	117,500
GAP awards	92,000	-	92,000	-	-	-	92,000
James W Ray Award	80,000	-	80,000	-	-	-	80,000
Arts Innovator Award	50,000	-	50,000	-	-	-	50,000
Gar LaSalle	10,000	-	10,000	-	-	-	10,000
Lifetime Achievement Award	10,000	-	10,000	-	-	-	10,000
Conductive Garboil Grant	9,000	-	9,000	-	-	-	9,000
Grant/stipend scholarships	-	1,233	1,233	-	-	-	1,233
Professional fees	11,400	33,285	44,685	31,490	6,800	46,897	129,872
Occupancy	4,276	15,095	19,371	2,005	2,851	20,632	44,859
Miscellaneous	8,135	10,417	18,552	2,898	5,198	5,798	32,446
Postage, printing, copying	107	102	209	230	12,128	13,533	26,100
Depreciation	4,126	14,210	18,336	1,831	2,750	-	22,917
Telecommunications	7,831	8,870	16,701	2,150	3,349	537	22,737
Supplies and materials	3,930	2,482	6,412	6,921	2,385	6,117	21,835
Marketing and public relations	945	2,249	3,194	8,358	1,014	4,860	17,426
Bank charges	-	60	60	1,962	2,809	12,348	17,179
Travel	6,134	2,749	8,883	1,437	759	4,850	15,929
Bad debt expense	-	-	-	11,385	-	-	11,385
Total expenses	523,735	270,326	794,061	171,137	197,217	169,426	1,331,841
Plus expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	75,334	75,334
Total functional expenses	\$ 523,735	\$ 270,326	\$ 794,061	\$ 171,137	\$ 197,217	\$ 244,760	\$ 1,407,175

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services			Support Services			Total
	Artist Grants	Creative Career Center	Total	Management and General	Fundraising	Auction	
Salaries and wages	\$ 100,576	\$ 136,376	\$ 236,952	\$ 92,583	\$ 166,164	\$ 52,677	\$ 548,376
Employee benefits	11,594	16,033	27,627	10,650	18,340	6,023	62,640
Payroll taxes	11,750	15,540	27,290	14,587	14,437	4,826	61,140
Total payroll and related	123,920	167,949	291,869	117,820	198,941	63,526	672,156
Fellowship awards	117,500	-	117,500	-	-	-	117,500
GAP awards	91,000	-	91,000	-	-	-	91,000
James W Ray Award	80,000	3,729	83,729	-	-	-	83,729
Arts Innovator Award	50,000	-	50,000	-	-	-	50,000
Gar LaSalle	10,000	-	10,000	-	-	-	10,000
Lifetime Achievement Award	10,000	-	10,000	-	-	-	10,000
Conductive Garboil Grant	6,000	-	6,000	-	-	-	6,000
Grant/stipend scholarships	-	1,060	1,060	-	-	-	1,060
Professional fees	11,983	43,624	55,607	22,624	3,641	29,836	111,708
Occupancy	4,468	15,985	20,453	1,322	4,164	18,916	44,855
Miscellaneous	4,584	7,710	12,294	386	10,142	6,664	29,486
Postage, printing, copying	616	-	616	274	408	17,977	19,275
Depreciation	4,498	15,143	19,641	1,979	2,968	-	24,588
Telecommunications	8,033	9,839	17,872	2,173	3,367	1,995	25,407
Supplies and materials	3,579	2,887	6,466	3,358	2,784	8,700	21,308
Marketing and public relations	535	929	1,464	2,183	5,727	4,600	13,974
Bank charges	-	104	104	1,916	622	9,918	12,560
Travel	4,910	3,076	7,986	1,102	336	4,756	14,180
Bad debt expense	-	-	-	4,881	-	-	4,881
Total expenses	531,626	272,035	803,661	160,018	233,100	166,888	1,363,667
Plus expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	58,558	58,558
Total functional expenses	\$ 531,626	\$ 272,035	\$ 803,661	\$ 160,018	\$ 233,100	\$ 225,446	\$ 1,422,225

See accompanying notes to financial statements.

