

ARTIST TRUST

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2019 AND 2018



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, 2019 and 2018, 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 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 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Prior Period Adjustments

As discussed in Note 16 to the financial statements, during the year ended December 31, 2019, certain transactions were analyzed and it was determined that these should have been recognized differently in the year ended December 31, 2018. Accordingly, amounts recorded for net assets with and without donor restrictions, undesignated contributions, and contributions with donor restrictions have been restated in the December 31, 2018 financial statements now presented. Our opinion is not modified with respect to this matter.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
July 25, 2020

ARTIST TRUST
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 254,889	\$ 210,888
Pledges and grants receivable, net	444,199	414,599
Prepaid expenses	25,744	20,509
Total current assets	724,832	645,996
Cash and cash equivalents held for long-term purposes	365,481	311,406
Pledges and grants receivable, long-term, net	887,218	1,018,215
Investments held by Vanguard	2,339,951	1,931,755
Assets held in trust	184,792	157,795
Property and equipment, net	297,199	323,706
	\$ 4,799,473	\$ 4,388,873
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 19,305	\$ 25,897
Deferred revenue	-	2,096
Mortgage note payable	11,441	10,985
Total current liabilities	30,746	38,978
Mortgage note payable, long-term	163,285	174,726
Total liabilities	194,031	213,704
 NET ASSETS		
Without donor restrictions - undesignated	344,995	201,069
Without donor restrictions - Board designated	482,300	412,192
Total net assets without donor restrictions	827,295	613,261
With donor restrictions - purpose and time	2,146,427	1,930,188
With donor restrictions - perpetual in nature	1,631,720	1,631,720
Total net assets with donor restrictions	3,778,147	3,561,908
Total net assets	4,605,442	4,175,169
	\$ 4,799,473	\$ 4,388,873

ARTIST TRUST
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Total	Without donor restrictions		With donor restrictions	
		Undesignated	Board Designated	Purpose and time	Perpetual in nature
SUPPORT AND REVENUE					
Contributions	\$ 796,434	\$ 381,196	\$ 38,114	\$ 377,124	\$ -
Benefit events, net	429,559	429,559	-	-	-
Grants from government agencies	73,376	73,376	-	-	-
In-kind contributions	21,642	21,642	-	-	-
Program income	33,197	33,197	-	-	-
Other interest income	1,504	1,504	-	-	-
	<u>1,355,712</u>	<u>940,474</u>	<u>38,114</u>	<u>377,124</u>	<u>-</u>
Net assets released from restrictions	-	556,665	-	(556,665)	-
Transfers of board designated funds	-	(20,200)	20,200	-	-
Total support and revenue	<u>1,355,712</u>	<u>1,476,939</u>	<u>58,314</u>	<u>(179,541)</u>	<u>-</u>
EXPENSES					
Program services					
Artist grants	460,438	460,438	-	-	-
Creative Career Center	335,803	335,803	-	-	-
	<u>796,241</u>	<u>796,241</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supporting services					
Management and general	163,522	163,522	-	-	-
Fundraising	202,535	202,535	-	-	-
Auction	177,315	177,315	-	-	-
Total expenses	<u>1,339,613</u>	<u>1,339,613</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets before other gains	<u>16,099</u>	<u>137,326</u>	<u>58,314</u>	<u>(179,541)</u>	<u>-</u>
OTHER GAINS					
Endowment investment gains	362,040	-	10,283	351,757	-
Endowment investment income, net of fees	52,134	-	1,511	50,623	-
Distribution from assets held in trust	-	6,600	-	(6,600)	-
Total other gains	<u>414,174</u>	<u>6,600</u>	<u>11,794</u>	<u>395,780</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>430,273</u>	<u>143,926</u>	<u>70,108</u>	<u>216,239</u>	<u>-</u>
NET ASSETS					
Beginning of the year	<u>4,175,169</u>	<u>201,069</u>	<u>412,192</u>	<u>1,930,188</u>	<u>1,631,720</u>
End of the year	<u>\$4,605,442</u>	<u>\$ 344,995</u>	<u>\$ 482,300</u>	<u>\$2,146,427</u>	<u>\$1,631,720</u>

See accompanying notes to financial statements.