ARTIST TRUST
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions, benefit events and grants	\$ 1,331,240	\$ 1,144,992
Cash received from program income	15,186	17,485
Cash received from interest	1,272	434
Cash paid to employees	(601,241)	(667,523)
Cash paid to grantees	(373,733)	(372,289)
Cash paid to suppliers	(294,515)	(270,676)
Cash paid for interest	(8,119)	(8,557)
	70,090	(156,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of certificates of deposit	105,631	112,013
Purchases of property and equipment	(18,500)	-
Endowment investment distributions	27,962	67,900
	115,093	179,913
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on lease payable	-	(1,877)
Principal payments on mortgage note payable	(10,526)	(10,089)
	(10,526)	(11,966)
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 174,657	 11,813
CASH AND CASH EQUIVALENTS		
Beginning of the year	347,637	335,824
End of the year	\$ 522,294	\$ 347,637
SUPPLEMENTAL DISCLOSURE		
Transfer of endowment investment funds	\$ 1,913,382	\$ -

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Artist Trust is a statewide, nonprofit corporation established in October 1986 to provide support for Washington State artists in all disciplines. Artist Trust raises funds from multiple sources in order to support the individual artist through such programs and services as information services, grant programs, and public education about the work of artists. Artist Trust has invested over \$10 million in grants, resources, and career training to thousands of Washington's most promising and respected musicians, visual artists, writers, dancers, craft artists, filmmakers, cross-disciplinary artists, and more.

Basis of Accounting and Presentation – The financial statements of Artist Trust have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board has designated certain otherwise net assets without donor restrictions as a Board designated endowment and a Board designated operating reserve fund. These funds are approved by the Board to be held for specific purposes and require Board approval to designate for any other purpose.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents – For purposes of the statements of cash flows, Artist Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents consist of checking and money market accounts. Deposits with a single financial institution occasionally exceed federally insured limits, which subject Artist Trust to a concentration of deposit risk. Artist Trust has not experienced losses due to this concentration.

Pledges and Grants Receivable – Pledges and grants receivable consist primarily of pledges due from donors and grantors. All balances are unsecured. Unconditional promises to give are recognized as revenue or gains in the period received. Balances that are expected to be collected in more than one year are recorded at the present value of estimated cash flows. An allowance for uncollectible balances has been established by management based upon Artist Trust's historical experience in the collection of balances due.

Investments Held by Vanguard – Investments held by Vanguard represent endowment funds that Artist Trust has invested with Vanguard Institutional Advisory Services. These funds are stated at their fair value in the statements of financial position. Investment return is included in the accompanying statements of activities. These investments were transferred to Vanguard from The Seattle Foundation in 2018.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Assets Held in Trust – Assets held in trust represent endowment assets held by a third party with the stipulation that certain amounts as determined by the Trustee are provided to Artist Trust annually. Assets held in trust are stated at the fair value of the underlying trust assets. Distributions from the fund are available for general operating purposes.

Artist Trust's beneficial interest is reported in the accompanying statements of financial position as a net asset with donor restrictions of a perpetual nature carried at fair value reported by the trustee at year end. Fair value is measured as the underlying value of the assets held in perpetuity for the Artist Trust's benefit (Level 3 inputs as described in Note 3). Artist Trust's interest in gains or losses in the fund's value is recognized in the statements of activities and is included in the change in net assets with donor restrictions of a perpetual nature. Artist Trust records receipts of distributions from the trust as investment return without donor restrictions.

Property and Equipment – Property and equipment is carried at cost. Depreciation is computed using the straight-line method over a period of three to five years for furniture and equipment and 30 years for the condominium. Property and equipment also includes artwork for display which was recorded at the estimated fair value at the time of donation. Artist Trust follows a policy whereby it capitalizes purchases of property and equipment of \$500 or greater that provide future benefits over a period longer than one year.

Revenue Recognition – Revenue is recognized when earned. Contributions (including those received at special events) and grants from government agencies are recorded as recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Program revenue from training and usage fees is recognized in the period in which the related training or service is performed. Accordingly, fees received for future training is deferred until the training occurs.

In-kind Contributions – Donations of facilities, goods and services are recognized as revenue at the estimated fair value at the date of donation if they meet the criteria for recognition. Artist Trust recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Functional Allocation of Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation of expenses was done using one of the following four methods: (a) payroll expenses are allocated according to the timesheet provided each payroll period by all employees with the exception of the CEO who uses a percentage allocation (b) split based on pre-determined percentages based on estimates of time and effort (c) split based on pre-determined percentages based on square footage or (d) when known, allocations are made to specific programs or functions, at the time the expense is incurred.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – Artist Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Artist Trust qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

New Accounting Pronouncement – On August 18, 2016, the FASB issued Accounting Standards update ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances the required disclosures. Significant changes include presenting only two classes of net assets; adding disclosures around liquidity and the availability of resources; and providing additional information about expenses. The Organization has adopted the ASU for the year ended December 31, 2018 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events – Subsequent events were evaluated through May 18, 2019, which is the date the financial statements were available to be issued.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position date are as follows at December 31, 2018:

Financial Assets	
Cash and cash equivalents	\$ 522,294
Pledges and grants receivable	1,432,814
Investments and assets held in trust	<u>2,089,550</u>
Total financial assets	4,044,658
Less those unavailable for general expenditures within one year:	
Receivable balances to be collected in future years	(1,018,215)
Restricted by donors with purpose restrictions	(505,339)
Restricted by donors with perpetual restrictions	(1,639,515)
Board designated endowment	(340,838)
Board reserve fund (unavailable without Board approval)	<u>(71,354)</u>
	(3,575,261)
Add board designated endowment funds expected to be appropriated for general use:	
Cash from fund expected to be available for use	<u>66,000</u>
Financial assets available within one year	<u><u>\$ 535,397</u></u>

Artist Trust's financial assets have seasonal variations during the year attributed to the timing of receipt of contributions from fundraising appeals and events. Artist Trust has an operating reserve of unrestricted cash on hand for mission delivery. The fiscal goal of the unrestricted operating reserve is to establish and maintain three months of cash for core operating costs. In the face of unforeseen budget shortfalls, the Strategic Vision Committee has identified core programs to mission delivery in order to make quick decisions about how to cut expenses should the need arise.

In addition, Artist Trust has a board-restricted operating reserve, to provide readily available and separately identified funds to assist in managing cash flow needs in the operating budget or to provide funding in the event of a breach of the routine income to Artist Trust. The fiscal goal of the board-restricted operating reserve is to establish and maintain an amount in reserve approximately equal to twenty-five percent of the general operations portion of the annual budget, excluding depreciation, in-kind expenses, grants, auction cost of goods sold, and half of professional fees.

Note 3 – Fair Value Measurements and Investments

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards establish a hierarchy for measuring fair value that gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are as follows:

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 3 – Fair Value Measurements and Investments (Continued)

- Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or other inputs that can be corroborated by observable market data.
- Level 3 Inputs that are not observable that reflect management’s assumptions and estimates.

The following table summarizes the valuation of Artist Trust’s financial investments and interests under the fair value hierarchy at December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by Vanguard	\$ -	\$ -	\$ 1,931,755	\$ 1,931,755
Assets held in trust	-	-	157,795	157,795
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,089,550</u>	<u>\$ 2,089,550</u>

The following table summarizes the valuation of Artist Trust’s financial investments and interests under the fair value hierarchy at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ 105,631	\$ -	\$ -	\$ 105,631
Investments held by The Seattle Foundation	-	-	1,887,544	1,887,544
Assets held in trust	-	-	178,861	178,861
	<u>\$ 105,631</u>	<u>\$ -</u>	<u>\$ 2,066,405</u>	<u>\$ 2,172,036</u>

The changes in financial investments and interests measured at fair value using level 3 inputs are reflected below for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 2,066,405	\$ 1,836,692
Interest and dividends, net of fees	749	2,729
Realized and unrealized gains	50,358	294,884
Distributions received	(27,962)	(67,900)
Balance, end of year	<u>\$ 2,089,550</u>	<u>\$ 2,066,405</u>

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 4 – Pledges and Grants Receivable

Pledges and grants receivable consist of the following at December 31:

	2018	2017
Receivable in less than one year	\$ 434,599	\$ 429,916
Receivable in one to five years	723,550	656,100
Receivable in greater than five years	413,000	-
	<u>1,571,149</u>	<u>1,086,016</u>
Less discount to net present value	(118,335)	(36,558)
Less allowance for uncollectible pledges	(20,000)	(20,000)
	<u>\$ 1,432,814</u>	<u>\$ 1,029,458</u>

Artist Trust uses a rate of 2% to calculate the present value of receivables that are due in more than one year.