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	\$ 43,673	\$ -	\$1,140,157	\$ -
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	-	-	-
Other interest income	1,272	1,272	-	-	-
	<u>1,790,250</u>	<u>650,093</u>	<u>-</u>	<u>1,140,157</u>	<u>-</u>
Net assets released from restrictions	-	485,978	-	(485,978)	-
Transfers of board designated funds	-	(113,530)	113,530	-	-
Total support and revenue	<u>1,790,250</u>	<u>1,022,541</u>	<u>113,530</u>	<u>654,179</u>	<u>-</u>
EXPENSES					
Program services					
Artist grants	523,735	523,735	-	-	-
Creative Career Center	270,326	270,326	-	-	-
	<u>794,061</u>	<u>794,061</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supporting services					
Management and general	171,137	171,137	-	-	-
Fundraising	197,217	197,217	-	-	-
Auction	169,426	169,426	-	-	-
Total expenses	<u>1,331,841</u>	<u>1,331,841</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets before other gains	<u>458,409</u>	<u>(309,300)</u>	<u>113,530</u>	<u>654,179</u>	<u>-</u>
OTHER GAINS					
Endowment investment gains	50,358	-	2,161	48,197	-
Endowment investment income, net of fees	749	-	(63)	812	-
Distribution from assets held in trust	-	7,330	-	(7,330)	-
Total other gains	<u>51,107</u>	<u>7,330</u>	<u>2,098</u>	<u>41,679</u>	<u>-</u>
CHANGE IN NET ASSETS	509,516	(301,970)	115,628	695,858	-
NET ASSETS					
Beginning 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>
End of the year	<u>\$4,175,169</u>	<u>\$ 201,069</u>	<u>\$ 412,192</u>	<u>\$1,930,188</u>	<u>\$1,631,720</u>

ARTIST TRUST
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services			Support Services			
	Artist Grants	Creative Career Center	Total	Management and General	Fundraising	Auction	Total
Salaries and wages	\$ 78,543	\$ 178,075	\$ 256,618	\$ 89,704	\$ 135,982	\$ 52,930	\$ 535,234
Employee benefits	7,457	18,179	25,636	12,179	12,962	5,058	55,835
Payroll taxes	7,187	16,751	23,938	8,777	12,519	4,999	50,233
Total payroll and related	93,187	213,005	306,192	110,660	161,463	62,987	641,302
Fellowship awards	133,950	-	133,950	-	-	-	133,950
GAP awards	91,500	-	91,500	-	-	-	91,500
Arts Innovator Award	50,000	-	50,000	-	-	-	50,000
Grant/stipend scholarships	16,000	905	16,905	-	-	-	16,905
Gar LaSalle	10,000	-	10,000	-	-	-	10,000
Lifetime Achievement Award	10,000	-	10,000	-	-	-	10,000
SOLA Award	9,000	-	9,000	-	-	-	9,000
Professional fees	15,869	55,799	71,668	19,795	4,583	55,272	151,318
Occupancy	4,426	16,910	21,336	3,944	2,951	20,812	49,043
Miscellaneous	6,520	8,993	15,513	6,546	2,991	5,822	30,872
Postage, printing, copying	81	200	281	404	13,205	13,282	27,172
Depreciation	5,238	15,879	21,117	2,083	3,307	-	26,507
Travel	3,992	7,335	11,327	7,962	530	2,822	22,641
Telecommunications	7,117	7,183	14,300	2,485	2,396	406	19,587
Supplies and materials	2,082	3,490	5,572	7,154	1,811	3,833	18,370
Bank charges	40	1,202	1,242	988	3,018	12,003	17,251
Marketing and public relations	1,436	4,902	6,338	1,501	2,405	67	10,311
Bad debt expense	-	-	-	-	3,875	9	3,884
Total expenses	460,438	335,803	796,241	163,522	202,535	177,315	1,339,613
Plus expenses included with revenues on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	68,634	68,634
Total functional expenses	\$ 460,438	\$ 335,803	\$ 796,241	\$ 163,522	\$ 202,535	\$ 245,949	\$ 1,408,247