Note 5 – Property and Equipment

Property and equipment consist of the following at December 31:

	2018	2017
Condominium	\$ 687,553	\$ 687,553
Furniture, equipment and software	18,500	18,393
Artwork	9,300	9,300
	<u>715,353</u>	<u>715,246</u>
Less accumulated depreciation	(391,647)	(387,123)
	<u>\$ 323,706</u>	<u>\$ 328,123</u>

Note 6 – Loan Payable

Artist Trust has a loan payable to a bank with an original balance of \$350,000. The loan is secured by a deed of trust on Artist Trust’s condominium office, payable in monthly installments of \$1,554. Interest may be adjusted on this loan every five years based on the changes in an independent index such that the loan bears interest at 2.5% over the index. In 2017, the rate decreased from 4.41% to 4.20%. Interest expense totaled \$8,119 and \$8,557 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy expense. The loan matures in December 2031.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 6 – Loan Payable (Continued)

The following is a schedule of future minimum principal payments under the loan for the years ending December 31:

2019	\$	10,985
2020		11,441
2021		11,959
2022		12,478
2023		13,020
Thereafter		125,828
	\$	<u>185,711</u>

Note 7 – Net Assets without Donor Restriction – Board Designated

Net assets without donor restriction – Board designated consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Board Designated Endowment	\$ 340,838	\$ 225,210
Operating Reserve	71,354	71,354
	<u>\$ 412,192</u>	<u>\$ 296,564</u>

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 8 – Net Assets with Donor Restriction

Net assets with donor restriction consist of the following at December 31:

	2018	2017
Restricted for a specified purpose or passage of time:		
Arts Innovator Award	\$ 593,494	\$ 63,440
Endowment - unappropriated investment return	409,339	367,227
Campaign for a Creative Future - received in future years	341,465	493,523
Technology Improvements	96,000	-
Spokane Project	47,873	63,968
Venture Fund	40,100	30,100
Latham Statewide Outreach	40,000	-
Storyteller	23,155	40,450
Kreielsheimer Artist Trust Fund - unappropriated investment return	7,795	28,861
GAP - Latino Scholarship Fund	3,300	3,300
WAHIP Artist Clinics	2,575	2,575
Filipino Scholarship Fund	630	505
Emergency Relief Grant	393	393
Latino Scholarship Fund	159	444
EDGE for Film	69	69
James W Ray Grant	-	128,323
Conductive Garboil Grant	-	11,152
	1,606,347	1,234,330
Perpetual in nature:		
General Endowment	702,364	702,364
Lifetime Achievement Endowment	357,856	357,856
Panaca Endowment	100,000	100,000
Shirley Endowment	150,000	150,000
Gurvich Endowment	100,000	100,000
Shari Behnke Endowment	40,000	40,000
Mills Endowment	10,000	10,000
Kreielsheimer Artist Trust Fund	150,000	150,000
Campaign for a Creative Future	21,500	21,500
	1,631,720	1,631,720
Total net assets with donor restrictions	\$ 3,238,067	\$ 2,866,050

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 9 – In-kind Donations

In-kind donations consist of the following for the years ended December 31:

	2018	2017
Professional fees	\$ 17,396	\$ 19,932
Supplies and equipment	15,522	9,758
Advertising	4,460	2,058
Printing	1,564	1,740
	\$ 38,942	\$ 33,488

In-kind donations were used for the following purposes for the years ended December 31:

	2018	2017
Program	\$ 300	\$ 6,160
Management and general	2,106	816
Fundraising	36,536	26,512
	\$ 38,942	\$ 33,488

Note 10 – Endowments

Nature of Endowments and Applicable Laws – The Endowments consists of donor restricted endowments in which the investment return is to be used to support the programs and operations of Artist Trust. The Endowments are included primarily as investments and assets held in trust. These investment funds were held at The Seattle Foundation until December 2018, when they were transferred to Vanguard.