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
Arts Innovator Award	50,000	-	50,000	-	-	-	50,000
Grant/stipend scholarships	-	1,233	1,233	-	-	-	1,233
Gar LaSalle	10,000	-	10,000	-	-	-	10,000
Lifetime Achievement Award	10,000	-	10,000	-	-	-	10,000
James W Ray Award	80,000	-	80,000	-	-	-	80,000
Conductive Garboil Grant	9,000	-	9,000	-	-	-	9,000
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
Travel	6,134	2,749	8,883	1,437	759	4,850	15,929
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
Bank charges	-	60	60	1,962	2,809	12,348	17,179
Marketing and public relations	945	2,249	3,194	8,358	1,014	4,860	17,426
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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions, benefit events and grants	\$ 1,400,766	\$ 1,331,240
Cash received from program income	31,101	15,186
Cash received from interest	1,504	1,272
Cash paid to employees	(644,767)	(601,241)
Cash paid to grantees	(321,355)	(373,733)
Cash paid to suppliers	(329,507)	(294,515)
Cash paid for interest	(7,662)	(8,119)
	130,080	70,090
CASH FLOWS FROM INVESTING ACTIVITIES		
Endowment investment distributions	65,600	27,962
Proceeds from sale of securities	109,528	-
Purchase of securities	(196,147)	-
Sale of certificates of deposit	-	105,631
Purchases of property and equipment	-	(18,500)
	(21,019)	115,093
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage note payable	(10,985)	(10,526)
	(10,985)	(10,526)
NET CHANGE IN CASH AND CASH EQUIVALENTS	98,076	174,657
CASH AND CASH EQUIVALENTS		
Beginning of the year	522,294	347,637
End of the year	\$ 620,370	\$ 522,294
SUPPLEMENTAL DISCLOSURE		
Transfer of endowment investment funds	\$ -	\$ 1,913,382

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 trust'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) are 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 when control of these services is transferred to its customers, in an amount that reflects the consideration Artist Trust expects to be entitled to in exchange for the services provided. Amounts received in advance are deferred to the applicable period in which the related services are performed.

All program income is based on performance obligations satisfied at a point in time and primarily consists of ticket sales from workshops, classes, or partnership events. For related performance obligations, control transfers to the customer at a point in time. Payment is typically due in full when the customer completes registration, the contract does not have a significant financing component, and the consideration amount is not variable. Artist Trust records revenue when the event 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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

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.

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 Pronouncements – The Financial Accounting Standards Board (FASB) issued two Accounting Standard Updates (ASUs) that will affect Artist Trust’s revenue recognition.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09, and all subsequently-issued clarifying ASUs, replaced most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). ASU 2014-09 also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Artist Trust adopted ASU 2014-09 effective January 1, 2019, using the modified retrospective approach. There was no cumulative effect from the initial application recognized as an adjustment to opening net assets as a result of the adoption, and the adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance in evaluating whether transactions should be accounted for as nonexchange or exchange transactions. In addition, ASU 2018-08 provides guidance for the identification and recognition of conditional nonexchange transactions. Artist Trust adopted ASU 2018-08 effective January 1, 2019, using the modified prospective approach. The adoption did not have a significant impact on the financial statements for the year ended December 31, 2019.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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:

	2019	2018
Financial Assets		
Cash and cash equivalents	\$ 620,370	\$ 522,294
Pledges and grants receivable	1,331,417	1,432,814
Investments and assets held in trust	2,524,743	2,089,550
Total financial assets	4,476,530	4,044,658
Less those unavailable for general expenditures within one year:		
Receivable balances to be collected in future years	(887,218)	(1,018,215)
Restricted by donors with purpose restrictions	(768,922)	(505,339)
Restricted by donors with perpetual restrictions	(1,631,720)	(1,639,515)
Board designated endowment	(388,946)	(340,838)
Board reserve fund (unavailable without Board approval)	(93,354)	(71,354)
	(3,770,160)	(3,575,261)
Add endowment funds expected to be appropriated for general use:		
Cash from fund expected to be available for use	73,500	66,000
Financial assets available within one year	\$ 779,870	\$ 535,397

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 undesignated cash on hand for mission delivery. The fiscal goal of the undesignated 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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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:

- 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, 2019:

	Level 1	Level 2	Level 3	Total
Investments held by Vanguard	\$ -	\$ -	\$ 2,339,951	\$2,339,951
Assets held in trust	-	-	184,792	184,792
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,524,743</u>	<u>\$ 2,524,743</u>

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

	Level 1	Level 2	Level 3	Total
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 changes in financial investments and interests measured at fair value using level 3 inputs are reflected below for the years ended December 31:

	2019	2018
Balance, beginning of year	\$ 2,089,550	\$ 2,066,405
Transfers	86,619	-
Interest and dividends, net of fees	52,134	749
Realized and unrealized gains	362,040	50,358
Distributions	(65,600)	(27,962)
Balance, end of year	<u>\$ 2,524,743</u>	<u>\$ 2,089,550</u>

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 4 – Pledges and Grants Receivable

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

	2019	2018
Receivable in less than one year	\$ 464,199	\$ 434,599
Receivable in one to five years	593,096	723,550
Receivable in greater than five years	354,000	413,000
	1,411,295	1,571,149
Less discount to net present value	(59,878)	(118,335)
Less allowance for uncollectible pledges	(20,000)	(20,000)
	\$ 1,331,417	\$ 1,432,814

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

Note 5 – Conditional Contribution

In 2019, Artist Trust received notice that a donor will match up to \$50,000 in funds received during a fundraising activity as part of the annual benefit auction in 2020. Payment is expected in 2020. As the \$50,000 represents a conditional promise to give, the amount will not be recognized as revenue until the condition is met.

Note 6 – Property and Equipment

Property and equipment consist of the following at December 31:

	2019	2018
Condominium	\$ 687,553	\$ 687,553
Furniture, equipment and software	18,500	18,500
Artwork	9,300	9,300
	715,353	715,353
Less accumulated depreciation	(418,154)	(391,647)
	\$ 297,199	\$ 323,706

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 7 – 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. The interest rate was 4.20% for the years ended December 31, 2019 and 2018. Interest expense totaled \$7,662 and \$8,119 for the years ended December 31, 2019 and 2018, respectively, and is included in occupancy expense. The loan matures in December 2031.

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

2020	\$	11,441
2021		11,959
2022		12,478
2023		13,020
2024		13,570
Thereafter		112,258
		\$ 174,726

Note 8 – Net Assets without Donor Restrictions – Board Designated

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

	2019	2018
Board Designated Endowment	\$ 388,946	\$ 340,838
Operating Reserve	93,354	71,354
	\$ 482,300	\$ 412,192

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 9 – Net Assets with Donor Restrictions

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

	2019	2018
Restricted for a specified purpose or passage of time:		
Endowment - unappropriated investment return	\$ 720,922	\$ 409,339
Arts Innovator Award	600,000	650,000
Time Restricted (Campaign for a Creative Future)	339,146	418,794
Time Restricted (Other)	241,148	196,161
Ambassador Project	65,000	-
Technology Improvements	48,000	96,000
Kreielsheimer Artist Trust Fund - unappropriated investment return	34,792	7,795
SOLA Award	28,042	-
Vadon Native Fellowship Award	25,000	-
Latham Statewide Outreach	20,000	40,000
Storyteller	16,500	33,000
GAP - Latino Scholarship Fund	3,300	3,300
WAHIP Artist Clinics	2,575	2,575
Bali Purnati Residency	641	-
Filipino Scholarship Fund	510	630
Emergency Relief Grant	393	393
POC Scholarship Fund	350	-
EDGE for Film	69	69
Latino Scholarship Fund	39	159
Spokane Project	-	47,873
Venture Fund	-	24,100
	2,146,427	1,930,188
Perpetual in nature:		
General Endowment	702,364	702,364
Lifetime Achievement Endowment	357,856	357,856
Shirley Endowment	150,000	150,000
Kreielsheimer Artist Trust Fund	150,000	150,000
Panaca Endowment	100,000	100,000
Gurvich Endowment	100,000	100,000
Shari Behnke Endowment	40,000	40,000
Campaign for a Creative Future	21,500	21,500
Mills Endowment	10,000	10,000
	1,631,720	1,631,720
Total net assets with donor restrictions	\$ 3,778,147	\$ 3,561,908

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 10 – In-kind Donations

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

	2019	2018
Professional fees	\$ 16,449	\$ 17,396
Supplies and equipment	3,701	15,522
Printing	1,492	1,564
Advertising	-	4,460
	<u>\$ 21,642</u>	<u>\$ 38,942</u>

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

	2019	2018
Fundraising	\$ 20,342	\$ 36,536
Management and general	800	2,106
Program	500	300
	<u>\$ 21,642</u>	<u>\$ 38,942</u>

Note 11 – Endowments

Nature of Endowments and Applicable Laws – The Endowments consist 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, 2019 AND 2018

Note 11 – Endowments (Continued)

Investment Return Objectives, Risk Parameters and Strategies – Artist Trust originally 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, at which time the same objectives and strategies were utilized.

The funds were designated 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. Artist Trust has engaged Vanguard to manage the Fund in accordance with the terms of the Discretionary Investment Management Agreement. 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, Artist Trust submits a request to Vanguard to release and distribute funds to Artist Trust for its operations.

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. The Fund is now under permanent management at Vanguard through a Discretionary Investment Management Agreement, as noted above, in order to provide for professional long-term management of these funds. Artist Trust has adopted investment and spending policies for endowment assets that intend 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 Artist Trust, 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.

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.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 11 – Endowments (Continued)

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.

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, 12/31/2017	\$ 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	\$ 340,838	\$ 417,134	\$ 1,631,720	\$ 2,389,692
Contributions	38,114	-	-	38,114
Investment income, net of fees	1,511	50,623	-	52,134
Net appreciation	10,283	351,757	-	362,040
Amounts appropriated for expenditure	(1,800)	(57,200)	-	(59,000)
Distribution from asset held in trust	-	(6,600)	-	(6,600)
Endowment net assets, 12/31/2019	\$ 388,946	\$ 755,714	\$ 1,631,720	\$ 2,776,380

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 12 – 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 years ended December 31:

	2019	2018
Gross special events revenue	\$ 498,193	\$ 577,632
Less cost of direct donor benefits	(68,634)	(75,344)
	<u>\$ 429,559</u>	<u>\$ 502,288</u>

Note 13 – 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 \$8,084 and \$9,310 to the Plan during the years ended December 31, 2019 and 2018, respectively.

Note 14 – 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 \$448,484 and \$441,977 for the years ended December 31, 2019 and 2018, respectively.

Note 15 – Concentration

For the year ended December 31, 2018, 38% of total support and revenue was from one grantor. There was no such concentration for the year ended December 31, 2019.