The Board of Directors of Artist Trust has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, Artist Trust retains in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment, and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts that are not retained in perpetuity are subject to appropriation for expenditure by Artist Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Artist Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Artist Trust, and (7) Artist Trust’s investment policies.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 10 – Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies – Artist Trust invested its endowment funds with The Seattle Foundation. The Seattle Foundation was established in 1946 and since its formation has managed funds for many not-for-profit organizations in the Puget Sound Area. Under the terms of the agreement with The Seattle Foundation, the funds can be returned to Artist Trust only under rare circumstances and/or with the approval of both The Seattle Foundation’s and Artist Trust’s boards. Both boards executed approval of the funds being transferred to Vanguard in December 2018, in which the same objectives and strategies were utilized for the period between the date of transfer and December 31, 2018.

The funds were designated by The Seattle Foundation under various names and are collectively referred to as the Artist Trust Endowment Fund (the Fund). The Fund was established at The Seattle Foundation through a designated endowment fund agreement. The Fund was invested by The Seattle Foundation in its consolidated fund. The Fund was invested in a similar manner upon its transfer to Vanguard in December 2018. The Fund is measured at fair value using Level 3 inputs as described in Note 3 above.

The Fund’s purpose is to support the operations of Artist Trust in carrying out its mission. The intent is to ensure the long-term viability and sustainability of Artist Trust. From time to time and under its spending policy, The Seattle Foundation released and distributed funds to Artist Trust for its operations.

Return Objectives and Risk Parameters – The Fund was under permanent management at The Seattle Foundation through a designated endowment fund agreement, as noted above, in order to provide for professional long-term management of these funds. As a result, Artist Trust did not have control over the return objectives, risk parameters, investment objectives or spending policy for the Fund. Artist Trust gained control over the return objectives, risk parameters, investment objectives and spending policy upon transfer to Vanguard in December 2018.

The Seattle Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by endowments while seeking to maintain the purchasing power of endowment assets. Under this policy, as approved by the board of directors of The Seattle Foundation, endowment assets are invested in a manner that is intended to produce results that, over time, will provide a real rate of return equal to the spending rate while assuming a reasonable level of investment risk. The Seattle Foundation expected its endowment funds, over time, to provide an average real rate of return of approximately 4.5%. Currently, the expected nominal rate of return is approximately 8%. Actual returns in any given year may vary from these amounts.

Strategies Employed for Achieving Objectives – The Seattle Foundation, as noted above, invested the Fund in its consolidated fund in which funds from all donors are commingled in a diversified asset allocation. To satisfy its long term rate of return objectives, The Seattle Foundation relied 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 Seattle Foundation targeted a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 10 – Endowments (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy – As noted above, the Fund was subject to the spending policy of The Seattle Foundation, and thus, Artist Trust did not control the timing or amount of release of funds until transferred to Vanguard in December 2018. Artist Trust received annual disbursements of all available funds under The Seattle Foundation’s spending policy. While The Seattle Foundation’s spending policy may be changed by its board at any time, The Seattle Foundation has a general policy of appropriating for distribution each year 4.5% of the Fund’s fair market value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, The Seattle Foundation considered the long-term expected return on any endowment funds. Accordingly, over the long term, The Seattle Foundation expected the current spending policy to allow the Fund to grow at a rate equal to inflation. This is consistent with Artist Trust’s objective to maintain the purchasing power of the Fund’s assets held in perpetuity.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor restricted endowment funds may have fallen below the level that the donor requires Artist Trust to retain as a fund of perpetual duration.

Endowment Held by ArtsFund Foundation – The Kreielsheimer Remainder Foundation established the Kreielsheimer Artist Trust Fund, a permanent endowment fund for the benefit of Artist Trust. In 2012, the Kreielsheimer Artist Trust Fund was transferred to ArtsFund Foundation (ArtsFund). The purpose of the Kreielsheimer Artist Trust Fund is to provide general support of the programs and organizational operations of Artist Trust. Under the terms of the agreement with ArtsFund, the Kreielsheimer Artist Trust Fund is managed by ArtsFund, utilizing a total return asset management approach designed to achieve a maximum total return, including in the measurement thereof, unrealized appreciation and depreciation.

The Kreielsheimer Artist Trust Fund is pooled along with ArtsFund’s other funds. The distribution policy is established by the ArtsFund Board of Directors. As a result, Artist Trust does not have control over the return objectives, risk parameters, investment objectives or spending policy for the Fund. As determined by the Arts Fund Board of Directors, annual distributions equal 5% of the fund balance as of December 31st of the previous year. The Kreielsheimer Artist Trust Fund is measured at fair value using Level 3 inputs as described in Note 3 above.

Campaign for a Creative Future – Artist Trust has embarked on a fundraising campaign which seeks to raise \$3.5 million to help build the sustainability of Artist Trust and fuel innovation for individual artists. An endowment has been created as part of this campaign, and endowed gifts received will support the increased capacity of Artist Trust. During the campaign, Artist Trust is holding endowed gifts in money market funds and pledges receivable. The investment strategies and spending policy will be determined at the conclusion of the campaign.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 10 – Endowments (Continued)

Changes in endowment net assets are as follows for the years ended December 31:

	Without donor restrictions	With donor restrictions		Total
		Purpose and time	Perpetual in nature	
Endowment net assets, 12/31/2016	\$ 255,191	\$ 177,506	\$ 1,631,720	\$ 2,064,417
Contributions	35,524	-	-	35,524
Investment income, net of fees	-	2,729	-	2,729
Net appreciation	10,431	284,453	-	294,884
Writeoff uncollectible pledge	-	(4,500)	-	(4,500)
Amounts appropriated for expenditure	(75,936)	(57,700)	-	(133,636)
Distribution from asset held in trust	-	(6,400)	-	(6,400)
Endowment net assets, 12/31/2017	225,210	396,088	1,631,720	2,253,018
Contributions	169,176	-	-	169,176
Investment income, net of fees	(63)	812	-	749
Net appreciation	2,161	48,197	-	50,358
Amounts appropriated for expenditure	(55,646)	(20,633)	-	(76,279)
Distribution from asset held in trust	-	(7,330)	-	(7,330)
Endowment net assets, 12/31/2018	<u>\$ 340,838</u>	<u>\$ 417,134</u>	<u>\$ 1,631,720</u>	<u>\$ 2,389,692</u>

Note 11 – Benefit Events

Benefit events revenue is shown in the statements of activities net of consumable costs that directly benefit the participants of the event. The net revenue is as follows for the year ended December 31:

	2018	2017
Gross special events revenue	\$ 577,632	\$ 439,556
Less cost of direct donor benefits	(75,344)	(58,558)
	<u>\$ 502,288</u>	<u>\$ 380,998</u>

Note 12 – Retirement Plan

Artist Trust has a Simple IRA plan (the Plan) for employees who meet the Plan's eligibility requirements. Artist Trust matches a portion of employee contributions. Artist Trust contributed \$9,310 and \$10,437 to the Plan during the years ended December 31, 2018 and 2017, respectively.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

Note 13 – Fundraising Expenses

In order to accomplish Artist Trust’s mission of providing grants to artists, a significant amount of time must be spent raising grant money. As a result of these efforts and because of the nature of Artist Trust, the proportion of fundraising expenses may be higher than for other non-profit organizations. Total fundraising expenses were \$441,977 and \$458,546 for the year ended December 31, 2018 and 2017, respectively.

Note 14 – Concentration

For the year ended December 31, 2018, 38% of total support and revenue was from one grantor. There was no concentration equivalent for the year ended December 31, 2017.

Pledges receivable from two donors made up approximately 70% of the pledges and grants receivable balance as of December 31, 2018. Three donors made up approximately 58% of the pledges and grants receivable balance as of December 31, 2017.