A pledge receivable from one donor made up approximately 50% of the pledges and grants receivable balance as of December 31, 2019. Two donors made up approximately 70% of the pledges and grants receivable balance as of December 31, 2018.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 16 – Prior Period Adjustments

In the year ended December 31, 2019, it was determined that certain transactions should have been recognized differently in the year ended December 31, 2018. Accordingly, adjustments were recorded to prior year balances and activity as follows:

	Unadjusted Balance	Prior Period Adjustment	Adjusted Balance
	<u> </u>	<u> </u>	<u> </u>
Statement of financial position, 12/31/2018			
Net assets			
Undesignated	\$ 524,910	\$ (323,841)	\$ 201,069
With donor restrictions for purpose and time	1,606,347	323,841	1,930,188
Statement of activities, year ended 12/31/2018			
Contributions			
Undesignated	\$ 383,514	\$ (339,841)	\$ 43,673
With donor restrictions for purpose and time	800,316	339,841	1,140,157
Net assets released from restrictions			
Undesignated	469,978	16,000	485,978
With donor restrictions for purpose and time	(469,978)	(16,000)	(485,978)
End of year net assets			
Undesignated	524,910	(323,841)	201,069
With donor restrictions for purpose and time	1,606,347	323,841	1,930,188

Note 17 – Subsequent Events

Subsequent events were evaluated through July 25, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak to be a global pandemic, and on March 13, 2020, President Trump declared a nationwide emergency pursuant to Sec. 501(b) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The extent of the impact of COVID-19 on Artist Trust's operations will depend on certain developments, including the duration and spread of the outbreak and the impact to donors, employees, and Washington State artists, all of which are uncertain and cannot be determined.

ARTIST TRUST
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Note 17 – Subsequent Events (Continued)

Washington State artists were among the first to face career disruption and financial loss from the COVID-19 crisis. In response to artists' urgent needs, Artist Trust pressed pause on business as usual to focus all resources on two things: The COVID-19 Artist Trust Relief Fund and COVID-19 Online Artist Relief and Recovery Resources. The COVID-19 Artist Trust Relief Fund is a rapid response program providing unrestricted cash grants to support working artists with disaster-related personal, family, and living expenses. The COVID-19 Online Artist Relief and Recovery Resources include articles, webinars, and other information on funding, housing, and legal issues, among other vital needs specific to the COVID-19 pandemic and its related impacts such as tenant rights and unemployment benefits for artists and creatives.

At Artist Trust's request, four donors who committed to fund a total of \$78,500 in 2020 for the Organization's programs have released or altered their restrictions as follows: \$20,000 for statewide outreach efforts will be available for general operations, \$16,000 for online programming and technology improvements will be available for staff hours that supported these efforts, \$30,000 for the Ambassador Project will be available for operations that support COVID-19 Online Artist Relief and Recovery Resources, and of \$12,500 for the Vadon Foundation Fellowship Award for Native Artists, \$10,000 will be available for the COVID-19 Relief Fund to support Native Artists with an additional \$2,500 available for operating expenses to administer the COVID-19 Relief Fund. The Ambassador Project, Vadon Foundation Fellowship Award for Native Artists, and statewide outreach efforts will resume in 2021 depending on the duration and spread of the outbreak and subsequent conversations with the donors. Artist Trust's online programming technology improvements will continue in 2020 with a focus on providing COVID-19 Online Artist Relief and Recovery Resources.

Further, Artist Trust expects a complete loss in program income in 2020 as a result of the COVID-19 outbreak due to Washington State artists' loss of income and as the Organization shifts to providing resources to artists at no cost. The Organization will be able to cover this shortfall with the \$78,500 in funds released from restriction and a reduction in program expenses. Additionally, Artist Trust expects a 40% loss in fundraising income as a result of the cancellation of Artist Trust's Annual Benefit Art Auction due to COVID-19 social distancing measures. Artist Trust will be able to cover this shortfall with the incredible generosity of our donors who have provided nearly one million dollars in contributions as of May 2020, to support The COVID-19 Artist Trust Relief Fund and COVID-19 Online Artist Relief and Recovery Resources, in addition to emergency relief grants, loans, releases of Board-restricted funds, and reductions in operating expenses.

Artist Trust also received a \$123,258 Payroll Protection Program loan through the Small Business Administration as part of the CARES Act. Artist Trust expects to meet qualifications to have the full loan amount forgiven.